NORTH DAKOTA
# OFFICE OF THE STATE AUDITOR

*State Auditor Joshua C. Gallion*

# Stark County

## Dickinson, North Dakota

Audit Report for the Year Ended December 31, 2019

*Client Code: PS45000*


Photo credit: North Dakota Tourism

Office of the State Auditor

Office of the State Auditor

**REPORT HIGHLIGHTS**

# Stark County

Audit Report for December 31, 2019 | Client Code 45000

## WHAT WE LOOKED AT

Our team reviewed financial transactions, expenditures, as well as compliance with laws and regulations.

## WHAT WE FOUND

### Excess Fund Balance

Stark County has a cash reserve balance in excess of $23.3 million. This appears to be a violation of state law, as N.D.C.C. only allows up to 75% of the appropriation of those funds to be held in cash reserves.

*Read more on page 38*

### Not Following State Procurement Rules

There were two findings related to improper bidding and lack of bidding. State law requires bids to be solicited to obtain the best value and service for the taxpayers of North Dakota.

*Read more on page 39 and 40*

## ADDITIONAL CONCERNS IDENTIFIED

In addition to the three mentioned above, we found four other areas of concern over the course of our audit. Complete details on these can be found in the full audit report.

**STARK COUNTY**
Table of Contents
For the Year Ended December 31, 2019

## COUNTY OFFICIALS

| | |
|---|---|
| Pete Kuntz | Chairman |
| Dean Franchuk | Vice Chairman |
| Jay Elkin | Commissioner |
| Ken Zander | Commissioner |
| Carla Arthaud | Commissioner |
| | |
| Kay Haag | Auditor/Treasurer |
| Corey Lee | Sheriff |
| Kim Kasian | Recorder |
| Tom Henning | States Attorney |

## AUDIT PERSONNEL

| | |
|---|---|
| Heath Erickson, CPA | Audit Manager |
| Michael Scherr | Audit In-Charge |

**STATE AUDITOR**
Joshua C. Gallion

www.nd.gov/auditor

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stark County
Dickinson, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Stark County, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Stark 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 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Stark County, North Dakota, as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof 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 schedules, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and notes to the required supplementary information* as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2020 on our consideration of Stark 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 Stark County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
October 1, 2020

# STARK COUNTY
Statement of Net Position
December 31, 2019

| | Primary Government | Component Units | |
|---|---|---|---|
| | Governmental Activities | Water Resource District | Job Development Authority |
| **ASSETS** | | | |
| Cash and Investments | $ 43,991,634 | $ 374,039 | $ 10,797 |
| Accounts Receivable | 498,416 | - | - |
| Interest Receivable | 43,939 | - | - |
| Intergovernmental Receivable | 1,111,210 | - | - |
| Taxes Receivable | 603,375 | - | - |
| Other Asset | - | 188 | - |
| Capital Assets | | | |
| Nondepreciable | 8,094,053 | 16,156 | - |
| Depreciable, Net | 66,786,819 | - | - |
| Total Assets | $ 121,129,446 | $ 390,383 | $ 10,797 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Pensions & OPEB | $ 3,519,065 | $ - | $ - |
| Total Deferred Inflows of Resources | $ 3,519,065 | $ - | $ - |
| **LIABILITIES** | | | |
| Accounts Payable | $ 1,879,502 | $ - | $ - |
| Salaries and Benefits Payable | 229,917 | - | - |
| Contracts Payable | 641,146 | - | - |
| Retainage Payable | 127,762 | - | - |
| Interest Payable | 7,413 | - | - |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long-Term Debt | 194,508 | - | - |
| Compensated Absences Payable | 272,846 | - | - |
| Due After One Year | | | |
| Long-Term Debt | 418,271 | - | - |
| Compensated Absences Payable | 409,269 | - | - |
| Net Pension & OPEB Liability | 7,685,124 | - | - |
| Total Liabilities | $ 11,865,758 | $ - | $ - |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Taxes Received in Advance | $ 2,712,953 | $ - | $ - |
| Pensions & OPEB | 3,977,223 | - | - |
| Total Deferred Inflows of Resources | $ 6,690,176 | $ - | $ - |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | $ 74,132,918 | $ 16,156 | $ - |
| Restricted for | | | |
| Public Safety | 286,978 | - | - |
| Highways & Bridges | 5,143,322 | - | - |
| Conservation of Nat Resources | 1,832,079 | 374,227 | - |
| Emergencies | 509,952 | - | - |
| Economic Development | 9,288 | - | 10,797 |
| Capital Projects | 5,778,794 | - | - |
| Unrestricted | 18,399,246 | - | - |
| Total Net Position | $ 106,092,577 | $ 390,383 | $ 10,797 |

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

**STARK COUNTY**
Statement of Activities
For the Year Ended December 31, 2019

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | Component Units | |
| Functions/Programs | Expenses | Fees, Fines, Forfeits and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Water Resource District | Job Development Authority |
| **Primary Government** | | | | | | | |
| Government Activities | | | | | | | |
| General Government | $ 3,248,083 | $1,182,324 | $ 19,755 | $ - | $ (2,046,004) | | |
| Public Safety | 6,599,781 | 587,896 | 278,890 | - | (5,732,995) | | |
| Highways & Bridges | 11,323,728 | 469,516 | 4,536,279 | 253,203 | (6,064,730) | | |
| Health & Welfare | 3,859,610 | 2,031 | 4,425,868 | - | 568,289 | | |
| Economic Development | 674,204 | - | - | - | (674,204) | | |
| Culture and Recreation | 336,379 | - | - | - | (336,379) | | |
| Conserv. of Natural Resources | 562,317 | - | 51,471 | - | (510,846) | | |
| Interest on Long-Term Debt | 23,901 | - | - | - | (23,901) | | |
| Total Primary Government | $ 26,628,003 | $2,241,767 | $ 9,312,263 | $ 253,203 | $ (14,820,770) | | |
| **Component Units** | | | | | | | |
| Water Resource District | $ 32,877 | $ - | $ - | $ - | $ - | $ (32,877) | $ - |
| Job Development Authority | 214,000 | - | - | - | - | - | (214,000) |
| Total Component Units | $ 246,877 | $ - | $ - | $ - | $ - | $ (32,877) | $ (214,000) |
| | **General Revenues** | | | | | | |
| | Property Taxes | | | | $ 12,400,981 | $ 13,236 | $ 194,607 |
| | Unrestricted Grants and Contributions | | | | 4,760,267 | - | - |
| | Unrestricted Investment Earnings | | | | 389,108 | 3,851 | 92 |
| | Net Gain on Sale of Capital Assets | | | | 85,023 | - | - |
| | Miscellaneous Revenue | | | | 999,539 | 412 | - |
| | Total General Revenues | | | | $ 18,634,918 | $ 17,499 | $ 194,699 |
| | Change in Net Position | | | | $ 3,814,148 | $ (15,378) | $ (19,301) |
| | Net Position - January 1 | | | | $ 102,278,429 | $ 405,761 | $ 30,098 |
| | Net Position - December 31 | | | | $ 106,092,577 | $ 390,383 | $ 10,797 |

