North Dakota Office of the State Auditor
Division of Local Government

Morton County

Audit Report for the Year Ended December 31, 2018

Client Code PS30000

North Dakota State Auditor

Joshua C. Gallion

MORTON COUNTY

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For the Year Ended December 31, 2018

COUNTY OFFICIALS

Bruce Strinden	Commissioner – Chairman
Andrew Zachmeier	Commissioner – Vice Chairman
Cody Schulz	Commissioner
Ron Leingang	Commissioner
Jackie Buckley	Commissioner
Dawn Rhone	Auditor
Kari Katzenbuhler	Treasurer
Allan Koppy	States Attorney
Kyle Kirchmeier	Sheriff
Nancy Seefeldt	County Recorder
Dale Ekstrom	Superintendent of Schools

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge

STATE AUDITOR
JOSHUA C. GALLION
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Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
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OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
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FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Morton County
Mandan, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2019 on our consideration of Morton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morton County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 9, 2019

MORTON COUNTY
Statement of Net Position
December 31, 2018

	Primary Government	Component Units	
	Governmental Activities	Morton Co. Water Resource District	Lower Heart Water Resource District
ASSETS			
Cash and Investments	$ 13,215,848	$ 2,667,237	$ 395,469
Restricted Cash & Investments	567,766	151,087	-
Restricted Cash & Investments With Fiscal Agent	2,655,771	-	-
Accounts Receivable	31,662	177,642	-
Due from County Treasurer	-	824	-
Intergovernmental Receivable	1,303,345	-	-
Other Receivables	-	4,807	-
Taxes Receivable	256,949	2,596	5,900
Special Assessments Receivable	714,569	73,279	-
Capital Assets, Net	75,849,656	18,600,440	700,823
Total Assets	$ 94,595,566	$ 21,677,912	$ 1,102,192
DEFERRED OUTFLOWS OF RESOURCES			
Derived from Pensions & OPEB	$ 5,178,533	$ -	$ -
LIABILITIES			
Accounts Payable	$ 939,890	$ 44,103	$ -
Salaries and Benefits Payable	289,120	-	-
Interest Payable	62,971	59,499	752
Other Liability	1,377	-	-
Long-Term Liabilities			
Due Within One Year			
Long Term Debt	589,686	114,550	17,592
Compensated Absences Payable	105,965	24,642	-
Due After One Year			
Long Term Debt	9,620,848	2,750,473	35,183
Compensated Absences Payable	953,688	57,498	-
Net Pension & OPEB Liability	10,240,433	-	-
Total Liabilities	$ 22,803,978	$ 3,050,765	$ 53,527
DEFERRED INFLOWS OF RESOURCES			
Taxes Received in Advance	$ 2,522,360	$ -	$ -
Derived from Pensions & OPEB	949,731	-	-
Total Deferred Inflows of Resources	$ 3,472,091	$ -	$ -
NET POSITION			
Net Investment in Capital Assets	$ 65,639,122	$ 15,735,417	$ 700,823
Restricted			
Debt Service	4,083,455	151,087	-
Capital Projects	265,459	-	-
Highways & Public Improvement	2,173,379	-	-
Culture and Recreation	338,703	-	-
Conservation of Natural Resources	257,237	-	-
Emergencies	512,646	-	-
Economic Development	18,126	-	-
Dam Maintenance	-	120,961	-
Unrestricted	209,903	2,619,682	347,842
Total Net Position	$ 73,498,030	$ 18,627,147	$ 1,048,665

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

MORTON COUNTY
Statement of Activities
For the Year Ended December 31, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Operating	Capital	Primary Govt	Component Units	
		Charges for	Grants and	Grants and	Governmental	Morton Co.	Lower Heart
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities	WRD	WRD
Primary Government							
Governmental Activities							
General Government	$ 4,075,098	$ 527,577	$ -	$ 705,000	$ (2,842,521)	$ -	$ -
Public Safety	8,292,459	1,247,198	208,082	-	(6,837,179)	-	-
Highways & Public Improvement	7,001,781	306,490	5,750,196	205,648	(739,447)	-	-
Health and Welfare	3,579,071	-	3,230,239	-	(348,832)	-	-
Culture and Recreation	737,941	136,378	122,854	-	(478,709)	-	-
Conserv. of Natural Resources	513,471	34,896	38,685	-	(439,890)	-	-
Economic Development	128,855	-	-	-	(128,855)	-	-
Emergency	31,787	-	-	-	(31,787)	-	-
Interest on Long-term Debt	379,176	-	-	-	(379,176)	-	-
Total Governmental Activities	$ 24,739,639	$ 2,252,539	$ 9,350,056	$ 910,648	$(12,226,396)	$ -	$ -
Component Units							
Morton Co. Water Resource	$ 2,611,642	$ 2,059,726	$ 44,356	$ -	$ -	$ (507,560)	$ -
Lower Heart Water Resource	171,127	-	-	-	-	-	(171,127)
Total Component Units	$ 2,782,769	$ 2,059,726	$ 44,356	$ -	$ -	$ (507,560)	$ (171,127)
	General Revenues						
	Property taxes				$ 10,084,936	$ 132,768	$ 191,770
	Sales taxes				1,711,840	-	-
	Unrestricted State Revenue				2,969,837	-	-
	Earnings on Investments				82,216	11,991	597
	Gain (Loss) on Sale of Capital Asset				114,541	20,000	-
	Miscellaneous				486,662	18,606	9,890
	Total General Revenues				$ 15,450,032	$ 183,365	$ 202,257
	Change in Net Position				$ 3,223,636	$ (324,195)	$ 31,130
	Net Position - January 1				$ 70,332,227	$ 18,951,342	$ 1,017,535
	Prior Period Adjustment				$ (57,833)	$ -	$ -
	Net Position - January 1, as adjusted				$ 70,274,394	$ 18,951,342	$ 1,017,535
	Net Position - December 31				$ 73,498,030	$ 18,627,147	$ 1,048,665

