



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Towner County

Cando, North Dakota

Audit Report for the Years Ended December 31, 2020 and 2019

Client Code: PS48000



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Office of the
State Auditor

TOWNER COUNTY

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For the Years Ended December 31, 2020 and 2019

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TOWNER COUNTY

County Officials and Audit Personnel
December 31, 2020 and 2019

COUNTY OFFICIALS

December 31, 2019

| | |
|----------------|---------------------------|
| Doug Berg | Chairman |
| David Lagein | Vice-chairman |
| Scott Boe | Commissioner |
| Ken Teubner | Commissioner |
| Mike Weisz | Commissioner |
| | |
| Joni Morlock | County Auditor |
| Joni Morlock | County Treasurer |
| Wayne Lingen | Superintendent of Schools |
| Jolene Hoffert | Register of Deeds |
| Jolene Hoffert | Clerk of Court |
| Robert Kennedy | Sheriff |
| Josh Frey | State's Attorney |

December 31, 2020

| | |
|----------------|---------------------------|
| Doug Berg | Chairman |
| David Lagein | Vice-chairman |
| Matt Odermann | Commissioner |
| Bob Hallaway | Commissioner |
| Lance Teubner | Commissioner |
| | |
| Joni Morlock | County Auditor |
| Joni Morlock | County Treasurer |
| Wayne Lingen | Superintendent of Schools |
| Jolene Hoffert | Register of Deeds |
| Jolene Hoffert | Clerk of Court |
| Robert Kennedy | Sheriff |
| Josh Frey | State's Attorney |

AUDIT PERSONNEL

| | |
|---------------------|-----------------|
| Heath Erickson, CPA | Audit Manager |
| Brian Hermanson | Audit In-Charge |

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Towner County
Cando, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, North Dakota, as of and for the years ended December 31, 2020, and December 31, 2019, and the related notes to the financial statements, which collectively comprise Towner County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

| <i>Opinion Unit</i> | <i>2020 Type of Opinion</i> | <i>2019 Type of Opinion</i> |
|--|---------------------------------|---------------------------------|
| Governmental Activities | Unmodified | Unmodified |
| Aggregate Discretely Presented Component Units | Unmodified | Qualified |
| Each Major Fund | Unmodified | Unmodified |
| Aggregate Remaining Fund Information | Unmodified | Unmodified |

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The Towner County Public Health District did not maintain adequate supporting documentation to provide sufficient information for the preparation of the financial statements as approximately 40% of expenditures tested during 2019 were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$86,993. However, the auditor doesn't believe this is a pervasive issue across all Towner County Public Health District expenditures. All expenditures are reported as a health and welfare function.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Towner County, North Dakota, as of December 31, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Towner County, North Dakota, as of December 31, 2020, and December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units of Towner County, North Dakota, as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, during 2020, Towner County adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

TOWNER COUNTY

Independent Auditor's Report - Continued

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2022 on our consideration of Towner 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 Towner County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 6, 2022