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

**STARK COUNTY**
Balance Sheet – Governmental Funds
December 31, 2019

| | General | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 22,203,806 | $ 15,297,273 | $ 6,490,555 | $ 43,991,634 |
| Intergovernmental Receivable | 269,326 | 559,976 | 281,908 | 1,111,210 |
| Accounts Receivable | 255,780 | 242,636 | - | 498,416 |
| Interest Receivable | 43,939 | - | - | 43,939 |
| Taxes Receivable | 339,749 | 263,626 | - | 603,375 |
| Total Assets | $ 23,112,600 | $ 16,363,511 | $ 6,772,463 | $ 46,248,574 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES** | | | | |
| Liabilities | | | | |
| Accounts Payable | $ 285,995 | $ 599,838 | $ 993,669 | $ 1,879,502 |
| Salaries Payable | 119,506 | 110,411 | - | 229,917 |
| Total Liabilities | $ 405,501 | $ 710,249 | $ 993,669 | $ 2,109,419 |
| Deferred Inflows Of Resources | | | | |
| Taxes Received in Advance | $ 1,512,344 | $ 1,200,609 | $ - | $ 2,712,953 |
| Taxes Receivable | 339,749 | 263,626 | - | 603,375 |
| Total Deferred Inflows of Resources | $ 1,852,093 | $ 1,464,235 | $ - | $ 3,316,328 |
| Total Liabilities and Deferred Inflows of Resources | $ 2,257,594 | $ 2,174,484 | $ 993,669 | $ 5,425,747 |
| Fund Balances | | | | |
| Restricted | | | | |
| Public Safety | $ - | $ 2,373,436 | $ - | $ 2,373,436 |
| Highways & Bridges | - | 7,282,730 | - | 7,282,730 |
| Health & Welfare | - | 2,056,607 | - | 2,056,607 |
| Conservation of Natural Resources | - | 1,936,226 | - | 1,936,226 |
| Emergencies | - | 509,952 | - | 509,952 |
| Economic Development | - | 9,288 | - | 9,288 |
| Capital Projects | - | - | 5,778,794 | 5,778,794 |
| Other Purposes/General Government | - | 20,788 | - | 20,788 |
| Unassigned | | | | |
| General Fund | 20,855,006 | - | - | 20,855,006 |
| Total Fund Balances | $ 20,855,006 | $ 14,189,027 | $ 5,778,794 | $ 40,822,827 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 23,112,600 | $ 16,363,511 | $ 6,772,463 | $ 46,248,574 |

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

| | | |
|---|---|---|
| **Total Fund Balances of Governmental Funds** | | $ 40,822,827 |
| 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, therefore, are not reported in the governmental funds. | | 74,880,872 |
| Property taxes receivable 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 inflows of resources in the funds. | | 603,375 |
| Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds. | | |
| Deferred Outflows Derived from Pensions and OPEB | $ 3,519,065 | |
| Deferred Inflows Derived from Pensions and OPEB | (3,977,223) | (458,158) |
| 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 | $ (612,779) | |
| Contract Payable | (641,146) | |
| Retainage Payable | (127,762) | |
| Interest Payable | (7,413) | |
| Compensated Absences | (682,115) | |
| Net Pension and OPEB Liability | (7,685,124) | (9,756,339) |
| **Total Net Position of Governmental Funds** | | $ 106,092,577 |

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

**STARK COUNTY**
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2019

| | General | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 6,237,881 | $ 6,006,326 | $ - | $ 12,244,207 |
| Intergovernmental | 1,416,492 | 9,908,724 | 2,747,314 | 14,072,530 |
| Charges for Services | 363,435 | 1,257,387 | - | 1,620,822 |
| Licenses, Permits and Fees | 145,087 | 475,858 | - | 620,945 |
| Interest Income | 389,108 | - | - | 389,108 |
| Miscellaneous | 362,290 | 637,248 | - | 999,538 |
| Total Revenues | $ 8,914,293 | $ 18,285,543 | $ 2,747,314 | $ 29,947,150 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| General Government | $ 4,956,162 | $ 1,202,164 | $ - | $ 6,158,326 |
| Public Safety | 2,947,779 | 2,736,732 | - | 5,684,511 |
| Highways & Bridges | - | 12,032,353 | - | 12,032,353 |
| Health & Welfare | 750 | 3,713,647 | - | 3,714,397 |
| Economic Development | 674,204 | - | - | 674,204 |
| Culture & Recreation | 315,165 | - | - | 315,165 |
| Conservation of Natural Resources | - | 542,596 | - | 542,596 |
| Capital Outlay | - | - | 3,995,406 | 3,995,406 |
| Debt Service | | | | |
| Principal | - | 332,116 | - | 332,116 |
| Interest on Long-Term Debt | - | 21,947 | - | 21,947 |
| Total Expenditures | $ 8,894,060 | $ 20,581,555 | $ 3,995,406 | $ 33,471,021 |
| Excess (Deficiency) of Revenues Over Expenditures | $ 20,233 | $ (2,296,012) | $ (1,248,092) | $ (3,523,871) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | $ 17,829 | $ 2,000,000 | $ - | $ 2,017,829 |
| Transfers Out | - | (2,017,829) | - | (2,017,829) |
| Capital Lease Proceeds | - | 359,689 | - | 359,689 |
| Total Other Financing Sources and Uses | $ 17,829 | $ 341,860 | $ - | $ 359,689 |
| Net Change in Fund Balances | $ 38,062 | $ (1,954,152) | $ (1,248,092) | $ (3,164,182) |
| Fund Balances - January 1 | $ 20,816,944 | $ 16,143,179 | $ 7,026,886 | $ 43,987,009 |
| Fund Balances - December 31 | $ 20,855,006 | $ 14,189,027 | $ 5,778,794 | $ 40,822,827 |

