



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Burke County Bowbells, North Dakota

Audit Report for the Year Ended December 31, 2020

*Client Code: PS7000*



Photo credit: North Dakota Tourism



Office of the  
State Auditor

**BURKE COUNTY**

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For the Year Ended December 31, 2020

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**BURKE COUNTY**

County Officials and Audit Personnel

December 31, 2020

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**COUNTY OFFICIALS**

December 31, 2020

Jarret Van Berkum	Chairman
Shannon Holter	Commissioner
Rick Owings	Commissioner
Jeanine Jensen	Auditor
Sheila Burns	Treasurer
Shawn Brien	Sheriff
Lynette Nelson	Recorder/Clerk of Court
Amber Fiesel	State's Attorney
Ken Tetrault	Road Supervisor

**AUDIT PERSONNEL**

Heath Erickson, CPA	Audit Manager
Holly Runia	Audit In-Charge

**STATE AUDITOR**  
Joshua C. Gallion



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## INDEPENDENT AUDITOR'S REPORT

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Board of County Commissioners  
Burke County  
Bowbells, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County, North Dakota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Burke County's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

**BURKE COUNTY**Independent Auditor's Report - Continued

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**Summary of Opinions**

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Unmodified
Aggregate Discretely Presented Component Unit	Qualified
Each Major Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Basis for Qualified Opinion on the Discretely Presented Component Unit**

The Burke County Water Resource District does not maintain adequate supporting documentation to provide sufficient information for the preparation of the financial statements as approximately 67% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$23,018. However, the auditor doesn't believe this is a pervasive issue across all Burke County Water Resource District expenditures. All expenditures are reported as a conservation of natural resources function.

***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of Burke County, North Dakota, as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Burke County, North Dakota, as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

**Basis of Accounting**

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

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, the 2019 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

**Other Matters*****Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Burke County's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison schedules are the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1 to the financial statements.

**BURKE COUNTY**

Independent Auditor's Report - Continued

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2022 on our consideration of Burke 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 Burke County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
March 1, 2022

**BURKE COUNTY**

Statement of Net Position – Modified Cash Basis

December 31, 2020

	Primary Government	Component Unit
	Governmental Activities	Water Resource District
<b>ASSETS</b>		
Cash and Investments	\$ 17,211,335	\$ 46,531
Capital Assets		
Nondepreciable	1,532,483	-
Depreciable, Net	<u>24,259,499</u>	<u>-</u>
Total Assets	<u>\$ 43,003,317</u>	<u>\$ 46,531</u>
<b>LIABILITIES</b>		
Long-Term Liabilities		
Due Within One Year		
Loan Drawdown Payable	\$ 76,072	\$ -
Capital Lease Payable	19,276	-
Due After One Year		
Loan Drawdown Payable	532,505	-
Capital Lease Payable	<u>63,671</u>	<u>-</u>
Total Liabilities	<u>\$ 691,524</u>	<u>\$ -</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 25,100,458	\$ -
Restricted		
Public Safety	101,100	-
Highways	820,216	-
Health and Welfare	12,547	-
Conservation of Natural Resources	738,498	46,531
Emergencies	30,049	-
General Government	53,314	-
Unrestricted	<u>15,455,611</u>	<u>-</u>
Total Net Position	<u>\$ 42,311,793</u>	<u>\$ 46,531</u>

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

**BURKE COUNTY**

 Statement of Activities – Modified Cash Basis  
 For the Year Ended December 31, 2020

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Water Resource District
<b>Primary Government</b>						
General Government	\$ 2,059,917	\$ 296,126	\$ -	\$ -	\$ (1,763,791)	
Public Safety	1,093,223	86,381	92,528	77,522	(836,792)	
Highways	2,775,403	394,198	335,488	1,018,001	(1,027,716)	
Health and Welfare	233,125	-	-	-	(233,125)	
Conservation of Natural Resources	213,899	13,297	12,603	-	(187,999)	
Interest Expense on Long-Term Debt	27,127	-	-	-	(27,127)	
Total Primary Government	<u>\$ 6,402,694</u>	<u>\$ 790,002</u>	<u>\$ 440,619</u>	<u>\$ 1,095,523</u>	<u>\$ (4,076,550)</u>	
<b>Component Unit</b>						
Water Resource District	<u>\$ 30,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,817)</u>	
<b>General Revenues</b>						
Property Taxes					\$ 1,632,655	\$ 30,408
Grants and Contributions Not Restricted to Specific Programs					3,157,399	-
Gain on Sale of Assets					156,000	-
Interest Revenue					224,726	-
Miscellaneous Revenue					188,627	183
Total General Revenues					<u>\$ 5,359,407</u>	<u>\$ 30,591</u>
Change in Net Position					<u>\$ 1,282,857</u>	<u>\$ (226)</u>
Net Position - January 1					<u>\$ 41,011,558</u>	<u>\$ 46,757</u>
Prior Period Adjustment					<u>\$ 17,378</u>	<u>\$ -</u>
Net Position - January 1 as restated					<u>\$ 41,028,936</u>	<u>\$ 46,757</u>
Net Position - December 31					<u>\$ 42,311,793</u>	<u>\$ 46,531</u>

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

**BURKE COUNTY**

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2020

	General	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	<u>\$ 15,455,611</u>	<u>\$ 1,755,724</u>	<u>\$ 17,211,335</u>
<b>FUND BALANCES</b>			
Restricted			
Public Safety	\$ -	\$ 101,100	\$ 101,100
Highways	-	820,216	820,216
Health and Welfare	-	12,547	12,547
Conservation of Natural Resources	-	738,498	738,498
Emergency	-	30,049	30,049
General Government	-	53,314	53,314
Unassigned	<u>15,455,611</u>	<u>-</u>	<u>15,455,611</u>
Total Fund Balances	<u>\$ 15,455,611</u>	<u>\$ 1,755,724</u>	<u>\$ 17,211,335</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 15,455,611</u>	<u>\$ 1,755,724</u>	<u>\$ 17,211,335</u>

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

**BURKE COUNTY**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis  
December 31, 2020

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**Total Fund Balances for Governmental Funds** \$ 17,211,335

Total *net position* reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 25,791,982

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.