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

MORTON COUNTY

Balance Sheet – Governmental Funds

December 31, 2018

	Major Funds				
	General	Special Revenue Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
ASSETS					
Cash and Investments	$ 5,780,119	$ 6,911,494	$ 249,815	$ 274,420	$ 13,215,848
Restricted Cash	-	-	567,766	-	567,766
Restricted Cash & Investments With Fiscal Agent	-	-	2,655,771	-	2,655,771
Accounts Receivable	-	31,662	-	-	31,662
Intergovernmental Receivables	562,518	740,827	-	-	1,303,345
Interfund Loan Receivable	-	732,000	-	-	732,000
Taxes Receivable	194,413	62,536	-	-	256,949
Special Assessments Receivable	-	-	714,569	-	714,569
Total Assets	$ 6,537,050	$ 8,478,519	$ 4,187,921	$ 274,420	$ 19,477,910
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Liabilities					
Accounts Payable	$ 562,179	$ 368,750	$ -	$ 8,961	$ 939,890
Salaries and Benefits Payable	286,664	2,456	-	-	289,120
Interfund Loan Payable	-	732,000	-	-	732,000
Other Liability	1,377	-	-	-	1,377
Total Liabilities	$ 850,220	$ 1,103,206	$ -	$ 8,961	$ 1,962,387
Deferred Inflows of Resources:					
Taxes Receivable	$ 194,413	$ 62,536	$ -	$ -	$ 256,949
Special Assessments Receivable	-	-	714,569	-	714,569
Taxes Received in Advance	1,897,105	583,760	41,495	-	2,522,360
Total Deferred Inflows of Resources	$ 2,091,518	$ 646,296	$ 756,064	$ -	$ 3,493,878
Total Liabilities and Deferred Inflows of Resources	$ 2,941,738	$ 1,749,502	$ 756,064	$ 8,961	$ 5,456,265
FUND BALANCE					
Non-Spendable					
Loans Receivable	$ -	$ 732,000	$ -	$ -	$ 732,000
Restricted					
Debt Service	-	-	3,431,857	-	3,431,857
General Government	-	87,033	-	-	87,033
Public Safety	-	953,591	-	-	953,591
Highways & Public Improvement	-	3,740,966	-	-	3,740,966
Emergency	-	512,646	-	-	512,646
Health and Welfare	-	536,841	-	-	536,841
Culture and Recreation	-	552,203	-	-	552,203
Conservation of Natural Resources	-	315,251	-	-	315,251
Economic Development	-	16,186	-	-	16,186
Capital Projects	-	-	-	265,459	265,459
Unassigned					
General Fund	3,595,312	-	-	-	3,595,312
Negative Fund Balances	-	(717,700)	-		(717,700)
Total Fund Balances	$ 3,595,312	$ 6,729,017	$ 3,431,857	$ 265,459	$ 14,021,645
Total Liabilities and Fund Balances	$ 6,537,050	$ 8,478,519	$ 4,187,921	$ 274,420	$ 19,477,910

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

Total *Fund Balances* for Governmental Funds		$ 14,021,645
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.		75,849,656
Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.		
Taxes Receivable	$ 256,949	
Special Assessments Receivable	714,569	971,518
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows Related to Pensions & OPEB Items	$ 5,178,533	
Deferred Inflows Related to Pensions & OPEB Items	(949,731)	4,228,802
Long-term liabilities 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.		
Long-Term Debt	$ (10,210,534)	
Interest Payable	(62,971)	
Compensated Absences	(1,059,653)	
Net Pension & OPEB Liability	(10,240,433)	(21,573,591)
Total Net Position of Governmental Activities		$ 73,498,030

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

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

	Major Funds				
	General	Special Revenue Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
REVENUES					
Property Taxes	$ 7,705,348	$ 2,334,060	$ -	$ 98	$ 10,039,506
Sales Taxes	-	-	1,711,840	-	1,711,840
Special Assessments	-	-	122,544	-	122,544
Intergovernmental Revenues	2,431,798	9,750,591	1,703	840,801	13,024,893
Charges for Services	470,103	1,705,759	-	-	2,175,862
Licenses, Permits, & Fees	68,374	8,303	-	-	76,677
Interest Income	80,704	-	1,512	-	82,216
Miscellaneous Revenues	171,724	276,868	36,965	1,105	486,662
Total Revenues	$ 10,928,051	$ 14,075,581	$ 1,874,564	$ 842,004	$ 27,720,200
EXPENDITURES					
Current					
General Government	$ 3,397,417	$ 216,050	$ -	$ 2,921	$ 3,616,388
Public Safety	6,401,491	947,927	-	-	7,349,418
Highways & Public Improvements	-	5,816,132	185,332	-	6,001,464
Health and Welfare	-	3,268,586	-	-	3,268,586
Culture and Recreation	-	698,254	-	-	698,254
Conserv. of Natural Resources	-	503,200	-	-	503,200
Economic Development	-	128,855	-	-	128,855
Emergency	-	31,787	-	-	31,787
Capital Outlay	-	377,357	-	751,086	1,128,443
Debt Service					
Principal	-	-	1,113,565	-	1,113,565
Interest and Service Charge	-	-	379,236	-	379,236
Total Expenditures	$ 9,798,908	$ 11,988,148	$ 1,678,133	$ 754,007	$ 24,219,196
Excess (Deficiency) of Revenues Over Expenditures	$ 1,129,143	$ 2,087,433	$ 196,431	$ 87,997	$ 3,501,004
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	$ -	$ 25,000	$ 182,330	$ -	$ 207,330
Transfers In	94,400	3,949,342	-	200,000	4,243,742
Transfers Out	(499,342)	(3,744,400)	-	-	(4,243,742)
Total Other Financing Sources (Uses)	$ (404,942)	$ 229,942	$ 182,330	$ 200,000	$ 207,330
Net Change in Fund Balances	$ 724,201	$ 2,317,375	$ 378,761	$ 287,997	$ 3,708,334
Fund Balance - January 1	$ 2,871,111	$ 4,411,642	$ 2,657,008	$ (22,538)	$ 9,917,223
Prior Period Adjustment	$ -	$ -	$ 396,088	$ -	$ 396,088
Fund Balance - Jan. 1, as Restated	$ 2,871,111	$ 4,411,642	$ 3,053,096	$ (22,538)	$ 10,313,311
Fund Balance - December 31	$ 3,595,312	$ 6,729,017	$ 3,431,857	$ 265,459	$ 14,021,645