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

# STARK 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, 2019

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | $ (3,164,182) |
| 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 | $ 10,036,742 | |
| Capital Contribution | 253,203 | |
| Depreciation Expense | (2,602,405) | 7,687,540 |
| In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. | | 85,023 |
| The proceeds of debt issuances are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuance debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| Repayment of Debt | $ 332,115 | |
| Debt Issuance | (359,689) | (27,574) |
| 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. | | |
| Net Change in Interest Payable | $ (1,954) | |
| Net Change in Contract Payable | (150,040) | |
| Net Change in Retainage Payable | (82,550) | |
| Net Change in Compensated Absences | 38,200 | (196,344) |
| 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. | | |
| Net Change in Net Pension & OPEB Liability | $ 3,600,933 | |
| Net Change in Deferred Outlfows of Resources | (1,107,212) | |
| Net Change in Deferred Inflows of Resources | (3,220,811) | (727,090) |
| 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. | | |
| Net Change in Taxes Receivable | | 156,775 |
| **Change in *Net Position* - Governmental Activities** | | $ 3,814,148 |

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

| | |
|---|---|
| **ASSETS** | |
| Cash and Investments | $ 8,248,365 |
| | |
| **LIABILITIES** | |
| Due to Other Governments | $ 8,248,365 |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Reporting Entity

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

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

### Component Units

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

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

> Stark County Water Resource District ("Water Resource District") - The County's governing board appoints a voting majority of the members of the Water Resource District board. The County has the authority to approve or modify the Water Resource District's operational and capital budgets. The County also must approve the tax levy established by the Water Resource District.
>
> Stark County Job Development Authority ("Job Development Authority") - The County's governing board appoints a voting majority of the members of the Job Development Authority. The County's governing body has the authority to approve or modify the Job Development Authority's operational and capital budgets. The County also must approve the tax levy established by the Job Development Authority.

The financial statements of each of the discretely presented component units are included in the basic financial statements. Complete financial statements of the individual component units can be obtained from the County Auditor/Treasurer; 51 3rd St E, Dickinson, ND 58601.

### 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 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.

Capital Projects Fund - This fund accounts for financial resources that exist for capital projects. The major source of revenue is a restricted tax levy.

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.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-Wide and Fiduciary Fund Financial Statements*. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. 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 Fund Financial Statements*. 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 long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of 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 are both restricted and unrestricted net assets 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.

**Cash and Investments**

Cash includes amounts in demand deposits and money market accounts.

The investments of the County consist of certificates of deposit stated at cost with maturities in excess of three months.

### Capital Assets

Capital assets for the primary government are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased 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 of the county are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Land | Indefinite |
| Vehicles and Machinery | 25 - 75 |
| Furniture and Equipment | 5 - 15 |
| Buildings | 40 |
| Land Improvements | 30 |
| Infrastructure | 5 - 20 |

### Compensated Absences

Vacation leave is earned at the rate of one to two days per month depending on years of service. Up to 240 hours of vacation leave may be carried over at each year-end. Sick leave benefits are earned at the rate of one day per month regardless of the years of service. Upon termination of employment, the employee is entitled to a lump sum payment of 10% of the pay attributed to the employee’s unused sick leave accrued. A liability for the vested or accumulated vacation leave is reported in the statement of net position

### Long-Term Obligations

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

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

### Pension

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

### Other Post-Employment Benefits (OPEB)

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

**Fund Balances**

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

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

*Minimum Fund Balance Policy.* The County adopted a policy that establishes a 15-20% general fund carryover balance target to help with financial stability. The 15-20% fund balance range is a part of the budget recommendation adopted by the Board of Commissioners each fiscal year. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

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

**Net Position**

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

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

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

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

**Interfund Transactions**

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

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

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

**NOTE 2 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, 2019, the County's carrying amount of deposits totaled $52,242,443, and the bank balances totaled $52,778,667. Of the bank balances, $1,000,000 was covered by Federal Depository Insurance. The remaining bank balances, besides $2,318,909 of the bank balances which were uninsured and uncollateralized, were collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2019, the Water Resource District's carrying amount of deposits totaled $374,039 and the bank balance totaled $378,413, all of which was covered by Federal Depository Insurance.

At December 31, 2019, the Job Development Authority's carrying amount of deposits and bank balance was $10,797, all of which was covered by Federal Depository Insurance.

## NOTE 3 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 4 CAPITAL ASSETS

### Primary Government

The following is a summary of changes in capital assets for the year ended December 31, 2019 for the County:

| Primary Government | Balance January 1 | Increases | Decreases | Transfers | Balance Decemer 31 |
|---|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | | |
| Land | $ 1,871,277 | $ 529,455 | $ - | $ - | $ 2,400,732 |
| Construction in Progress | 9,138,835 | 5,564,493 | - | (9,010,007) | 5,693,321 |
| Total Capital Assets, Not Being Depreciated | $ 11,010,112 | $ 6,093,948 | $ - | $ (9,010,007) | $ 8,094,053 |
| Capital Assets Being Depreciated | | | | | |
| Buildings | $ 13,306,626 | $ 2,779,361 | $ - | $ 7,524,278 | $ 23,610,265 |
| Vehicles and Machinery | 9,014,896 | 1,570,547 | 584,895 | - | 10,000,548 |
| Furniture and Equipment | 2,347,341 | 25,589 | - | - | 2,372,930 |
| Land Improvements | 174,489 | - | - | - | 174,489 |
| Infrastructure | 59,957,607 | - | - | 1,485,729 | 61,443,336 |
| Total Capital Assets, Being Depreciated | $ 84,800,959 | $ 4,375,497 | $ 584,895 | $ 9,010,007 | $ 97,601,568 |
| Less Accumulated Depreciation | | | | | |
| Buildings | $ 3,895,220 | $ 439,176 | $ - | $ - | $ 4,334,396 |
| Vehicles and Machinery | 5,508,738 | 739,059 | 490,418 | - | 5,757,379 |
| Furniture and Equipment | 1,971,187 | 74,371 | - | - | 2,045,558 |
| Land Improvements | 11,633 | 5,816 | - | - | 17,449 |
| Infrastructure | 17,315,985 | 1,343,982 | - | - | 18,659,967 |
| Total Accumulated Depreciation | $ 28,702,763 | $ 2,602,404 | $ 490,418 | $ - | $ 30,814,749 |
| Total Capital Assets Being Depreciated, Net | $ 56,098,196 | $ 1,773,093 | $ 94,477 | $ 9,010,007 | $ 66,786,819 |
| Governmental Capital Assets, Net | $ 67,108,308 | $ 7,867,041 | $ 94,477 | $ - | $ 74,880,872 |