Loan Drawdown Payable	\$ (608,577)
Capital Lease Payable	<u>(82,947)</u>
	<u>(691,524)</u>

**Total Net Position of Governmental Activities** \$ 42,311,793

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

**BURKE COUNTY**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis  
For the Year Ended December 31, 2020

	General	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,152,518	\$ 480,137	\$ 1,632,655
Intergovernmental	3,091,348	506,671	3,598,019
Charges for Services	91,776	454,575	546,351
Licenses, Permits and Fees	243,650	-	243,650
Interest Income	224,726	-	224,726
Miscellaneous	130,638	57,990	188,628
Total Revenues	<u>\$ 4,934,656</u>	<u>\$ 1,499,373</u>	<u>\$ 6,434,029</u>
<b>EXPENDITURES</b>			
Current			
General Government	\$ 2,017,160	\$ -	\$ 2,017,160
Public Safety	856,048	184,753	1,040,801
Highways	-	2,733,646	2,733,646
Health and Welfare	-	233,125	233,125
Conser. of Natural Resources	-	211,539	211,539
Debt Service			
Principal	619,466	18,377	637,843
Interest	22,172	4,955	27,127
Total Expenditures	<u>\$ 3,514,846</u>	<u>\$ 3,386,395</u>	<u>\$ 6,901,241</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 1,419,810</u>	<u>\$ (1,887,022)</u>	<u>\$ (467,212)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ 70,000	\$ 887,130	\$ 957,130
Transfers Out	(920,000)	(37,130)	(957,130)
Total Other Financing Sources and Uses	<u>\$ (850,000)</u>	<u>\$ 850,000</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ 569,810</u>	<u>\$ (1,037,022)</u>	<u>\$ (467,212)</u>
Fund Balance - January 1	<u>\$ 14,885,801</u>	<u>\$ 2,792,746</u>	<u>\$ 17,678,547</u>
Fund Balance - December 31	<u>\$ 15,455,611</u>	<u>\$ 1,755,724</u>	<u>\$ 17,211,335</u>

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

**BURKE COUNTY**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
to the Statement of Activities – Modified Cash Basis  
For the Year Ended December 31, 2020

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<b>Net Change in <i>Fund Balances</i> - Total Governmental Funds</b>	\$ (467,212)
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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.

Current Year Capital Outlay	\$ 1,042,504
Current Year Capital Contribution	1,095,523
Current Year Depreciation	<u>(1,181,801)</u> 956,226

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. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold.

Gain on Sale of Capital Assets	156,000
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The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing 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.

Debt Repayment	<u>637,843</u>
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<b>Change in Net Position of Governmental Activities</b>	\$ <u>1,282,857</u>
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The notes to the financial statements are an integral part of this statement.

**BURKE COUNTY**

Statement of Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis  
December 31, 2020

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	Custodial Funds
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,291,378</u>
<b>NET POSITION</b>	
Restricted	
Funds Held for Other Governmental Units	\$ 1,287,979
Funds Held for Other Purposes	<u>3,399</u>
Total Net Position	<u>\$ 1,291,378</u>

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

**BURKE COUNTY**Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis  
December 31, 2020

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	Custodial Funds
<b>ADDITIONS</b>	
Tax Collections for Other Governments	\$ 5,804,139
Grant Collections for Other Governments	18,306
Miscellaneous Collections	<u>22,180</u>
Total Additions	<u>\$ 5,844,625</u>
<b>DEDUCTIONS</b>	
Tax Disbursements to Other Governments	\$ 5,748,741
Grant Disbursements to Other Governments	18,306
Miscellaneous Disbursements	<u>22,058</u>
Total Deductions	<u>\$ 5,789,105</u>
Net Increase (Decrease) in Fiduciary Net Position	<u>\$ 55,520</u>
Net Position - Beginning	<u>\$ -</u>
Prior Period Adjustment	<u>\$ 1,235,858</u>
Net Position - Beginning Restated	<u>\$ 1,235,858</u>
Net Position - Ending	<u>\$ 1,291,378</u>

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

## **BURKE COUNTY**

Notes to the Financial Statements  
For the Year Ended December 31, 2020

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### **NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Burke County ("County") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 the County is financially accountable and other organizations for which the nature and significance of their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of 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 unit discussed below is included within the County's reporting entity because of the significance of their operational or financial relationships with the County.

#### **Component Unit**

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

**Discretely Presented Component Unit.** The component unit column in the basic financial statements includes the financial data of the County's component units. These units are reported in separate columns to emphasize that it is legally separate from the County.

Burke 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's governing body has the authority to disapprove, amend, or approve the Water Resource District budget. The County also must approve the tax levy established by the Water Resource District.

#### **Basis of Presentation**

**Government-wide statements:** The statement of net position and the statement of activities display information about the County (primary government) and its component unit. 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 nonexchange 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 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 fund:

**General Fund.** This is the County's primary operating fund. It accounts for all financial resources of the general government.