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

MORTON COUNTY

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

Net Change in *Fund Balances* - Total Governmental Funds		$ 3,708,334
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.		
Capital Outlay	$ 3,024,435	
Depreciation Expense	(3,432,039)	
Amortization of Intangible Assets	(24,712)	(432,316)
In the statement of activities, only the gain on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.		114,541
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Decrease in Compensated Absences Payable	$ 14,275	
Decrease in Interest Payable	3,435	17,710
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term debt in the statement of net position. The issuance of long-term debt is reported as other financing sources in the governmental funds, but increases liabilities on the statement of net position.		
Amortization of Bond Discount	$ (3,375)	
Repayment of Long-Term Debt	1,113,565	
Issuance of Long-Term Debt	(207,330)	902,860
The net pension and OPEB liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.		
Increase Net Pension & OPEB Liability	$ (23,881)	
Decrease in Deferred Outflows of Resources	(730,275)	
Increase in Deferred Inflows of Resources	(461,871)	(1,216,027)
Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.		
Increase in Taxes Receivable	$ 45,430	
Increase in Special Assessment Receivable	83,104	128,534
Change in Net Position of Governmental Activities		$ 3,223,636

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

ASSETS	
Cash and Investments	$ 9,285,782
LIABILITIES	
Due to Other Governments	$ 9,285,782

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Morton County ("County") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 county's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the County. The County has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the county 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 the County to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the County.

Based on these criteria, there are five component units to be included within the County as a reporting entity.

Component Units

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

Blended Component Units: Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

> *Morton County Building Authority* - The Board of County Commissioners serves as the governing board for the Building Authority. The County Commissioners approve the budget, levy the tax, and approve or disapprove all expenditures. The Building Authority has the authority to issue its own debt.

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

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

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

The financial statements of each of the two discretely presented component units are presented in the basic financial statements. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

B. Basis of Presentation

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

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

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

The County reports the following major governmental funds:

> General Fund - This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.
>
> Debt Service Fund - This fund accounts for the costs of paying off the County's bond obligations. The major sources of revenues are special assessments.

Additionally, the County reports the following fund type:

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

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

D. Cash and Investments

Cash include amounts in demand deposits, money market accounts and short-term certificates of deposit. Cash includes certificates of deposit with maturities of 3 months or less.

The investments consist of an investment in an investment pool stated at market value, and certificates of deposit with maturities of greater than 3 months.

E. Capital Assets

Primary Government

Capital assets, which include property, plant, equipment, intangible, and infrastructure assets, are reported in the governmental activities' column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of $5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized. Intangible assets consist of software and right-of-way easements. The right-of-way easements are considered to have an indefinite useful life as there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the assets and therefore the assets are not amortized.

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

ASSETS	YEARS
Depreciated	
Infrastructure	50
Buildings	50
Machinery & Equipment	5
Vehicles	5
Equipment	5
Amortized	
Intangibles - Software	20

Discretely Presented Component Units

Morton County Water Resource District

Capital assets include property, plant, and equipment. Assets are reported in the individual component unit column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $7,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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. Interest incurred during the construction phase of capital assets is not capitalized. Intangible assets are amortized over their useful life and consist of water rights purchased from the City of Mandan.

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

ASSETS	YEARS
Depreciated	
Buildings	40
Machinery	5 - 15
Infrastructure	40
Vehicles	3 - 5
Office Equipment	3 - 5
Amortized	
Right to Purchase Water	40

Lower Heart Water Resource District

Capital assets include property, plant, and equipment. Assets are reported in the individual component unit column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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. Interest incurred during the construction phase of capital assets is not capitalized.

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

ASSETS	YEARS
Buildings	50
Vehicles	15
Improvements and Infrastructure	50
Machinery and Equipment	5 - 25

F. Compensated Absences

Employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the County. Vacation benefits are prorated for part time employees. Upon termination of employment, employees will be paid for vacation benefits that have accrued. Sick leave benefits accrue to one working day per month for all permanent employees with unlimited accumulation. Upon retirement or leaving employment with the County (after ten years of continuous employment) employees shall be paid for unused sick leave at 25% of current base salary. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for compensated absences, no liability is recorded for non-vesting accumulating rights for sick leave benefits. Vested or accumulated vacation and sick leave is reported in government-wide statement of net position. Vacation is earned at a rate of 8 - 16 hours per month, depending on years of service.

G. Long-Term Obligations

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

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

H. Pension

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

I. Other Post-Employment Benefits (OPEB)

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

J. Fund Balance

Minimum Fund Balance Policy. The County established an 8% general fund carryover balance target to help with financial stability. The 8% fund balance range is a part of the County's fiscal policies. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the county.

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

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

Non-Spendable Fund Balance. Non-spendable fund balance exists in the special revenue fund for interfund loans receivable.