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

| Primary Government | Amounts |
|---|---|
| General | $ 294,108 |
| Public Safety | 275,032 |
| Highways & Bridges | 1,952,993 |
| Health & Welfare | 40,680 |
| Culture & Recreation | 21,214 |
| Conservation of Natural Resources | 18,377 |
| Total Depreciation Expense | $ 2,602,404 |

The following is a summary of changes in capital assets for the year ended December 31, 2019 for the Water Resource District:

| Water Resource District | Balance January 1 | Increases | Decreases | Transfers | Balance Decemer 31 |
|---|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | | |
| Land | $ - | $ 16,156 | $ - | $ - | $ 16,156 |

## NOTE 5 LONG-TERM LIABILITIES

### Primary Government

During the year ended December 31, 2019, the following changes occurred in governmental activities long-term liabilities:

| Primary Government | Balance January 1 | Increases | Decreases | Balance December 31 | Due Within One Year |
|---|---|---|---|---|---|
| Long Term-Debt | | | | | |
| Leases Payable | $ 302,211 | $ 359,689 | $ 236,873 | $ 425,027 | $ 134,537 |
| Loans Payable | 282,995 | - | 95,243 | 187,752 | 59,971 |
| Total Long-Term Debt | $ 585,206 | $ 359,689 | $ 332,116 | $ 612,779 | $ 194,508 |
| Compensated Absences * | $ 720,314 | $ - | $ 38,199 | $ 682,115 | $ 272,846 |
| Net Pension and OPEB Liability | 11,286,057 | - | 3,600,933 | 7,685,124 | - |
| Total Primary Government | $ 12,591,577 | $ 359,689 | $ 3,971,248 | $ 8,980,018 | $ 467,354 |

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

| Year Ending Dec 31 | Leases Payable | | Loans Payable | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2020 | 134,537 | 14,370 | 59,971 | 7,349 |
| 2021 | 118,154 | 9,768 | 62,547 | 4,773 |
| 2022 | 97,848 | 5,658 | 65,234 | 2,087 |
| 2023 | 74,488 | 2,361 | - | - |
| Total | $ 425,027 | $ 32,157 | $ 187,752 | $ 14,209 |

## NOTE 6 PENSION PLAN

### General Information about the NDPERS Pension Plan

***North Dakota Public Employees Retirement System (Main System)***

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

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

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

### Pension Benefits

***Main System***

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

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

***Law Enforcement System (With prior main system service)***

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 (Main and Law Enforcement Systems)**

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

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

**Refunds of Member Account Balance**

***Main System***

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

***Law Enforcement System***

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 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**

***Main System***

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

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

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

***Law Enforcement System***

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 contribution 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, 2019, for its respective proportionate share of the net pension liability, the following net pension liabilities were reported:

| | Net Pension Liability |
|---|---|
| Main System | $ 6,745,265 |
| Law Enforcement System | 409,192 |

The net pension liability was measured as of June 30, 2019, 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 its 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, 2019, the entities had the following proportions, change in proportions, and pension expense:

| | Proportion | Increase (Decrease) In Proportion from June 30, 2018 Measurement | Pension Expense |
|---|---|---|---|
| Main System | 0.575499% | -0.008439% | $ 1,261,328 |
| Law Enforcement System | 3.440655% | -0.435789% | 105,343 |

At December 31, 2019, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

| Main System | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 3,995 | $ 1,224,137 |
| Changes of Assumptions | 2,520,528 | 2,164,092 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 117,519 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 104,554 | 95,904 |
| Employer Contributions Subsequent to the Measurement Date | 221,589 | - |
| Total Main System | $ 2,968,185 | $ 3,484,133 |

| Law Enforcement System | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 52,315 | $ 50,045 |
| Changes of Assumptions | 293,303 | 297,900 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 11,559 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | - | 119,226 |
| Employer Contributions Subsequent to the Measurement Date | 80,215 | - |
| Total Law Enforcement System | $ 437,392 | $ 467,171 |

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020:

| | |
|---|---|
| Main System | $ 221,589 |
| Law Enforcement System | 80,215 |

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

| | Main System | Law Enforcement System |
|---|---|---|
| 2020 | $ 257,237 | $ 15,821 |
| 2021 | 90,262 | 9,766 |
| 2022 | (254,364) | (4,480) |
| 2023 | (632,646) | (60,947) |
| 2024 | (198,026) | (70,154) |

**Actuarial Assumptions**

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

***Main System***

| | | |
|---|---|---|
| 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 | 7.50%, net of investment expenses | |
| Cost–of-living adjustments | None | |

***Law Enforcement System***

| | | |
|---|---|---|
| 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 | 7.50%, net of investment expenses | |
| Cost–of-living adjustments | None | |

***Main and Law Enforcement System***

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 30% | 6.25% |
| International Equity | 21% | 6.95% |
| Private Equity | 7% | 10.15% |
| Domestic Fixed Income | 23% | 2.11% |
| International Fixed Income | 0% | 0.00% |
| Global Real Assets | 19% | 5.41% |
| Cash Equivalents | 0% | 0.00% |

**Discount rate (Main and Law Enforcement Systems)**

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount rate**

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| Proportionate Share of the Net Pension Liability | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Main System | $ 9,671,258 | $ 6,745,265 | $ 4,286,919 |
| Law Enforcement System | 800,021 | 409,192 | 88,695 |