**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.

## BURKE COUNTY

### Notes to the Financial Statements – Continued

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Additionally, the County reports the following fund type:

*Custodial Funds.* These funds account for assets by the County in a custodial capacity as an agent on behalf of others. The County's custodial 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, within the limitations of the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

*Governmental Fund Financial Statements* - Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Only current financial assets are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

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

### 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 include property, plant, and equipment. Assets 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 or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method of the following estimated useful lives (amounts in years):

Assets	Years
Land	Indefinite
Building	50
Infrastructure	30-50
Vehicle and Equipment	5-20
Office Equipment	5-7

### Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position. When applicable, 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, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Pensions

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

## BURKE COUNTY

### Notes to the Financial Statements – Continued

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same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension note disclosure. Note 8, is shown as additional information to the users of the financial statements.

#### **Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net OPEB liability is not reported under the modified cash basis of accounting, but the information disclosed in the OPEB note disclosure. Note 9, is shown as additional information to the users of the financial statements.

#### **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 County to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

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

*Unassigned Fund Balances.* Unassigned fund balance shall mean the portion of the gross fund balance that is not expendable (such as inventories) or is legally earmarked for a specific use (such as the self-funded reserves program).

#### **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 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 state and federal grants/reimbursements.

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

#### **NOTE 2        PRIOR PERIOD ADJUSTMENTS**

##### **Primary Government**

Net position of the County as of January 1, 2020 has been restated for net capital asset adjustments as shown below. The results of the adjustment increased the beginning net position of the County.

Beginning Net Position, as previously reported	\$ 41,011,558
<b>Adjustment to restate the January 1, 2020 Net Position</b>	
Capital Assets, Net	17,378
Net Position January 1, as restated	\$ 41,028,936

**BURKE COUNTY**

## Notes to the Financial Statements – Continued

**Fiduciary Funds**

Net position of the Burke County fiduciary funds as of January 1, 2020 has been restated due to the implementation of GASB 84 in fiscal year 2020.

Beginning Net Position, as previously reported	\$ -
<b>Adjustment to restate the January 1, 2020 Net Position</b>	
Custodial Funds	1,235,858
Fiduciary Funds Net Position January 1, as restated	\$ 1,235,858

**NOTE 3 DEPOSITS****Custodial Credit Risk**

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit 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, 2020, the County's carrying amount of deposit was \$18,497,931 and the bank balances totaled \$18,841,367. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2020, the Water Resource District's carrying amount of deposits totaled \$47,207, and the bank balances totaled \$47,907, all of which were covered by Federal Depository Insurance.

**NOTE 4 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, 2020:

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Major Funds</b>		
General Fund	\$ 70,000	\$ 920,000
Special Revenue Fund	887,130	37,130
<b>Total Transfers</b>	<b>\$ 957,130</b>	<b>\$ 957,130</b>

Transfers are used to move unrestricted general revenue to finance programs that the County accounts for in other funds in accordance with budget authority and to subsidize other programs. Transfers were also made to close out funds and to finance various projects.

**BURKE COUNTY**

Notes to the Financial Statements – Continued

**NOTE 5 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 6 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2020:

<b>Primary Government</b>	<b>Balance Jan 1 - Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance Dec 31</b>
<i>Capital assets not being depreciated</i>					
Land	\$ 4,043	\$ -	\$ -	\$ -	\$ 4,043
Construction in Progress	127,698	1,749,392	-	(348,650)	1,528,440
Total capital assets not being depreciated	\$ 131,741	\$ 1,749,392	\$ -	\$ (348,650)	\$ 1,532,483
<i>Capital assets, being depreciated</i>					
Office Equipment	\$ 91,917	\$ -	\$ -	\$ -	\$ 91,917
Capital assets not being depreciated	3,321,692	544,636	(325,500)	-	3,540,828
Land	2,115,787	-	-	348,650	2,464,437
Construction in Progress	29,285,005	-	-	-	29,285,005
Total capital assets, being depreciated	\$ 34,814,401	\$ 544,636	\$ (325,500)	\$ 348,650	\$ 35,382,187
<i>Less accumulated depreciation for</i>					
Office Equipment	\$ 68,272	\$ 7,977	\$ -	\$ -	\$ 76,249
Capital assets not being depreciated	1,727,980	452,121	(325,500)	-	1,854,601
Land	497,623	39,896	-	-	537,519
Construction in Progress	7,972,511	681,808	-	-	8,654,319
Total accumulated depreciation	\$ 10,266,386	\$ 1,181,802	\$ (325,500)	\$ -	\$ 11,122,688
Total capital assets being depreciated, net	\$ 24,548,015	\$ (637,166)	\$ -	\$ 348,650	\$ 24,259,499
Total capital assets, net	\$ 24,679,756	\$ 1,112,226	\$ -	\$ -	\$ 25,791,982

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

<b>Primary Government</b>	
General Government	\$ 53,948
Public Safety	52,422
Highways and Bridges	1,073,072
Conservation of Natural Resources	2,360
<b>Total Depreciation Expense</b>	<b>\$ 1,181,802</b>

**NOTE 7 LONG TERM LIABILITIES**

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

<b>Primary Government</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Loan Drawdown Payable	\$ 1,228,043	\$ -	\$ 619,466	\$ 608,577	\$ 76,072
Capital Lease Payable	101,324	-	18,377	82,947	19,276
<b>Total Long Term Liabilities</b>	<b>\$ 1,329,367</b>	<b>\$ -</b>	<b>\$ 637,843</b>	<b>\$ 691,524</b>	<b>\$ 95,348</b>