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

K. Net Position

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

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

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

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

L. Interfund Transactions

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

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

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

NOTE 2: PRIOR PERIOD ADJUSTMENTS

Beginning net position adjustments were necessary for capital assets and special assessments as well as to increase cash for an off-book escrow account that is being held at the Bank of North Dakota to help pay for the joint Burleigh-Morton jail project. Beginning debt service fund balances was also increased to report the beginning balance of the off-book escrow account.

Adjustments to beginning net position are as follows:

Governmental Activities	Amounts
Beginning Net Position, as Previously Reported	$ 70,332,227
Adjustments to restate the January 1, 2018 Net Position	
Escrow Cash	396,088
Special Assessments	(31,106)
Capital Assets - Cost	(203,255)
Capital Assets - Depreciation	(219,560)
Net Position January 1, as restated	$ 70,274,394

Adjustments to beginning fund balance are as follows:

Debt Service Fund	Amounts
Beginning Debt Service Fund Balance, as Previously Reported	$ 2,657,008
Adjustments to restate the January 1, 2018 Fund Balance	
Escrow Cash	396,088
Debt Service Fund Balance January 1, as restated	$ 3,053,096

NOTE 3: DEPOSITS

Custodial Credit Risk

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

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

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

At year ended December 31, 2018, the County's carrying amount of deposits totaled $22,429,391, and the bank balances totaled $21,227,498. Of the bank balances, $7,567,533 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, Morton County Water District's carrying amount of deposits totaled $2,818,223, and the bank balances totaled $2,838,417. Of the bank balances, $1,619,995 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, Lower Heart Water District's carrying amount of deposits totaled $395,469, and the bank balances totaled $396,444. Of the bank balances, $250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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

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

The County is invested in brokerage certificates of deposits that are subject to interest rate risk. The County carries the investments at a cost of $3,140,000. The County is also invested in government obligation bonds and carries them at market value. The market value of the investments and their maturing dates can be seen below:

Investment Type	Total Fair Value	1-6 Months	7-12 Months	1-5 Years	More Than 5 Years
Brokered CD	$ 3,107,246	$ 244,831	$ 442,273	$ 2,420,142	$ -
Government Obligation Bonds	1,026,584	99,651	69,267	815,005	42,662
Total Investments	$ 4,133,830	$ 344,482	$ 511,540	$ 3,235,147	$ 42,662

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2018:

Assets	Total	Quoted Prices In Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Brokered CD	$ 3,107,246	$ -	$ 3,107,246	$ -
Government Obligation Bonds	1,026,584	1,026,584	-	-
Total Investments	$ 4,133,830	$ 1,026,584	$ 3,107,246	$ -

NOTE 5: RESTRICTED CASH AND INVESTMENTS

Primary Government

The County reports restricted cash and investments with fiscal agent in the Debt Service Fund. This amount is held in a trust account at the Bank of North Dakota, and is restricted in use for costs related to the bond payments for the County Jail Construction totaling $2,655,771. The County has an additional escrow account held at the Bank of North Dakota that is restricted for costs related to the bond payments for the County Jail Construction totaling $567,766.

Discretely Presented Component Units

Morton County Water Resource District

The Morton County Water Resource District's grant/loan covenants require certain reservations of Missouri West Water System's net position. These amounts are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The restricted portion is $151,087 reported in the enterprise funds for debt service.

NOTE 6: PROPERTY TAXES

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

NOTE 7: INTERFUND RECEIVABLES/PAYABLES

Interfund loans receivable and payable total $732,000. The following table represents the amounts of loans receivable and loans payable by fund reported in the balance sheet:

	Due To	Due From
Special Revenue Fund		
Berube Apartment Building	$ -	$ 732,000
Equipment Replacement	732,000	-
Total	$ 732,000	$ 732,000

NOTE 8: CAPITAL ASSETS

Primary Government

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

	Bal. Jan 1 Restated	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated or Amortized					
Land	$ 1,751,559	$ -	$ -	$ -	$ 1,751,559
Right of Ways	549,727	-	-	-	549,727
Construction in Progress	274,539	779,587	-	(1,054,126)	-
Total Capital Assets, Not Being Depreciated or Amortized	$ 2,575,825	$ 779,587	$ -	$ (1,054,126)	$ 2,301,286
Capital Assets Being Depreciated					
Buildings	$ 25,415,593	$ -	$ -	$ 1,054,126	$ 26,469,719
Vehicles & Equipment	12,982,637	347,666	367,628	-	12,962,675
Improvements	141,432	-	-	-	141,432
Infrastructure	102,945,596	2,023,759	-	-	104,969,355
Total Capital Assets, Being Depreciated	$ 141,485,258	$ 2,371,425	$ 367,628	$ 1,054,126	$ 144,543,181
Less Accumulated Depreciation					
Buildings	$ 6,194,560	$ 529,394	$ -	$ -	$ 6,723,954
Vehicles & Equipment	10,344,692	1,209,394	355,592	-	11,198,494
Improvements	96,820	5,145	-	-	101,965
Infrastructure	51,479,990	1,688,106	-	-	53,168,096
Total Accumulated Depreciation	$ 68,116,062	$ 3,432,039	$ 355,592	$ -	$ 71,192,509
Total Capital Assets Being Depreciated, Net	$ 73,369,196	$ (1,060,614)	$ 12,036	$ 1,054,126	$ 73,350,672
Capital Assets, Being Amortized					
Software	$ 247,122	$ -	$ -	$ -	$ 247,122
Less Amortization					
Software	$ 24,712	$ 24,712	$ -	$ -	$ 49,424
Capital Assets Being Amortized, Net	$ 222,410	$ (24,712)	$ -	$ -	$ 197,698
Capital Assets, Net	$ 76,167,431	$ (305,739)	$ 12,036	$ -	$ 75,849,656