**Pension Plan Fiduciary Net Position**

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

**NOTE 7 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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. 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, 2019, for its respective proportionate share of the net pension liability, the following net OPEB liabilities were reported:

| | Net OPEB Liability |
|---|---|
| Main System | $ 530,667 |

The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on the its share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the entities had the following proportions, change in proportions, and pension expense:

| | Proportion | Increase (Decrease) In Proportion from June 30, 2018 Measurement | OPEB Expense |
|---|---|---|---|
| Main System | 0.660701% | -0.009832% | $ 70,670 |

At December 31, 2019, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 13,105 | $ 16,577 |
| Changes of Assumptions | 63,246 | - |
| Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments | 591 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 1,021 | 9,342 |
| Employer Contributions Subsequent to the Measurement Date | 35,524 | - |
| Total | $ 113,487 | $ 25,919 |

The following amounts were reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020:

| | |
|---|---|
| Main System | $ 35,524 |

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

| | |
|---|---|
| 2020 | 8,272 |
| 2021 | 8,272 |
| 2022 | 13,212 |
| 2023 | 12,305 |
| 2024 | 6,595 |
| 2025 | 2,874 |
| Thereafter | 514 |

**Actuarial Assumptions**

The total OPEB liability in the July 1, 2019 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 or return | 7.25%, 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, 2019 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Large Cap Domestic Equities | 33% | 6.00% |
| Small Cap Domestic Equities | 6% | 7.30% |
| International Equities | 40% | 2.07% |
| U.S. High Yield | 21% | 6.95% |

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.25%. 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 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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate Share of the Net OPEB Liability | $ 677,325 | $ 530,667 | $ 405,126 |

## NOTE 8 TRANSFERS

The following table shows amounts reported for transfers in and transfers out as reported in the basic financial statements in the governmental funds for the year ended December 31, 2019:

| | Transfers In | Transfers Out |
|---|---|---|
| General Fund | $ 17,829 | $ - |
| Special Revenue Funds | 2,000,000 | 2,017,829 |
| Total Transfers | $ 2,017,829 | $ 2,017,829 |

## NOTE 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDIRF is limited to losses of three million dollars per occurrence for general liability, three million for automobile, and $6,477,234 for public assets/mobile equipment and portable property.

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

The County has worker's compensation with the ND Workforce Safety and Insurance.

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

**NOTE 10 CONSTRUCTION COMMITMENTS**

The County had open constructions commitment as of December 31, 2019 as follows:

| County Project | Contract Amount | Total Completed | Retainage | Remaining Balance |
|---|---|---|---|---|
| COIB-5-983(061) | $ 1,707,708 | $ 1,649,792 | $ - | $ 57,916 |
| BRO-0045(066) PCN 21994 | 17,245 | - | - | 17,245 |
| Social Services Building | 10,041,932 | 2,555,238 | 127,762 | 7,614,456 |
| Total | $ 11,766,885 | $ 4,205,030 | $ 127,762 | $ 7,689,617 |

**NOTE 11 JOINT VENTURES**

**Southwest Multi-County Correction Center**

The County entered into a joint venture for the operation of the Southwest Multi-County Correction Center with Dunn, Hettinger, Bowman, Slope, and Billings counties. Each county appoints one member to the correction center board. Each participating county's share of the cost of operations is determined by the relative population of each county based upon the 1980 census.

The following information as of and for the year ended December 31, 2018, the most current audited information available, is as follows:

| | Southwest Multi-County Correctional Center |
|---|---|
| Total Assets | $ 6,607,426 |
| Total Liabilities | 922,906 |
| Net Position | $ 5,684,520 |
| Total Revenues | $ 8,710,972 |
| Total Expenses | 8,841,420 |
| Change in Net Position | $ (130,448) |

Complete financial statements may be obtained from Southwest Multi-County Correction Center, 12th St. W. and Sims, Dickinson, ND 58601.

**Dickinson Law Enforcement Center**

The County entered into a joint venture for the maintenance of the Dickinson Law Enforcement Center with the City of Dickinson and the Southwest Multi-County Correction Center. Each entity appoints two members to the law enforcement center board. Each participating entity's share of the cost of operations is determined by the relative amount of space occupied by each.

The following information as of and for the year ended December 31, 2018, the most current audited information available, is as follows:

| | Dickinson Law Enforcement Center |
|---|---|
| Total Assets | $ 199,319 |
| Total Liabilities | 80,791 |
| Net Position | $ 118,528 |
| Total Revenues | $ 452,694 |
| Total Expenses | 434,193 |
| Change in Net Position | $ 18,501 |

Complete financial statements may be obtained from Dickinson Law Enforcement Center, 12th St. W. and Sims, Dickinson, ND 58601.

**Southwest District Health Unit**

The County entered into a joint venture with Adams, Billings, Bowman, Dunn, Golden Valley, Hettinger, and Slope Counties for the operation of the Southwest District Health Unit. Each participating county's share of the cost of operations and board member appointments is determined by the relative taxable valuation of each county.

The following unaudited information as of and for the year ended December 31, 2017, the most current information available, is as follows:

| | Southwest District Health Unit |
|---|---|
| Total Assets | $ 4,623,101 |
| Total Liabilities | 1,578,372 |
| Net Position | $ 3,044,729 |
| Total Revenues | $ 3,686,730 |
| Total Expenses | 3,275,295 |
| Change in Net Position | $ 411,435 |

Additional financial information may be obtained from the Southwest District Health Unit, Hwy 22 N, Dickinson, ND 58601.