**BURKE COUNTY**

## Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2020 are as follows:

	Capital Lease Payable		Loans Payable
	Principal	Interest	Principal
2021	\$ 19,276	\$ 4,056	\$ 76,072
2022	20,219	3,113	76,072
2023	21,208	2,125	76,072
2024	22,244	1,088	76,072
2025	-	-	76,072
2026-2030	-	-	228,217
Totals	\$ 82,947	\$ 10,382	\$ 608,577

The Loan Drawdown Payable does not have an amortization schedule as of December 31, 2020. The interest rate is variable with a floor rate of 1.75%, not to increase by more than 1% per year. The principal amount paid in 2020 was \$619,466. All remaining unpaid interest and principal are due and payable in full on December 28, 2028.

## NOTE 8 PENSION PLAN

### General Information about the NDPERS Pension Plan

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

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

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

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

#### **Pension Benefits**

Benefits are set by statute. NDPERS has no 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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

#### **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the

## BURKE COUNTY

### Notes to the Financial Statements – Continued

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surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

#### ***Refunds of Member Account Balance***

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

#### ***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2020, the employer reported a liability of \$4,444,479 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The County's proportion of the net pension liability was based on the County's share of covered payroll in the main system pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2020, the Employer's proportion was .141273 percent, which was a decrease of .019091 percent from its proportion measured as of June 30, 2019.

There were no deferred inflows or outflows of resources reported on the County's financial statements as they are reporting on the modified cash basis of accounting

#### ***Actuarial Assumptions***

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

## BURKE COUNTY

### Notes to the Financial Statements – Continued

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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 Equities	30%	6.30%
International Equities	21%	6.85%
Private Equity	7%	9.75%
Domestic Fixed Income	23%	1.25%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.01%
Cash Equivalents	0%	0.00%

#### ***Discount rate***

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 4.64 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 (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

	1% Decrease (3.64%)	Current Discount Rate (4.64%)	1% Increase (5.64%)
Proportionate Share of the Net Pension Liability	\$ 5,766,378	\$ 4,444,479	\$ 3,362,844

#### ***Pension Plan Fiduciary Net Position***

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

## **BURKE COUNTY**

Notes to the Financial Statements – Continued

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### **NOTE 9 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, 2020, the employer reported a liability of \$114,997 for its proportionate share of net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The County's proportion of the net OPEB liability was based on the County's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2020, the Employer's proportion was .136706 percent, which was a decrease of .012781 percent from its proportion measured as of June 30, 2019.

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## BURKE COUNTY

### Notes to the Financial Statements – Continued

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There were no deferred inflows or outflows of resources reported on the County's financial statements as they are reporting on the modified cash basis of accounting.

#### Actuarial Assumptions

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.10%
Small Cap Domestic Equities	6%	7.00%
International Equities	21%	6.45%
Domestic Fixed Income	40%	1.15%

#### Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Plans as of June 30, 2020, calculated using the discount rate of 6.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Proportionate Share of the OPEB Liability	\$ 150,821	\$ 114,997	\$ 84,703

## **BURKE COUNTY**

Notes to the Financial Statements – Continued

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### **NOTE 10 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 two million dollars per occurrence for general liability, two million for automobile, and \$3,279,792 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 one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

### **NOTE 11 CONTINGENT LIABILITIES**

The County is a defendant in a lawsuit incident to its operations and is currently in the investigation stages. In the opinion of the State's Attorney and management, the claim against the County not covered by insurance would not materially affect the financial condition of the County.

### **NOTE 12 CONSTRUCTION COMMITMENTS**

Burke County had one open construction commitment as of December 31, 2020 as follows:

<b>Project</b>	<b>Amended Contract</b>	<b>Total Completed</b>	<b>Retainage</b>	<b>Remaining Balance</b>
SC-0731(054) - County Rd 17	\$ 443,711	\$ 290,534	\$ 26,705	\$ 179,882

### **NOTE 13 SUBSEQUENT EVENTS**

The County entered to the following construction contract for project HEC-0717(054)- County Road 11 on May 4<sup>th</sup>, 2021 for \$1,799,382 of which 90% up to \$1,798,464 will be paid for by the North Dakota Department of Transportation through federal funds. The county also awarded a construction contract for County Road 13 on April 6, 2021 for \$588,303.

**BURKE COUNTY**

## Budgetary Comparison Schedule – General Fund

December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Taxes	\$ 1,167,500	\$ 1,167,500	\$ 1,152,518	\$ (14,982)
Intergovernmental	2,179,825	2,179,825	3,091,348	911,523
Charges for Services	60,000	60,000	91,776	31,776
Licenses, Permits and Fees	263,600	263,600	243,650	(19,950)
Interest Income	45,000	45,000	224,726	179,726
Miscellaneous	227,550	227,550	130,638	(96,912)
Total Revenues	\$ 3,943,475	\$ 3,943,475	\$ 4,934,656	\$ 991,181
<b>EXPENDITURES</b>				
Current				
General Government	\$ 2,632,321	\$ 3,126,027	\$ 2,017,160	\$ 1,108,867
Public Safety	881,920	881,920	856,048	25,872
Debt Service				
Principal	-	-	619,466	(619,466)
Interest	-	-	22,172	(22,172)
Total Expenditures	\$ 3,514,241	\$ 4,007,947	\$ 3,514,846	\$ 493,101
Excess (Deficiency) of Revenues Over Expenditures	\$ 429,234	\$ (64,472)	\$ 1,419,810	\$ 1,484,282
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	\$ -	\$ -	\$ 70,000	\$ 70,000
Transfers Out	(6,020,000)	(6,020,000)	(920,000)	5,100,000
Total Other Financing Sources and Uses	\$ (6,020,000)	\$ (6,020,000)	\$ (850,000)	\$ 5,170,000
Net Change in Fund Balance	\$ (5,590,766)	\$ (6,084,472)	\$ 569,810	\$ 6,654,282
Fund Balance - January 1	\$ 14,885,801	\$ 14,885,801	\$ 14,885,801	\$ -
Fund Balance - December 31	\$ 9,295,035	\$ 8,801,329	\$ 15,455,611	\$ 6,654,282