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

	Depreciation	Amortization
General Government	$ 202,957	$ 24,712
Public Safety	600,137	-
Highway and Bridges	2,565,041	-
Health and Welfare	27,662	-
Conservation of Natural Resources	1,700	-
Culture and Recreation	34,542	-
Total	$ 3,432,039	$ 24,712

Discretely Presented Component Units

Morton County Water Resource District

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

	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Not Being Depreciated				
Land	$ 1,052,888	$ 70,515	$ -	$ 1,123,403
Construction in Progress	-	251,934		251,934
Total Capital Assets, Not Being Depreciated	$ 1,052,888	$ 322,449	$ -	$ 1,375,337
Capital Assets Being Depreciated				
Buildings	$ 262,065	$ -	$ -	$ 262,065
Equipment/Vehicles	637,517	149,685	94,091	693,111
Infrastructure	24,032,979	279,629	-	24,312,608
Total Capital Assets, Being Depreciated	$ 24,932,561	$ 429,314	$ 94,091	$ 25,267,784
Less Accumulated Depreciation				
Buildings	$ 62,046	$ 10,865	$ -	$ 72,911
Equipment/Vehicles	471,284	83,870	94,091	461,063
Infrastructure	7,570,545	506,318	-	8,076,863
Total Accumulated Depreciation	$ 8,103,875	$ 601,053	$ 94,091	$ 8,610,837
Total Capital Assets Being Depreciated, Net	$ 16,828,686	$ (171,739)	$ -	$ 16,656,947
Intangible Assets, Being Amortized				
Right to Purchase Water	$ 1,371,300	$ -	$ -	$ 1,371,300
Less Amortization				
Right to Purchase Water	$ 771,579	$ 31,565	$ -	$ 803,144
Capital Assets Being Amortized, Net	$ 599,721	$ (31,565)	$ -	$ 568,156
Capital Assets, Net	$ 18,481,295	$ 119,145	$ -	$ 18,600,440

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

Lower Heart Water Resource District

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

	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Not Being Depreciated				
Land	$ 341,721	$ -	$ -	$ 341,721
Construction in Progress	47,287	77,865	-	125,152
Total Capital Assets, Not Being Depreciated	$ 389,008	$ 77,865	$ -	$ 466,873
Capital Assets Being Depreciated				
Buildings	$ 20,000	$ -	$ -	$ 20,000
Machinery & Equipment	347,785	-	-	347,785
Improvements to Infrastructure	158,335	-	-	158,335
Total Capital Assets, Being Depreciated	$ 526,120	$ -	$ -	$ 526,120
Less Accumulated Depreciation				
Buildings	$ 19,600	$ 400	$ -	$ 20,000
Machinery & Equipment	249,799	12,871	-	262,670
Improvements to Infrastructure	6,334	3,166	-	9,500
Total Accumulated Depreciation	$ 275,733	$ 16,437	$ -	$ 292,170
Total Capital Assets Being Depreciated, Net	$ 250,387	$ (16,437)	$ -	$ 233,950
Capital Assets, Net	$ 639,395	$ 61,428	$ -	$ 700,823

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

NOTE 9: LONG-TERM LIABILITIES

Primary Government

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

Government Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Bonds Payable	$ 10,475,331	$ -	$ 1,032,199	$ 9,443,132	$ 496,856
Bond Discount	(60,750)	-	(3,375)	(57,375)	(3,375)
Loans Payable	698,814	207,330	81,367	824,777	96,205
Total Long-Term Debt	$ 11,113,395	$ 207,330	$ 1,110,191	$ 10,210,534	$ 589,686
Compensated Absences *	$ 1,073,928	$ -	$ 14,275	$ 1,059,653	$ 105,965
Net Pension & OPEB Liability	10,216,552	23,881	-	10,240,433	-
Total Governmental Activities	$ 22,403,875	$ 231,211	$ 1,124,466	$ 21,510,620	$ 695,651

* - Compensated absences is shown as net change.

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

GOVERNMENTAL ACTIVITIES					
Year Ending	Bonds Payable		Loans Payable		Bond
Dec 31	Principal	Interest	Principal	Interest	Discount
2019	$ 496,856	$ 365,644	$ 96,205	$ 26,872	$ 3,375
2020	506,073	345,028	78,739	27,698	3,375
2021	516,109	327,581	80,085	24,772	3,375
2022	527,717	306,186	74,320	22,205	3,375
2023	540,147	284,306	76,980	19,545	3,375
2024-2028	2,747,730	1,183,022	332,567	58,645	16,875
2029-2033	2,418,000	592,116	85,881	9,911	16,875
2034-2038	1,690,500	106,678	-	-	6,750
Totals	$ 9,443,132	$ 3,510,561	$ 824,777	$ 189,648	$ 57,375

Discretely Presented Component Units

Morton County Water Resource District

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

Government Activities	Balance Janauary 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt					
Loans Payable	$ 160,569	$ -	$ 23,794	$ 136,775	$ 24,222

Business-Type Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Bonds Payable	$ 2,603,810	$ -	$ 81,562	$ 2,522,248	$ 84,328
Loans Payable	212,000	-	6,000	206,000	6,000
Total Long-Term Debt	$ 2,815,810	$ -	$ 87,562	$ 2,728,248	$ 90,328
Compensated Absences *	$ 74,085	$ 8,055	$ -	$ 82,140	$ 24,642
Total Long-Term Liabilities	$ 2,889,895	$ 8,055	$ 87,562	$ 2,810,388	$ 114,970

* - Compensated absences is shown as net change.