TOWNER COUNTY

Statement of Net Position

December 31, 2020

| | Primary Government | Component Units | |
|---|----------------------------|-------------------------------|--------------------|
| | Governmental Activities | Water Resource District | Health District |
| ASSETS | | | |
| Cash and Investments | \$ 4,983,538 | \$ 571,808 | \$ 78,033 |
| Accounts Receivable | 13,300 | - | - |
| Intergovernmental Receivable | 180,406 | - | 56,864 |
| Road Receivables | 75,376 | - | - |
| Taxes Receivable | 88,862 | 3,310 | 3,182 |
| Capital Assets | | | |
| Nondepreciable | 12,250 | - | - |
| Depreciable, Net | 6,946,821 | - | 91,692 |
| Total Assets | \$ 12,300,553 | \$ 575,118 | \$ 229,771 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Derived from Pension and OPEB | \$ 2,426,057 | \$ - | \$ 315,391 |
| Total Assets and Deferred Outflows of Resources | \$ 14,726,610 | \$ 575,118 | \$ 545,162 |
| LIABILITIES | | | |
| Accounts Payable | \$ 55,480 | \$ - | \$ 30,734 |
| Salaries Payable | 54,516 | - | 3,977 |
| Grants Received in Advance | 94,274 | - | - |
| Interest Payable | 11,622 | - | - |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long Term Debt | 178,331 | - | - |
| Compensated Absences Payable | 6,718 | - | - |
| Due After One Year | | | |
| Long Term Debt | 517,067 | - | - |
| Compensated Absences Payable | 60,465 | - | - |
| Net Pension & OPEB Liability | 3,642,897 | - | 446,578 |
| Total Liabilities | \$ 4,621,370 | \$ - | \$ 481,289 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Taxes Received in Advance | \$ 805,381 | \$ - | \$ - |
| Derived from Pension and OPEB | 733,402 | - | 61,560 |
| Total Deferred Inflows of Resources | \$ 1,538,783 | \$ - | \$ 61,560 |
| Total Liabilities and Deferred Inflows of Resources | \$ 6,160,153 | \$ - | \$ 542,849 |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 6,263,673 | \$ - | \$ 91,692 |
| Restricted for | | | |
| Highways | 1,422,163 | - | - |
| Health and Welfare | 4,690 | - | - |
| Conservation of Natural Resources | 108,592 | 575,118 | - |
| Emergencies | 347,745 | - | - |
| Unrestricted | 419,594 | - | (89,379) |
| Total Net Position | \$ 8,566,457 | \$ 575,118 | \$ 2,313 |

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

TOWNER COUNTY

Statement of Activities

For the Year Ended December 31, 2020

| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Contributions | Primary Government | Component Units | |
|----------------------------------|---------------------|-------------------------|--|--------------------------|----------------------------|-------------------------------|---------------------|
| | | | | | Governmental Activities | Water Resource District | Health District |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 1,648,129 | \$ 76,058 | \$ 232,818 | \$ - | \$(1,339,253) | | |
| Public Safety | 823,654 | 253,780 | 34,526 | - | (535,348) | | |
| Highways and Bridges | 1,420,925 | 265,400 | 315,092 | 939 | (839,494) | | |
| Flood Repair | 2,390 | - | 5,594 | - | 3,204 | | |
| Health and Welfare | 5,180 | 6,712 | - | - | 1,532 | | |
| Culture and Recreation | 13,512 | - | - | - | (13,512) | | |
| Conserv. of Natural Resource | 113,701 | - | 450 | - | (113,251) | | |
| Economic Development | 8,000 | - | - | - | (8,000) | | |
| Interest & Fees | 21,831 | - | - | - | (21,831) | | |
| Total Governmental Activities | <u>\$ 4,057,322</u> | <u>\$ 601,950</u> | <u>\$ 588,480</u> | <u>\$ 939</u> | <u>\$(2,865,953)</u> | | |
| Component Units | | | | | | | |
| Water Resource District | \$ 29,954 | \$ - | \$ - | \$ - | \$ - | \$ (29,954) | \$ - |
| Health District | 639,125 | 72,502 | 382,827 | - | - | - | (183,796) |
| Total Component Units | <u>\$ 669,079</u> | <u>\$ 72,502</u> | <u>\$ 382,827</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (29,954)</u> | <u>\$ (183,796)</u> |
| General Revenues | | | | | | | |
| Property Taxes | | | | | \$ 2,184,828 | \$ 83,884 | \$ 81,211 |
| State Grants/Aid - Unrestricted | | | | | 332,785 | - | - |
| Gain on Sale of Capital Assets | | | | | 39,111 | - | - |
| Unrestricted Investment Earnings | | | | | 18,219 | 2,164 | - |
| Miscellaneous Revenue | | | | | 132,948 | - | - |
| Total General Revenues | | | | | <u>\$ 2,707,891</u> | <u>\$ 86,048</u> | <u>\$ 81,211</u> |
| Change in Net Position | | | | | <u>\$ (158,062)</u> | <u>\$ 56,094</u> | <u>\$ (102,585)</u> |
| Net Position - January 1 | | | | | <u>\$ 8,724,519</u> | <u>\$ 519,024</u> | <u>\$ 104,898</u> |
| Net Position - December 31 | | | | | <u>\$ 8,566,457</u> | <u>\$ 575,118</u> | <u>\$ 2,313</u> |