**STARK COUNTY**
Budgetary Comparison Schedule – General Fund
For the Year Ended December 31, 2019

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 6,438,383 | $ 6,438,383 | $ 6,237,881 | $ (200,502) |
| Intergovernmental | 1,298,300 | 1,298,300 | 1,416,492 | 118,192 |
| Charges for Services | 290,000 | 290,000 | 363,435 | 73,435 |
| Licenses, Permits and Fees | 133,245 | 133,245 | 145,087 | 11,842 |
| Interest Income | 450,000 | 450,000 | 389,108 | (60,892) |
| Miscellaneous | 73,500 | 73,500 | 362,290 | 288,790 |
| Total Revenues | $ 8,683,428 | $ 8,683,428 | $ 8,914,293 | $ 230,865 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| General Government | $ 4,974,591 | 4,974,591 | $ 4,956,162 | $ 18,429 |
| Public Safety | 3,124,851 | 3,124,851 | 2,947,779 | 177,072 |
| Health & Welfare | 750 | 750 | 750 | - |
| Economic Development | 248,677 | 491,552 | 674,204 | (182,652) |
| Culture & Recreation | 294,261 | 294,261 | 315,165 | (20,904) |
| Total Expenditures | $ 8,643,130 | $ 8,886,005 | $ 8,894,060 | $ (8,055) |
| Excess (Deficiency) of Revenues Over Expenditures | $ 40,298 | $ (202,577) | $ 20,233 | $ 222,810 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | $ 50,000 | $ 50,000 | $ 17,829 | $ (32,171) |
| Net Change in Fund Balances | $ 90,298 | $ (152,577) | $ 38,062 | $ 190,639 |
| Fund Balance - January 1 | $ 20,816,944 | $ 20,816,944 | $ 20,816,944 | $ - |
| Fund Balance - December 31 | $ 20,907,242 | $ 20,664,367 | $ 20,855,006 | $ 190,639 |

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

**STARK COUNTY**
Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended December 31, 2019

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 6,238,265 | $ 6,238,265 | $ 6,006,326 | $ (231,939) |
| Intergovernmental | 5,140,591 | 5,140,591 | 9,908,724 | 4,768,133 |
| Charges for Services | 861,214 | 861,214 | 1,257,387 | 396,173 |
| Licenses, Permits and Fees | 134,000 | 134,000 | 475,858 | 341,858 |
| Miscellaneous | 196,250 | 196,250 | 637,248 | 440,998 |
| Total Revenues | $ 12,570,320 | $ 12,570,320 | $ 18,285,543 | $ 5,715,223 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| General Government | $ 434,856 | $ 434,856 | $ 1,202,164 | $ (767,308) |
| Public Safety | 2,955,736 | 3,634,186 | 2,736,732 | 897,454 |
| Highways & Bridges | 8,878,609 | 12,090,868 | 11,672,664 | 418,204 |
| Health & Welfare | - | 3,700,258 | 3,713,647 | (13,389) |
| Conservation of Natural Resources | 673,594 | 673,594 | 542,596 | 130,998 |
| Debt Service | | | | |
| Principal | - | - | 332,116 | (332,116) |
| Interest | - | - | 21,947 | (21,947) |
| Total Expenditures | $ 12,942,795 | $ 20,533,762 | $ 20,221,866 | $ 311,896 |
| Excess (Deficiency) of Revenues Over Expenditures | $ (372,475) | $ (7,963,442) | $ (1,936,323) | $ 6,027,119 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | $ - | $ - | $ 2,000,000 | $ 2,000,000 |
| Transfers Out | - | - | (2,017,829) | (2,017,829) |
| Total Other Financing Sources and Uses | $ - | $ - | $ (17,829) | $ (17,829) |
| Net Change in Fund Balances | $ (372,475) | $ (7,963,442) | $ (1,954,152) | $ 6,009,290 |
| Fund Balance - January 1 | $ 16,143,179 | $ 16,143,179 | $ 16,143,179 | $ - |
| Fund Balance - December 31 | $ 15,770,704 | $ 8,179,737 | $ 14,189,027 | $ 6,009,290 |

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 | 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 |
|---|---|---|---|---|---|
| 2019 | 0.575499% | $ 6,745,265 | $ 5,986,171 | 112.68% | 71.66% |
| 2018 | 0.583938% | 9,854,591 | 5,998,893 | 164.27% | 62.80% |
| 2017 | 0.578532% | 9,298,908 | 5,905,904 | 157.45% | 61.98% |
| 2016 | 0.583577% | 5,687,527 | 5,881,077 | 96.71% | 70.46% |
| 2015 | 0.558091% | 3,794,924 | 4,971,918 | 76.33% | 77.15% |
| 2014 | 0.547798% | 3,476,991 | 4,614,538 | 75.35% | 77.70% |

| Law Enforcement System | 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 |
|---|---|---|---|---|---|
| 2019 | 3.440655% | $ 409,192 | $ 1,386,307 | 29.52% | 84.95% |
| 2018 | 3.876444% | 903,376 | 1,338,190 | 67.51% | 71.64% |
| 2017 | 4.844673% | 1,066,612 | 1,393,603 | 76.54% | 69.86% |
| 2016 | 5.126838% | 587,456 | 1,447,096 | 40.60% | 78.73% |
| 2015 | 6.897293% | 419,046 | 1,010,899 | 41.45% | 83.61% |
| 2014 | 8.227919% | 509,040 | 1,075,719 | 47.32% | 80.56% |

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

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

| Main System | 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 |
|---|---|---|---|---|---|
| 2019 | $ 435,827 | $ 436,560 | $ (733) | $ 5,986,171 | 7.29% |
| 2018 | 441,844 | 430,772 | 11,072 | 5,998,893 | 7.18% |
| 2017 | 428,250 | 431,014 | (2,764) | 5,905,904 | 7.30% |
| 2016 | 425,781 | 446,487 | (20,706) | 5,881,077 | 7.59% |
| 2015 | 377,657 | 379,909 | (2,252) | 4,971,918 | 7.64% |
| 2014 | 328,555 | 328,555 | - | 4,614,538 | 7.12% |

| Law Enforcement System | 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 |
|---|---|---|---|---|---|
| 2019 | $ 129,448 | $ 135,936 | $ (6,488) | $ 1,386,307 | 9.81% |
| 2018 | 123,101 | 137,920 | (14,819) | 1,338,190 | 10.31% |
| 2017 | 145,599 | 151,165 | (5,566) | 1,393,603 | 10.85% |
| 2016 | 122,229 | 154,250 | (32,021) | 1,447,096 | 10.66% |
| 2015 | 109,179 | 130,443 | (21,264) | 1,010,899 | 12.90% |
| 2014 | 105,528 | 105,528 | - | 1,075,719 | 9.81% |