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

Year Ending Dec 31	GOVERNMENTAL ACTIVITIES Loans Payable Principal	GOVERNMENTAL ACTIVITIES Loans Payable Interest	BUSINESS TYPE ACTIVITIES Bonds Payable Principal	BUSINESS TYPE ACTIVITIES Bonds Payable Interest	BUSINESS TYPE ACTIVITIES Loans Payable Principal	BUSINESS TYPE ACTIVITIES Loans Payable Interest
2019	$ 24,222	$ 5,189	$ 84,328	$ 85,504	$ 6,000	$ 9,013
2020	24,662	4,373	87,186	82,645	7,000	8,750
2021	26,141	3,520	90,142	79,690	7,000	8,444
2022	26,634	2,626	93,198	76,634	7,000	8,138
2023	11,152	1,708	96,357	73,475	8,000	7,831
2024-2028	23,964	1,755	533,055	316,104	43,000	33,775
2029-2033	-	-	1,537,982	100,285	54,000	23,494
2033-2037	-	-	-	-	66,000	10,631
2038-2042	-	-	-	-	8,000	350
Total	$ 136,775	$ 19,171	$ 2,522,248	$ 814,337	$ 206,000	$ 110,426

Lower Heart Water Resource District

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

Government Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Special Assessments Payable	$ 70,396	$ -	$ 17,621	$ 52,775	$ 17,592

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

Year Ending Dec 31	GOVERNMENTAL ACTIVITIES Special Assessments Principal	GOVERNMENTAL ACTIVITIES Special Assessments Interest
2019	$ 17,592	$ 3,008
2020	17,592	2,005
2021	17,591	1,003
2022	-	-
Total	$ 52,775	$ 6,016

NOTE 10: OPERATING LEASE PAYABLE

Primary Government

The County is engaged in various operating leases Total lease payments made during 2018 totaled $117,537. Future lease payments are as follows:

GOVERNMENTAL ACTIVITIES			
Year Ending	County Operating Leases		
Dec 31	Copiers	Graders	Postage
2019	$ 19,555	$ 65,777	$ 2,340
2020	13,910	13,156	2,340
2021	9,602	-	2,340
2022	9,602	-	1,755
2023	4,196	-	-
Totals	$ 56,865	$ 78,933	$ 8,775

NOTE 11: PENSION PLAN

General Information about the NDPERS Pension Plan

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

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

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

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

Pension Benefits

<u>Main System</u>

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

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

<u>Law Enforcement System (Without prior main system service)</u>

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. 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, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

Member and Employer Contributions

<u>Main System</u>

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

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

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

<u>Law Enforcement System (Without prior main system service)</u>

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 5.5% and employer contributions rates are 7.93% of covered compensation.

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

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

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

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

	Net Pension Liability
Main System	$ 9,432,688
Law Enforcement	271,421

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

	Proportion of Net Pension Liability	Change in Proportions	Pension Expense
Main System	0.558938%	-0.023997%	$ 1,576,802
Law Enforcement without Main System	27.973321%	-1.229767%	298,079

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

Main System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 24,968	$ 320,918
Changes of Assumptions	3,405,004	134,633
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	45,891
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	260,975	298,343
District Contributions Subsequent to the Measurement Date	424,988	-
Total Main System	$ 4,115,935	$ 799,785

Law Enforcement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 40,046	$ 53,244
Changes of Assumptions	689,193	23,888
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	26,845
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	69,459	-
District Contributions Subsequent to the Measurement Date	135,792	-
Total Law Enforcement System	$ 934,490	$ 103,977

$424,988 and $135,792 for the main system and law enforcement system, respectively, were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

Year	Main System	Law Enforcement	Total
2019	$ 991,533	$ 249,685	$ 1,241,218
2020	864,613	243,559	1,108,172
2021	662,276	187,184	849,460
2022	366,290	14,293	380,583
2023	6,450	-	6,450
Therafter	-	-	-

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:

<u>Main System</u>

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

<u>Law Enforcement System (Without prior main system service)</u>

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	20.00%
	1	20.00%
	2	10.00%
	Age*	
	Under 30	7.25%
	30 – 39	6.50%
	40 – 49	6.25%
	50 – 59	5.75%
	60+	5.00%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost–of-living adjustments	None	

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

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

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

Discount Rate

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

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

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

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

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

Proportionate Share of the Net Pension Liability	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Main System	$ 12,817,270	$ 9,432,688	$ 6,608,364
Law Enforcement	702,685	27,421	(73,853)

Pension Plan Fiduciary Net Position

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

NOTE 12: OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

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

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

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

OPEB Benefits

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

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

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

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

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

	Net OPEB Liability
Main System	$ 536,324

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

	Proportion of Net OPEB Liability	Change in Proportions	OPEB Expense
Main System	0.680987%	-0.028257%	$ 62,489

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

Main System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 16,056	$ 11,081
Changes of Assumptions	44,006	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	11,538
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	23,350
District Contributions Subsequent to the Measurement Date	68,046	-
Total Main System	$ 128,108	$ 45,969

$68,046 for the main system was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

Year	Main System
2018	$ 709
2019	709
2020	709
2021	5,801
2022	4,866
2023	1,495
Thereafter	(196)

Actuarial assumptions

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

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

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

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

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

Discount rate

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

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

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

Proportionate Share of the Net OPEB Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Main System	678,578	536,324	414,375

NOTE 13: OPERATING LEASE RECEIVABLE

Component Units

Lower Heart Water Resource District

The Lower Heart Water Resource District leases land to the Mandan Parks and Recreation District for recreational facilities under a long-term lease expiring September 30, 2088, with annual lease payment of $3,800. Additionally, the District leases land for farming that expires October 31, 2019, with annual lease payments of $6,084. These leases are considered for accounting purposes to be operating leases. Lease revenues in 2018 totaled 9,884.