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

TOWNER COUNTYBalance Sheet – Governmental Funds
December 31, 2020

| | General | Special Revenue | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 2,033,733 | \$ 2,949,805 | \$ 4,983,538 |
| Accounts Receivable | 13,155 | 145 | 13,300 |
| Intergovernmental Receivable | 147,915 | 32,491 | 180,406 |
| Road Receivables | 7,400 | 67,976 | 75,376 |
| Taxes Receivable | 56,626 | 32,236 | 88,862 |
| Total Assets | <u>\$ 2,258,829</u> | <u>\$ 3,082,653</u> | <u>\$ 5,341,482</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts Payable | \$ 37,063 | \$ 18,417 | \$ 55,480 |
| Salaries Payable | 33,915 | 20,601 | 54,516 |
| Grants Received in Advance | - | 94,274 | 94,274 |
| Total Liabilities | <u>\$ 70,978</u> | <u>\$ 133,292</u> | <u>\$ 204,270</u> |
| Deferred Inflows of Resources | | | |
| Taxes Receivable | \$ 56,626 | \$ 32,236 | \$ 88,862 |
| Road Receivables | 7,400 | 67,976 | 75,376 |
| Taxes Received In Advance | 537,660 | 267,721 | 805,381 |
| Total Deferred Inflows of Resources | <u>\$ 601,686</u> | <u>\$ 367,933</u> | <u>\$ 969,619</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 672,664</u> | <u>\$ 501,225</u> | <u>\$ 1,173,889</u> |
| Fund Balances | | | |
| Restricted | | | |
| Highways and Bridges | \$ - | \$ 2,086,629 | \$ 2,086,629 |
| Health and Welfare | - | 3,769 | 3,769 |
| Conservation of Natural Resources | - | 143,285 | 143,285 |
| Emergency | - | 347,745 | 347,745 |
| Unassigned | 1,586,165 | - | 1,586,165 |
| Total Fund Balances | <u>\$ 1,586,165</u> | <u>\$ 2,581,428</u> | <u>\$ 4,167,593</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,258,829</u> | <u>\$ 3,082,653</u> | <u>\$ 5,341,482</u> |

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

TOWNER COUNTY

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

| | |
|---|--------------------|
| Total Fund Balances for Governmental Funds | \$4,167,593 |
|---|--------------------|

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

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. | 6,959,071 |
|--|-----------|

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenues in the funds.

| | | |
|-------------------------------------|---------------|---------|
| Property Taxes Receivable | \$ 88,862 | |
| Road Department Accounts Receivable | <u>75,376</u> | 164,238 |

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

| | | |
|--|------------------|-----------|
| Deferred Outflows Related to Pensions and OPEB | \$ 2,426,057 | |
| Deferred Inflows Related to Pensions and OPEB | <u>(733,402)</u> | 1,692,655 |

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position.

| | | |
|--------------------------------|--------------------|--------------------|
| Long Term Debt | \$ (695,398) | |
| Interest Payable | (11,622) | |
| Compensated Absences | (67,183) | |
| Net Pension and OPEB Liability | <u>(3,642,897)</u> | <u>(4,417,100)</u> |

| | |
|---|---------------------------|
| Total Net Position of Governmental Activities | <u><u>\$8,566,457</u></u> |
|---|---------------------------|