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 | Proportion of the Net OPEB Liability (Asset) | Proportionate Share of the Net OPEB (Asset) | Covered-Employee Payroll | Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---|---|---|---|---|---|
| 2019 | 0.660701% | $ 530,667 | $ 7,372,478 | 7.20% | 63.13% |
| 2018 | 0.670533% | 528,090 | 7,337,083 | 7.20% | 61.89% |
| 2017 | 0.674730% | 533,719 | 7,299,507 | 7.31% | 59.78% |

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

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

| Main System | 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 |
|---|---|---|---|---|---|
| 2019 | $ 85,742 | $ 85,696 | $ 46 | $ 7,372,478 | 1.16% |
| 2018 | 86,060 | 85,000 | 1,060 | 7,337,083 | 1.16% |
| 2017 | 84,852 | 86,572 | (1,720) | 7,299,507 | 1.19% |

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 | | |
|---|---|---|---|
| **Major Funds** | **Original Budget** | **Amendment** | **Amended Budget** |
| General Fund | $ 8,643,130 | $ 242,875 | 8,886,005 |
| Special Revenue Fund | 12,942,795 | 7,590,967 | 20,533,762 |

## NOTE 3 CHANGES OF BENEFIT TERMS

### Pension

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018

### OPEB

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

## NOTE 4 CHANGES OF ASSUMPTIONS

**Pension**

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

**OPEB**

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

## NOTE 5 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, information will be presented for those years for which information is available.

## NOTE 6 BUDGET TO ACTUAL RECONCILIATION

Leases issued that are paid by the special revenue fund are not included in the budgetary comparison schedule expenditures, but are included in the combined statement of revenues, expenditures and changes in fund balance. The reconciliation is provided below:

| | Combined Statement | Adjustment | Budget to Actual Statement |
|---|---|---|---|
| Expenditures | $ 20,581,555 | $ (359,689) | $ 20,221,866 |
| Lease Proceeds | 359,689 | (359,689) | - |

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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
Stark County
Dickinson, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Stark County as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Stark County's basic financial statements, and have issued our report thereon dated October 1, 2020.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *schedule of audit findings* as items *2019-001, 2019-002, 2019-003, and 2019-004* to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of audit findings as item 2019-005, 2019-006, and 2019-007 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Stark 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying *schedule of audit findings* as item *2019-001, 2019-002,* and *2019-003.*

**Stark County's Response to Findings**

Stark County's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Stark 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

Bismarck, North Dakota
October 1, 2020

**Financial Statements**

| | |
|---|---|
| Type of Report Issued? | |
| Governmental Activities | Unmodified |
| Aggregate 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? | X | Yes | | None Noted |
| Noncompliance material to financial statements noted? | X | Yes | | None Noted |

## 2019-001 EXCESS FUND BALANCE – MATERIAL WEAKNESS – MATERIAL NONCOMPLIANCE

### Condition

Stark County's general fund and various special revenue funds had a cash reserve balance at year end that was in excess of seventy five percent of the annual appropriation as follows:

| Fund | Original Appropriation | 75% of Appropriation | Year End Cash Reserve | Cash Reserve Above 75% | Cash Reserve Percentage |
|---|---|---|---|---|---|
| General Fund | $ 8,643,130 | $ 6,482,348 | $ 22,203,806 | $ 15,721,458 | 257% |
| Special Revenue Fund | | | | | |
| Highway Tax | 2,414,978 | 1,811,234 | 4,596,355 | 2,785,121 | 190% |
| Special Road & Bridge | 294,632 | 220,974 | 1,385,474 | 1,164,500 | 470% |
| Jail | 1,964,421 | 1,473,316 | 2,045,744 | 572,428 | 104% |
| Veterans Service Office | 169,538 | 127,153 | 1,135,031 | 1,007,878 | 669% |
| County Agent | 197,293 | 147,970 | 1,753,186 | 1,605,216 | 889% |
| Preservation | 10,000 | 7,500 | 357,794 | 350,294 | 3578% |
| 911 Equipment | 65,000 | 48,750 | 208,624 | 159,874 | 321% |
| **Total** | $ 13,758,992 | $ 10,319,244 | $ 33,686,013 | $ 23,366,769 | - |

### Effect

Stark County may not be in compliance with N.D.C.C. §11-23-02

### Cause

Stark County was not aware that they may have been in violation of N.D.C.C. §11-23-02.

### Criteria

N.D.C.C. §11-23-02 states, “The county auditor shall prepare an annual budget for the general fund, each special revenue fund, and each debt service fund of the county in the form prescribed by the state auditor. The budget must set forth specifically.” Specifically, N.D.C.C. §11-23-02(9) states, "The amount of cash reserve for the general fund and each special revenue fund, not to exceed seventy-five percent of the appropriation for the fund."

### Prior Recommendation

No.

### Recommendation

We recommend that Stark County ensure its compliance with all aspects of N.D.C.C. §11-23-02 and resolve any current circumstances if deemed appropriate by management. Further, we recommend that Stark County review its cash reserve balances of the general fund and special revenue funds periodically and prior to finalizing any fiscal year budget.

### Stark County’s Response

Agree, Balances will be reviewed and depleted to the recommended amount.

**2019-002 IMPROPER BIDDING OF ROAD EQUIPMENT – MATERIAL WEAKNESS - MATERIAL NONCOMPLIANCE**

**Condition**

Stark County purchased two motor graders at a cost of $691,025 under an out of state procurement agreement as well as an International Truck at a cost of $137,496 under a Minnesota state bid.

**Effect**

Stark County may not be in compliance with N.D.C.C. §24-05-04(2).

**Cause**

Stark County believed that the out of state procurement agreement and Minnesota State bid would satisfy the requirements stated in N.D.C.C. §24-05-04(2).

**Criteria**

N.D.C.C. §24-05-04(2) states "Except as provided in N.D.C.C. § 54-44.4-13, a purchase of county road machinery and any rental contract or agreement for the use of road machinery and other articles, except necessary repairs for road machinery, which exceeds the sum of one hundred thousand dollars must be advertised by publishing an advertisement for bids at least once each week for two consecutive weeks in the official newspaper of the county and in any other newspapers as the board deems advisable."

**Prior Recommendation**

No.

**Recommendation**

We recommend Stark County carefully review upcoming road machinery purchases to ensure compliance with N.D.C.C. §24-05-04(2) and resolve current circumstances if deemed appropriate by management.