NOTE 14: RISK MANAGEMENT

The 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. Morton County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF for automobile is limited to losses of two million dollars per occurrence and for general liability is limited to losses of two million dollars per occurrence. Mobile equipment and portable property (public assets) coverage is limited to $6,911,515 for the County.

Morton County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Morton 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 Morton County with blanket fidelity bond coverage in the amount of $2,000,000 for its employees. Morton WRD has $381,000 of coverage. Lower Heart

WRD has $152,000 of coverage. The State Bonding Fund does not currently charge any premium for this coverage. Morton County has workers compensation with the North Dakota Workforce, Safety and Insurance.

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

NOTE 15: JOINT VENTURE

Primary Government

Morton County entered into an agreement with Grant, Mercer, Oliver and Sioux Counties for the operation of the Custer District Health Unit. Each participating county's share of the cost of operations and board member appointments is determined by the property tax valuation of each county.

Summary financial information for the year ended December 31, 2017, the most current year audited is as follows:

Assets and Deferred Outflows	$ 1,810,292
Liabilities and Deferred Inflows	1,733,108
Net Position	$ 77,184
Revenues	$ 2,649,672
Expenses	2,853,688
Change in Net Position	$ (204,016)

Detailed financial information for the Health Unit can be obtained from the Custer District Health Unit, Mandan, North Dakota.

NOTE 16: TRANSFERS

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

	Transfers In	Transfers Out
Major Funds		
General Fund	$ 94,400	$ 499,342
Special Revenue Fund	3,949,342	3,744,400
Non-Major Funds		
Capital Project Fund	200,000	-
Total Transfers	$ 4,243,742	$ 4,243,742

NOTE 17: CONDUIT DEBT

From time to time, the County has issued Municipal Industrial Development (MIDA) Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds and loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facility transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At December 31, 2018, there were six outstanding issuances with a balance of $38,117,859 at December 31, 2018.

NOTE 18: SUBSEQUENT EVENTS

On June 25, 2019 the County approved the resolution authorizing the issuance of up to $2.5 million in sales tax revenue bonds, Series 2019A which will be used to renovate the former Morton County detention space.

NOTE 19: CONTINGENT LIABILITIES

The County is a defendant in several lawsuits incident to its operations. In the opinion of County Counsel and management, such claims against the County not covered by insurance would not materially affect the condition of the County.

MORTON COUNTY
Budgetary Comparison Schedule – General Fund
For the Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 7,603,552	$ 7,603,552	$ 7,705,348	$ 101,796
Licenses, Permits and Fees	46,500	46,500	68,374	21,874
Intergovernmental	3,200,912	3,200,912	2,431,798	(769,114)
Charges for Services	405,980	405,980	470,103	64,123
Interest Income	2,000	2,000	80,704	78,704
Miscellaneous	80,725	80,725	171,724	90,999
Total Revenues	$ 11,339,669	$ 11,339,669	$ 10,928,051	$ (411,618)
EXPENDITURES				
Current				
General Government	$ 3,764,199	$ 3,764,199	$ 3,397,417	$ 366,782
Public Safety	6,980,672	6,980,672	6,401,491	579,181
Total Expenditures	$ 10,744,871	$ 10,744,871	$ 9,798,908	$ 945,963
Excess (Deficiency) of Revenues Over Expenditures	$ 594,798	$ 594,798	$ 1,129,143	$ 534,345
OTHER FINANCING SOURCES (USES)				
Transfers In	$ -	$ -	$ 94,400	$ 94,400
Transfers Out	-	-	(499,342)	(499,342)
Total Other Financing Sources (Uses)	$ -	$ -	$ (404,942)	$ (404,942)
Net Change in Fund Balances	$ 594,798	$ 594,798	$ 724,201	$ 129,403
Fund Balance - January 1	$ 2,871,111	$ 2,871,111	$ 2,871,111	$ -
Fund Balance - December 31	$ 3,465,909	$ 3,465,909	$ 3,595,312	$ 129,403

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

MORTON COUNTY

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

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 2,331,532	$ 2,331,532	$ 2,334,060	$ 2,528
Licenses, Permits, & Fees	-	-	8,303	8,303
Charges for Services	982,765	982,765	1,705,759	722,994
Intergovernmental	7,362,580	7,362,580	9,750,591	2,388,011
Miscellaneous	135,000	135,000	276,868	141,868
Total Revenues	$ 10,811,877	$ 10,811,877	$ 14,075,581	$ 3,263,704
EXPENDITURES				
Current				
General Government	$ 204,765	$ 243,765	$ 216,050	$ 27,715
Public Safety	1,022,000	1,272,000	947,927	324,073
Highways & Public Improve.	5,354,819	5,909,369	5,816,132	93,237
Health and Welfare	3,306,869	3,306,869	3,268,586	38,283
Culture and Recreation	727,525	727,525	698,254	29,271
Conser. Of Natural Resources	548,525	549,475	503,200	46,275
Economic Development	128,655	128,655	128,855	(200)
Emergency	-	31,800	31,787	13
Capital Outlay	397,544	397,544	377,357	20,187
Total Expenditures	$ 11,690,702	$ 12,567,002	$ 11,988,148	$ 578,854
Excess (Deficiency) of Revenues Over Expenditures	$ (878,825)	$ (1,755,125)	$ 2,087,433	$ 3,842,558
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	$ -	$ -	$ 25,000	$ 25,000
Transfers In	-	-	3,949,342	3,949,342
Transfers Out	(3,650,000)	(3,650,000)	$ (3,744,400)	(94,400)
Total Other Financing Sources (Uses)	$ (3,650,000)	$ (3,650,000)	$ 229,942	$ 3,879,942
Net Change in Fund Balances	$ (4,528,825)	$ (5,405,125)	$ 2,317,375	$ 7,722,500
Fund Balance - January 1	$ 4,411,642	$ 4,411,642	$ 4,411,642	$ -
Fund Balance - December 31	$ (117,183)	$ (993,483)	$ 6,729,017	$ 7,722,500