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

TOWNER COUNTY

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

| | General | Special Revenue | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 1,432,310 | \$ 764,316 | \$ 2,196,626 |
| Intergovernmental | 566,101 | 389,073 | 955,174 |
| Licenses, Permits and Fees | 5,010 | - | 5,010 |
| Charges for Services | 329,507 | 265,400 | 594,907 |
| Fines and Forfeitures | 2,035 | - | 2,035 |
| Interest Income | 16,534 | 1,685 | 18,219 |
| Miscellaneous | 40,419 | 92,529 | 132,948 |
| Total Revenues | <u>\$ 2,391,916</u> | <u>\$ 1,513,003</u> | <u>\$ 3,904,919</u> |
| EXPENDITURES | | | |
| Current | | | |
| General Government | \$ 1,350,474 | \$ 103,845 | \$ 1,454,319 |
| Public Safety | 664,385 | 54,527 | 718,912 |
| Highways and Bridges | - | 1,142,297 | 1,142,297 |
| Flood Repair | - | 2,390 | 2,390 |
| Health and Welfare | 5,180 | - | 5,180 |
| Culture and Recreation | 13,512 | - | 13,512 |
| Conserv. of Natural Resources | - | 92,403 | 92,403 |
| Economic Development | 8,000 | - | 8,000 |
| Debt Service | | | |
| Principal | - | 146,797 | 146,797 |
| Interest and Fees | - | 21,944 | 21,944 |
| Total Expenditures | <u>\$ 2,041,551</u> | <u>\$ 1,564,203</u> | <u>\$ 3,605,754</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 350,365</u> | <u>\$ (51,200)</u> | <u>\$ 299,165</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | \$ 33,734 | \$ 150,429 | \$ 184,163 |
| Lease Financing | - | 175,000 | 175,000 |
| Sale Of Assets | - | 106,611 | 106,611 |
| Transfers Out | - | (184,163) | (184,163) |
| Total Other Financing Sources and U | <u>\$ 33,734</u> | <u>\$ 247,877</u> | <u>\$ 281,611</u> |
| Net Change in Fund Balances | <u>\$ 384,099</u> | <u>\$ 196,677</u> | <u>\$ 580,776</u> |
| Fund Balances - January 1 | <u>\$ 1,202,066</u> | <u>\$ 2,384,751</u> | <u>\$ 3,586,817</u> |
| Fund Balances - December 31 | <u>\$ 1,586,165</u> | <u>\$ 2,581,428</u> | <u>\$ 4,167,593</u> |

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

TOWNER COUNTY

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

| | | |
|---|-----------|----------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 580,776 |
|---|-----------|----------------|

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 | \$ | 452,606 | |
| Capital Contributions | | 939 | |
| Current Year Depreciation Expense | | <u>(514,807)</u> | (61,262) |

In the statement of activities, only the gain on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

| | | | |
|--------------------------------------|----|------------------|----------|
| Gain on Sale of Capital Assets | \$ | 39,111 | |
| Proceeds from Sale of Capital Assets | | <u>(106,611)</u> | (67,500) |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net position.

| | | | |
|-------------------|----|------------------|----------|
| Repayment of Debt | \$ | 146,797 | |
| Lease Issuance | | <u>(175,000)</u> | (28,203) |

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

| | | | |
|------------------------------------|----|------------|---------|
| Net Change in Compensated Absences | \$ | (10,728) | |
| Net Change in Retainages Payable | | 2,006 | |
| Net Change in Interest Payable | | <u>113</u> | (8,609) |

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

| | | | |
|--|----|--------------|-----------|
| Net Change in Net Pension & OPEB Liability | \$ | (2,089,867) | |
| Net Change in Deferred Outflows of Resources | | 1,559,099 | |
| Net Change in Deferred Inflows of Resources | | <u>3,213</u> | (527,555) |

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

| | | | |
|--------------------------------|----|-----------------|-----------------|
| Net Change in Taxes Receivable | \$ | (11,799) | |
| Net Change in Road Receivable | | <u>(33,910)</u> | <u>(45,709)</u> |

| | | |
|--|-----------|-------------------------|
| Change in Net Position of Governmental Activities | \$ | <u>(158,062)</u> |
|--|-----------|-------------------------|