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

**BURKE COUNTY**

Budgetary Comparison Schedule –Special Revenue Fund

December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Taxes	\$ 493,000	\$ 493,000	\$ 480,137	\$ (12,863)
Intergovernmental	432,610	432,610	506,671	74,061
Charges for Services	219,500	219,500	454,575	235,075
Miscellaneous	850	850	57,990	57,140
Total Revenues	\$ 1,145,960	\$ 1,145,960	\$ 1,499,373	\$ 353,413
<b>EXPENDITURES</b>				
Current				
Public Safety	\$ 133,082	\$ 137,935	\$ 184,753	\$ (46,818)
Highways	3,898,834	3,911,831	2,733,646	1,178,185
Health and Welfare	18,455	18,455	233,125	(214,670)
Conser. of Natural Resources	340,825	340,825	211,539	129,286
Debt Service				
Principal	-	-	18,377	18,377
Interest	-	-	4,955	4,955
Total Expenditures	\$ 4,391,196	\$ 4,409,046	\$ 3,386,395	\$ 1,069,315
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,245,236)	\$ (3,263,086)	\$ (1,887,022)	\$ 1,376,064
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	\$ -	\$ -	\$ 887,130	\$ 887,130
Transfers Out	-	-	(37,130)	(37,130)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ 850,000	\$ 850,000
Net Change in Fund Balances	\$ (3,245,236)	\$ (3,263,086)	\$ (1,037,022)	\$ 2,226,064
Fund Balance - January 1	\$ 2,792,746	\$ 2,792,746	\$ 2,792,746	\$ -
Fund Balance - December 31	\$ (452,490)	\$ (470,340)	\$ 1,755,724	\$ 2,226,064

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

**BURKE COUNTY**

Notes to the Supplementary Information  
December 31, 2020

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**NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****Budgetary Information**

- The County commission adopts an “appropriated budget” on the modified cash basis of accounting.
- The County auditor prepares an annual budget for the general fund and each special revenue fund of the County. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them.
- The 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 budget for 2020 as follows:

2020	Original Budget	Amendment	Amended Budget
<b>EXPENDITURES</b>			
General Fund	\$ 3,514,241	\$ 493,706	\$ 4,007,947
Special Revenue Fund	4,391,196	17,850	4,409,046

**STATE AUDITOR**  
Joshua C. Gallion



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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**

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Independent Auditor's Report

Board of County Commissioners  
Burke County  
Bowbells, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Burke County's basic financial statements, and have issued our report thereon dated March 1, 2022. Our report qualified the discretely presented component unit financial statements because the component unit did not maintain adequate supporting documentation for various expenditures.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2020-003, 2020-004, 2020-005, 2020-008 and 2020-010 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Burke 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 items 2020-001, 2020-002, 2020-006, 2020-007, and 2020-009.

## **Burke County's Response to Findings**

Burke County's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Burke 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  
March 1, 2022

**BURKE COUNTY**  
Summary of Auditor's Results  
For the Year Ended December 31, 2020

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**Financial Statements**

Type of Report Issued:

Governmental Activities	Unmodified
Discretely Presented Component Unit	Qualified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Internal control over financial reporting**

Material weaknesses identified?  Yes  None Noted

Significant deficiencies identified not considered to be material weaknesses?  Yes  None Noted

Noncompliance material to financial statements noted?  Yes  None Noted

## **BURKE COUNTY**

Schedule of Audit Findings

For the Year Ended December 31, 2020

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### **2020-001 LACK OF SUPPORTING DOCUMENTATION FOR BUDGETED TRANSFERS - MATERIAL NONCOMPLIANCE**

#### **Condition**

Burke County's approved 2020 budget reported General Fund transfers out totaling \$6,020,000. Conversely, transfers in for the County Road & Bridge and Highway Tax Funds were \$4,500,000 and \$100,000, respectively, totaling \$4,600,000. This leaves a difference of \$1,420,000 between the total transfers out and transfers in that were included in the 2020 budget. These estimated transfers did not have supporting documentation.

#### **Criteria**

N.D.C.C. §11-23-02 states in part, " 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:

4. The transfers in or out for each fund for the preceding year and the estimated transfers in or out for the current year and the ensuing year.

#### **Cause**

Burke County may not have been aware that total budgeted transfers out should equal total budgeted transfers in. In addition, Burke County may not have been aware that supporting documentation should be kept for estimates. Finally, Burke County may have modified the budget to continue levying a tax for the General Fund and County Road & Bridge Fund for the 2020 budget year.

#### **Effect**

The elements identified in N.D.C.C. §11-23-02 including transfers in and out are key components in the tax levy calculation in any budget year. Thus, Burke County may have improperly calculated the tax levies for its 2020 preliminary and final budgets.