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

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

Main System - Pension	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered-employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.558938%	$ 9,432,688	$ 5,742,063	164.27%	62.80%
2017	0.582935%	9,369,679	5,950,848	157.45%	61.98%
2016	0.549545%	5,355,852	5,538,116	96.71%	70.46%
2015	0.583700%	3,969,060	5,200,057	76.33%	77.15%
2014	0.529098%	3,358,298	4,457,002	75.35%	77.70%

Law Enforcement System - Pension	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered-employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	27.973321%	$ 271,421	$ 1,709,406	15.88%	89.76%
2017	29.203088%	285,852	1,722,041	16.60%	87.23%
2016	47.562790%	30,465	1,722,041	1.77%	98.17%
2015	46.434907%	(54,345)	1,753,650	-3.10%	104.37%
2014	49.940925%	(6,664)	1,364,550	-0.49%	100.61%

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

Main System - Pension	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 422,928	$ (414,582)	$ 8,346	$ 5,742,063	7.22%
2017	431,509	(377,856)	53,653	5,950,848	6.35%
2016	400,951	(439,794)	(38,843)	5,538,116	7.94%
2015	394,986	(374,863)	20,123	5,200,057	7.60%
2014	317,339	(317,339)	-	4,457,002	7.12%

Law Enforcement System - Pension	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 131,922	$ (134,018)	$ (2,096)	$ 1,709,406	7.84%
2017	145,242	(168,921)	(23,679)	1,722,041	9.81%
2016	176,774	(183,681)	(6,907)	1,722,041	10.67%
2015	143,678	(146,640)	(2,962)	1,753,650	8.19%
2014	108,209	(108,209)	-	1,364,550	7.93%

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

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

Main System - OPEB	Proportion of the net OPEB liability (asset)	Proportionate share of the net OPEB liability (asset)	Covered-employee payroll	Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2018	0.680987%	$ 536,324	$ 7,451,469	7.20%	61.98%
2017	0.709244%	$ 561,020	$ 7,672,889	7.31%	59.78%

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

Main System - OPEB	Statutory required contribution	Contributions in relation to the statutory required contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 87,402	$ (85,646)	$ 1,756	$ 7,451,469	-1.15%
2017	89,192	(84,784)	4,408	7,672,889	-1.10%

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

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

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

	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
Special Revenue Fund	$ 15,340,702	$ 876,300	$ 16,217,002

NOTE 3: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

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

NOTE 4: PENSION AND OPEB - CHANGES OF ASSUMPTIONS

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of County Commissioners
Morton County
Mandan, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morton County as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Morton County's basic financial statements, and have issued our report thereon dated September 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morton 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 Morton County's internal control. Accordingly, we do not express an opinion on the effectiveness of Morton 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 audit findings* as items *2018-001, 2018-002, and 2018-003* that we consider to be material weaknesses.

Compliance and Other Matters

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

Morton County's Response to Findings

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 9, 2019

Financial Statements

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

Internal control over financial reporting

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

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Morton County does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP).

Criteria

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

Cause

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

Effect

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

Recommendation

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

Morton County's Response

Morton County was not aware that there was a risk in having the State Auditor's Office prepare the financial statements. We will prepare them in the future.

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Morton County's Response

The County Auditor will be preparing the financial statements in the future and will include all required entries needed to eliminate the adjustments.

2018-003 – OFF-BOOK CASH ADJUSTMENT

Condition

An off-book bank account was found that was not included in the prior year financial statements. A prior period adjustment in the amount of $396,088 needed to be made in 2018 for this account that had previously not been included in the prior year financial statements. This bank account was an escrow account at the Bank of North Dakota setup for the accumulation of funds to help pay for the Burleigh-Morton County joint jail project.

Criteria

Management of Morton County is responsible for establishing proper internal control over the preparation of Morton County's annual financial statements including off-book accounts held with a fiscal agent to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

The County Treasurer was unaware that the account existed.

Effect

Inadequate internal controls over cash accounts affects Morton County's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation

We recommend that Morton County implement controls over all off-book bank accounts and implement controls to ensure that the accounts are presented in the financial statements. The County Treasurer and the County Auditor should be aware of all accounts that Morton County possesses and account for them appropriately.

Morton County's Response

The County Auditor was aware of this account and in the past when she informed the State Auditor's that we had an off-book account with the BND, she assumed that they would receive information for both accounts, not just the one.

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GOVERNANCE COMMUNICATION

Board of County Commissioners
Morton County
Mandan, North Dakota

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morton County, North Dakota, for the year ended December 31, 2018 which collectively comprise Morton County's basic financial statements, and have issued our report thereon dated September 9, 2019. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated May 15, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

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

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

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

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

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

Corrected and Uncorrected Misstatements

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

AUDIT ADJUSTMENTS

Intergovernmental Receivable	$ 955,248	
Accounts Receivable	29,744	
Revenue		$ 984,992
Expenditures	13,052	
Salaries Payable		13,052
Long-Term Debt	25,000	
Other Financing Sources		25,000

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **SEPTEMBER 9, 2019**.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

Other Audit Findings or Issues

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

The following presents our informal recommendation:

* * * * * * * * * *

FRAUD RISK ASSESSMENT

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

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the County's goals in reporting, reliance, and accountability. We recommend Morton County prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

* * * * * * * * * *

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

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 9, 2019

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