**Stark County's Response**

Agree, we will review with State's Attorney and comply.

**2019-003 ADVERTISED BIDDING OF ROAD EQUIPMENT – MATERIAL WEAKNESS - MATERIAL NONCOMPLIANCE**

**Condition**

Stark County entered into three lease-purchase agreements for International Trucks at a cost of $359,689 that were not advertised for bids in accordance with state law.

**Effect**

Stark County may not be in compliance with N.D.C.C. §24-05-04(2).

**Cause**

Stark County did not believe that N.D.C.C §24-05-04(2) applied to lease-purchase agreements for road equipment.

**Criteria**

N.D.C.C. §24-05-04(2) states "A purchase of county road machinery and any rental contract or agreement for the use of road machinery and other articles, except necessary repairs for road machinery, which exceeds the sum of one hundred thousand dollars must be advertised by publishing an advertisement for bids at least once each week for two consecutive weeks in the official newspaper of the county and in any other newspapers as the board deems advisable."

N.D.C.C. §24-05-04(3) states "Notwithstanding the provisions of this section relating to the duration of rental contracts, the board of county commissioners may enter lease-purchase agreements for the road machinery and articles covered by this section if those agreements provide for the complete performance and full payment of the purchase price of the machinery or articles within seven years from the date of the execution of the of the lease-purchase agreement according to section 44-08-01.1.

**Prior Recommendation**

Yes.

**Recommendation**

We recommend Stark County properly advertise bids for lease-purchase agreements for road equipment which exceeds $100,000 in accordance with N.D.C.C. §24-05-04(2).

**Stark County's Response**

Agree, Stark County will advertise lease-purchases when they reach the threshold.

**2019-004 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS**

**Condition**

Stark County currently does not prepare the financial statements, including various adjusting entries and accompanying note disclosures, as required by generally accepted accounting principles (GAAP). Thus, management has elected 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 Stark County's financial statements.

**Cause**

Management chooses not to allocate school district resources for preparation of the financial statements.

**Criteria**

Stark County is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with GAAP.

**Prior Recommendation**

Yes.

**Recommendation**

We recommend Stark County consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

**Stark County's Response**

Agree. Stark County is aware the auditors complete the financial statements and note disclosures.

## 2019-005 FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY

### Condition

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

### Effect

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

### Cause

Stark County has limited amount of staff and decided it was not necessary to implement at this date.

### Criteria

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

### Prior Recommendation

Yes.

### Recommendation

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

### Stark County's Response

Agree. Departments will again be contacted to submit information & comply.

### 2019-006 LACK OF PLEDGE OF ASSETS – SIGNIFICANT DEFICIENCY

**Condition**

Stark County did not obtain adequate pledge of assets at American Bank Center as of December 31, 2019. The County was under pledged by $2,318,909.

**Effect**

Stark County may not be in compliance with N.D.C.C. §21-04-09.

**Cause**

Management may not have known they were under pledged for American Bank Center.

**Criteria**

N.D.C.C. §21-04-09 states "When securities are pledged to the board of any public corporation, the treasurer or other individual legally charged with the custody of public funds shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits."

**Repeat Finding**

No.

**Recommendation**

We recommend that Stark County ensure that it maintains adequate pledges of securities at any bank where the bank balances could exceed FDIC Insurance.

**Stark County's Response**

Agree. Spoke with the bank and will maintain proper pledges with the Auditor

### 2019-007 LACK OF SEGREGATION OF DUTIES - COMPONENT UNIT – SIGNIFICANT DEFICIENCY

**Condition**

The Stark County Water Resource District and Stark County Job Development Authority have limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations

**Effect**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Water Resource District and Job Development Authority's financial condition.

**Cause**

Management has chosen to allocate economic resources to other functions of the Water Resource District and Job Development Authority.

**Criteria**

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

**Recommendation**

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

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

**Stark County Water Resource District's and Job Development Authority's Response**

Agree. The Stark County Water Resource District and Job Development Authority agrees and will segregate duties as it becomes feasible.

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## GOVERNANCE COMMUNICATION

Board of County Commissioners
Stark County
Dickinson, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Stark County, North Dakota, for the year ended December 31, 2019 which collectively comprise Stark County's basic financial statements, and have issued our report thereon dated October 1, 2020. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated July 8, 2020, 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 Stark 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 Stark 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 Stark County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2019. 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 list all misstatements detected as a result of audit procedures that were corrected by management.

| | Client Provided Adjustments | | Audit Adjustments | | Total Adjustment | |
|---|---|---|---|---|---|---|
| | Debit | Credit | Debit | Credit | Debit | Credit |
| **Governmental Fund Adjustments** | | | | | | |
| To record client provided receivables | | | | | | |
| Accounts Receivable | 498,416 | - | - | - | 498,416 | - |
| Interest Receivable | 43,939 | - | - | - | 43,939 | - |
| Intergovernmental Receivable | 1,111,211 | - | - | - | 1,111,211 | - |
| Revenue | - | 1,653,566 | - | - | - | 1,653,566 |
| To record client provided payables | | | | | | |
| Expenditures | 2,109,420 | - | - | - | 2,109,420 | - |
| Salaries Payable | - | 229,917 | - | - | - | 229,917 |
| Accounts Payable | - | 1,879,503 | - | - | - | 1,879,503 |
| To record capital lease financing | | | | | | |
| Expenditures | 359,689 | - | - | - | 359,689 | - |
| Capital Lease Financing | - | 359,689 | - | - | - | 359,689 |
| To record prepaid taxes | | | | | | |
| Revenue | - | - | 2,712,953 | - | 2,712,953 | - |
| Unearned Revenue | - | - | - | 2,712,953 | - | 2,712,953 |
| **Government Wide Adjustments** | | | | | | |
| To record retainage payable | | | | | | |
| Expenditure | - | - | 127,612 | - | 127,612 | - |
| Retainage Payable | - | - | - | 127,612 | - | 127,612 |

### 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 October 1, 2020.

### Management Consultations with Other Independent Accountants

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

**Difficulties Encountered in Performing the Audit**

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

**Other Audit Findings or Issues**

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

This information is intended solely for the use of the Board of County Commissioners and management of Stark 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 Stark 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 Stark County.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
October 1, 2020

Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION


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