#### **Repeat Finding**

No.

#### **Recommendation**

We recommend that Burke County ensure budgeted transfers in and out agree and have supporting documentation to ensure its compliance with all aspects of N.D.C.C. §11-23-02.

#### **Burke County's Response**

Agree. Burke County will ensure in the future that all budgeted transfers in and out agree and have supporting documentation.

## **BURKE COUNTY**

### Schedule of Audit Findings – Continued

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#### **2020-002 LACK OF SUPPORTING DOCUMENTATION FOR BUDGETED PRIOR YEAR ESTIMATES - MATERIAL NONCOMPLIANCE**

##### **Condition**

Per review of the 2020 budget for the General Fund and Weed Control Fund, the following 2019 estimates were modified from the 2019 approved budget. The County did not have supporting documentation for the reasoning behind the change in estimates nor did the change agree to the actual results:

- General Fund oil and gas estimated revenue in the 2019 approved budget was \$2 million. In the 2020 budget, the 2019 estimate was changed to \$1.5 million. Actual oil and gas revenue received in 2019 totaled \$3,383,231.
- Weed Control Fund appropriated major equipment expenditures in the 2019 approved budget was \$100,000. In the 2020 budget, the 2019 estimate was changed to \$200,000. Actual amounts in 2019 totaled \$81,350.

##### **Criteria**

N.D.C.C. §11-23-02 states in part, " 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:

1. The detailed breakdown of the estimated revenues and appropriations requested for each fund for the ensuing year.
2. The detailed breakdown of the revenues and expenditures for each fund for the preceding year.
3. The detailed breakdown of estimated revenues and expenditures for each fund for the current year.
5. The beginning and ending balance of each fund or estimates of the balances for the preceding year, current year, and ensuing year.

##### **Cause**

Burke County may have been unaware that supporting documentation should be kept for estimates. Furthermore, Burke County may have modified the 2019 estimates to be able to levy a tax for the 2020 budget year.

##### **Effect**

The estimates for 2019 revenues and expenditures are key components in the tax levy calculation in the 2020 budget year. These estimates affect the estimated ending fund balance for the current year (2019) which is used to calculate the upcoming years (2020) mill levy. Thus, Burke County may have improperly calculated the tax levies for the funds listed above.

##### **Repeat Finding**

No.

##### **Recommendation**

We recommend that Burke County review budgeted prior year estimates carefully to ensure proper documentation exists to support the estimated numbers used in the preliminary and final budgets prior to approval to ensure compliance with N.D.C.C. §11-23-02.

##### **Burke County's Response**

Agree. Burke County will review budgeted prior year estimates to ensure proper documentation exists to support the estimated numbers used.

## **BURKE COUNTY**

### Schedule of Audit Findings – Continued

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#### **2020-003 REVENUE ADJUSTMENTS – MATERIAL WEAKNESS**

##### **Condition**

During testing, it was found that Burke County incorrectly recorded \$238,787 of interfund transactions as property tax revenues and general government expenditures. These transactions occurred between the general fund and funds that are combined with the general fund for reporting purposes. An adjustment was proposed and accepted to remove the incorrect transactions. The property tax revenue and general government expenditures are now accurately recorded in the financial statements.

In addition, it was found that Burke County incorrectly recorded \$302,882 of COVID reimbursements in Burke County's Emergency Fund, a Special Revenue Fund, but should have been reported in its General Fund. An adjustment was proposed and accepted to move the revenue from the Emergency Fund to the General Fund. The revenue is now accurately recorded in the proper fund in the financial statements.

##### **Criteria**

Burke County is responsible for ensuring its financial statements, including revenues, are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

##### **Cause**

Burke County is tracking the insurance reserve, oasis and social security, and comprehensive health care insurance as separate funds instead of consolidated them with the general fund. The various fund levies were consolidated with the general fund through Chapter 439 Senate Bill 2144 of the 64<sup>th</sup> Legislative Assembly and can no longer levy a tax on its own. Additionally, Burke County may not have known which fund to report the COVID reimbursements during 2020.

##### **Effect**

Incorrectly recording \$238,787 of interfund transactions may have caused the financial statements to be misleading, due to overstatement of revenues and expenditures. Also, incorrectly recording \$302,882 of revenue may have caused the financial statements to be misleading, due to overstatement of revenue in the Special Revenue Fund and an understatement of revenue in the General Fund.

##### **Repeat Finding**

No.

##### **Recommendation**

We recommend Burke County combine funds that were consolidated by Chapter 439 Senate Bill 2144 of the 64<sup>th</sup> Legislative Assembly into the General Fund to limit the use of interfund transactions as well as accurately report property tax revenues and general government expenditures. We also recommend Burke County review all revenue entries to ensure accurate reporting of revenues in each fund.

##### **Burke County's Response**

Agree. Burke County has already combined the funds into the General fund and going forward this will not be an issue.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-004 CAPITAL ASSETS ADJUSTMENTS – MATERIAL WEAKNESS****Condition**

During testing, it was noted that Burke County had \$1,528,440 in unrecorded construction in progress additions. Of this amount, \$1,018,001 was considered a capital contribution. These adjustments were proposed and accepted and are now accurately recorded in the government-wide financial statements.

**Criteria**

Burke County is responsible for ensuring its financial statements, including capital assets, are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

**Cause**

Burke County did not have controls in place to identify all construction in progress additions as well as when to report capital contribution.

**Effect**

Unrecorded construction in progress additions and capital contributions may have caused the financial statements to be misstated, due to an understatement of capital assets and capital contribution revenue.

**Repeat Finding**

No.

**Recommendation**

We recommend Burke County carefully prepare and review its records to ensure construction in progress and capital contributions are identified and recorded to accurately present financial statements in accordance with the modified cash basis of accounting.

**Burke County's Response**

Agree. Burke County will work on setting up a system to track road projects. This will have to be done with the help of the Road Foreman and Board, since the Auditor's office would be unsure if a project should be capitalized or not.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-005 LACK OF SUPPORTING DOCUMENTATION – COMPONENT UNIT – MATERIAL WEAKNESS****Condition**

Burke County Water Resource District did not have adequate supporting documentation for six of the nine expenditures tested, totaling \$19,000. Projecting this error to the total population results in a potential error of approximately \$23,018 to the financial statements.

**Criteria**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

**Cause**

Burke County Water Resource District was not aware that supporting documentation was needed for all types of expenditures.

**Effect**

Burke County Water Resource District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

**Repeat Finding**

No.

**Recommendation**

We recommend Burke County Water Resource District ensure all payments for goods and services have supporting documentation.

**Burke County Water Resource District's Response**

Agree. Will make sure all payments have required documentation.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-006 LACK OF MEETING MINUTES – COMPONENT UNIT – MATERIAL NONCOMPLIANCE****Condition**

Burke County Water Resource District (“the District”) has not completed board meeting minutes since July 2018. The District confirmed that phone meetings occurred with a quorum of board members, however no meeting minutes were documented regarding the board’s communication and the board decisions that were made pertaining to the District.

**Criteria**

North Dakota Century Code §61-16.1-04 states "The water resource board shall keep accurate minutes of its meetings and accurate records and books of account, clearly setting out and reflecting the entire operation, management, and business of the district. These books and records shall be kept at the principal office of the district or at such other regularly maintained office or offices of the district as shall be designated by the board, with due regard to the convenience of the district, its customers, and residents. The books and records shall be open to public inspection during reasonable business hours."

North Dakota Century Code §44-04-17.1(9a) states "Meeting" means a formal or informal gathering or a work session, whether in person or through any electronic means, of:

- (1) A quorum of the members of the governing body of a public entity regarding public business; or
- (2) Less than a quorum of the members of the governing body of a public entity regarding public business, if the members attending one or more of the smaller gatherings collectively constitute a quorum and if the members hold the gathering for the purpose of avoiding the requirements of section 44-04-19.

North Dakota Century Code §44-04-17.1(15) states "Quorum" means one-half or more of the members of the governing body, or any smaller number if sufficient for a governing body to transact business on behalf of the public entity.

**Cause**

Burke County Water Resource District may not have been aware of when meeting minutes are to be recorded and maintained.

**Effect**

Burke County Water Resource District may be in violation of North Dakota Century Code §61-16.1-04.

**Repeat Finding**

No.

**Recommendation**

We recommend Burke County Water Resource District ensure compliance with North Dakota Century Code §61-16.1-04 regarding meeting minutes.

**Burke County Water Resource District's Response**

Agree. No meetings were held due to COVID. Going forward all phone conversations will be documented.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-007 CONFLICT OF INTEREST– COMPONENT UNIT – MATERIAL NONCOMPLIANCE****Condition**

During discussions with Burke County Water Resource District, it was noted that possible conflicts of interest may have occurred without recuse involving a board member and the member's immediate family.

**Criteria**

North Dakota Century Code §44-04-22 states "A person acting in a legislative or quasi-legislative or judicial or quasi-judicial capacity for a political subdivision of the state who has a direct and substantial personal or pecuniary interest in a matter before that board, council, commission, or other body, must disclose the fact to the body of which that person is a member, and may not participate in or vote on that particular matter without the consent of a majority of the rest of the body."

**Cause**

Burke County Water Resource District did not maintain meeting minutes to ensure board member recusal as identified in finding 2020-007. Additionally, the District may not have adequate procedures in place to handle a higher risk of conflicts of interest possibilities that decision makers of this District could have.

**Effect**

Burke County Water Resource District may be in violation of North Dakota Century Code §44-04-22.

**Repeat Finding**

No.

**Recommendation**

We recommend Burke County Water Resource District educate staff and board members as to what constitutes a conflict of interest to ensure compliance with North Dakota Century Code §44-04-22.

**Burke County Water Resource District's Response**

Agree. Will educate Board members as to what constitutes a conflict of interest.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-008 LACK OF BOARD OVERSIGHT – COMPONENT UNIT – MATERIAL WEAKNESS****Condition**

Burke County Water Resource District expenditures are currently not being approved by the Burke County Water Resource District Board.

**Criteria**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the Burke County Water Resource District, management is responsible for adequate internal controls surrounding the review process.

**Cause**

Burke County Water Resource District does not have an adequate process to ensure all expenditures are approved by the Water District Board.

**Effect**

Without adequate review and approval of the expenditures by the Burke County Water Resource District Board, the Burke County Water Resource District exposes itself to an increased risk of loss of assets, potential liabilities, and damage to the Burke County Water Resource District's reputation, whether due to error or fraud.

**Repeat Finding**

Yes.

**Recommendation**

We recommend Burke County Water Resource District ensure that all expenditures are approved by the Burke County Water Resource District Board.

**Burke County Water Resource District's Response**

Agree. Will get approval from Board for all expenditures.

## **BURKE COUNTY**

### Schedule of Audit Findings – Continued

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#### **2020-009 LACK OF PAYROLL TAX DOCUMENTS – COMPONENT UNIT – MATERIAL NONCOMPLIANCE**

##### **Condition**

Burke County Water Resource District (“the District”) did not assess three individuals as an employee or contractor that received a total of \$7,400 from the District in 2020. Also, the District did not issue any W-2 or 1099 tax statement for these individuals.

##### **Criteria**

United States Department of the Treasury Internal Revenue Service 2020 General Instructions for Forms W-2 and W-3 states “You must file Form(s) W-2 if you have one or more employees to whom you made payments (including noncash payments) for the employees’ services in your trade or business during 2020.

Complete and file Form W-2 for each employee for whom any of the following applies (even if the employee is related to you).

- You withheld any income, social security, or Medicare tax from wages regardless of the amount of wages; or
- You would have had to withhold income tax if the employee had claimed no more than one withholding allowance (for 2019 or earlier Forms W-4) or had not claimed exemption from withholding on Form W-4; or
- You paid \$600 or more in wages even if you did not withhold any income, social security, or Medicare tax.

Only in very limited situations will you not have to file Form W-2. This may occur if you were not required to withhold any income tax, social security tax, or Medicare tax and you paid the employee less than \$600, such as for certain election workers and certain foreign agricultural workers.”

United States Department of the Treasury Internal Revenue Service 2020 Instructions for Forms 1099-MISC and 1099-NEC states “File Form 1099-MISC, Miscellaneous Income, for each person in the course of your business to whom you have paid the following during the year:

- At least \$10 in royalties (see the instructions for box 2) or broker payments in lieu of dividends or tax-exempt interest (see the instructions for box 8).
- At least \$600 in:
  - 1. Rents (box 1);
  - 2. Prizes and awards (box 3);
  - 3. Other income payments (box 3);
  - 4. Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3);
  - 5. Any fishing boat proceeds (box 5);
  - 6. Medical and health care payments (box 6);
  - 7. Crop insurance proceeds (box 9);
  - 8. Payments to an attorney (box 10) (see Payments to attorneys, later);
  - 9. Section 409A deferrals (box 12); or
  - 10. Nonqualified deferred compensation (box 14).

You must also file Form 1099-MISC for each person from whom you have withheld any federal income tax (report in box 4) under the backup withholding rules regardless of the amount of the payment.”

##### **Cause**

Burke County Water Resource District may have been unaware that a W-2 or 1099 tax statement was required to be issued to the individuals.

**BURKE COUNTY****Schedule of Audit Findings – Continued**

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**Effect**

Burke County Water Resource District may not be in compliance with IRS Regulations in regards to W-2s and 1099s.

**Repeat Finding**

No.

**Recommendation**

We recommend Burke County Water Resource District assess all individuals to determine if they are employees or contractors and issue the proper tax statements to the individuals.

**Burke County Water Resource District's Response**

Agree. Start issuing W-2 or 1099 tax statements for said individuals.

**BURKE COUNTY**Schedule of Audit Findings – Continued

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**2020-010 LACK OF SEGREGATION OF DUTIES – COMPONENT UNIT – MATERIAL WEAKNESS****Condition**

Burke County Water Resource District has 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.

**Criteria**

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

**Cause**

Management has chosen to allocate economic resources to other functions of Burke County Water Resource District.

**Effect**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Burke County Water Resource District.

**Repeat Finding**

Yes.

**Recommendation**

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

- Financial statements and credit memos should be reviewed 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.

**Burke County Water Resource District's Response**

Agree. Will bring the bills that have been paid to meetings for board approval and/or hire an accountant to do the books for BC Water.

**STATE AUDITOR**  
Joshua C. Gallion



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## GOVERNANCE COMMUNICATION

Board of County Commissioners  
Burke County  
Bowbells, North Dakota

We audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Burke County, Bowbells, North Dakota, for the year ended December 31, 2020, and have issued our report thereon dated March 1, 2022. 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 September 16, 2021, 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. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

In planning and performing our audit, we considered Burke 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 Burke 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 Burke County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2020. 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.

## BURKE COUNTY

### Governance Communication – Continued

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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 schedule below lists all misstatements detected as a result of audit procedures and were corrected by management.

#### 2020 Adjustments

	<b>Audit Adjustments</b>	
	<b>Debit</b>	<b>Credit</b>
<b>Governmental Activities</b>		
<u>To remove double counted property tax revenue</u>		
Property Tax Revenue - General Fund	238,787	-
General Government Expenditure - General Fund	-	238,787
<u>To reclassify COVID Funds</u>		
Revenue - Emergency Fund	302,882	-
Cash - Emergency Fund	-	302,882
Cash - General Fund	302,882	-
Revenue - General Fund	-	302,882
<u>To remove payroll liabilities for modified cash basis of accounting</u>		
Expenditures - General Fund	4,903	-
Payroll Liabilities - General Fund	-	4,903

#### 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 March 1, 2022.

#### 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.

**BURKE COUNTY**Governance Communication – Continued

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**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit other than what is listed below:

The Burke County Water Resource District does not maintain adequate supporting documentation to provide sufficient information for the preparation of the financial statements as approximately 67% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$23,018. However, the auditor doesn't believe this is a pervasive issue across all Burke County Water Resource District expenditures. All expenditures are reported as a conservation of natural resources function.

**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.

We do express a qualified opinion on the financial statements of Burke County Water Resource District, due to the possible effects of the matter described in the Difficulties Encountered in Performing the Audit paragraph.

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

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
March 1, 2022



NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

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