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

TOWNER COUNTY

Statement of Net Position

December 31, 2019

| | Primary Government | Component Units | |
|---------------------------------------|----------------------------|-------------------------------|--------------------|
| | Governmental Activities | Water Resource District | Health District |
| ASSETS | | | |
| Cash and Investments | \$ 4,288,055 | \$ 515,362 | \$ 188,436 |
| Accounts Receivable | 1,754 | - | 1,027 |
| Intergovernmental Receivable | 198,625 | - | 24,500 |
| Road Receivables | 109,286 | - | - |
| Loan receivable | - | - | - |
| Taxes Receivable | 100,661 | 3,662 | 3,565 |
| Capital Assets | | | |
| Nondepreciable | 699,970 | - | - |
| Depreciable, Net | 6,387,863 | - | - |
| Total Assets | \$ 11,786,214 | \$ 519,024 | \$ 217,528 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Derived from Pension and OPEB | \$ 866,958 | \$ - | \$ 69,521 |
| LIABILITIES | | | |
| Accounts Payable | \$ 74,630 | \$ - | \$ - |
| Salaries Payable | 48,458 | - | - |
| Retainage Payable | 2,006 | - | - |
| Grants Received in Advance | 99,886 | - | - |
| Interest Payable | 11,735 | - | - |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long Term Debt | 146,797 | - | - |
| Compensated Absences Payable | 5,645 | - | 608 |
| Due After One Year | | | |
| Long Term Debt | 520,398 | - | - |
| Compensated Absences Payable | 50,810 | - | 5,468 |
| Net Pension & OPEB Liability | 1,553,030 | - | 118,484 |
| Total Liabilities | \$ 2,513,395 | \$ - | \$ 124,560 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Taxes Received in Advance | \$ 678,643 | \$ - | \$ - |
| Derived from Pension and OPEB | 736,615 | - | 57,591 |
| Total Deferred Inflows of Resources | \$ 1,415,258 | \$ - | \$ 57,591 |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 6,418,632 | \$ - | \$ - |
| Restricted for | | | |
| Highways | 1,515,168 | - | - |
| Health and Welfare | 2,908 | - | 104,898 |
| Conservation of Natural Resources | 116,726 | 519,024 | - |
| Emergencies | 347,746 | - | - |
| Unrestricted | 323,339 | - | - |
| Total Net Position | \$ 8,724,519 | \$ 519,024 | \$ 104,898 |

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

TOWNER COUNTY

Statement of Activities

For the Year Ended December 31, 2019

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|---------------------|-------------------------|--|--------------------------|--|-------------------------------|--------------------|
| | | | | | Primary Government | Component Units | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Contributions | Governmental Activities | Water Resource District | Health District |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 1,469,832 | \$ 79,287 | \$ - | \$ - | \$ (1,390,545) | | |
| Public Safety | 687,303 | 188,157 | 70,796 | - | (428,350) | | |
| Highways and Bridges | 1,489,174 | 395,559 | 396,371 | 70,792 | (626,452) | | |
| Flood Repair | 87,787 | - | 87,806 | - | 19 | | |
| Health and Welfare | 9,951 | 5,673 | - | - | (4,278) | | |
| Culture and Recreation | 11,180 | - | - | - | (11,180) | | |
| Conserv. of Natural Resources | 56,933 | 2,794 | 604 | - | (53,535) | | |
| Economic Development | 8,000 | - | - | - | (8,000) | | |
| Interest & Fees | 21,212 | - | - | - | (21,212) | | |
| Total Governmental Activities | <u>\$ 3,841,372</u> | <u>\$ 671,470</u> | <u>\$ 555,577</u> | <u>\$ 70,792</u> | <u>\$ (2,543,533)</u> | | |
| Component Units | | | | | | | |
| Water Resource District | \$ 30,778 | \$ - | \$ - | \$ - | \$ - | \$ (30,778) | \$ - |
| Health District | 375,670 | 70,143 | 257,842 | - | - | - | (47,685) |
| Total Component Units | <u>\$ 406,448</u> | <u>\$ 70,143</u> | <u>\$ 257,842</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (30,778)</u> | <u>\$ (47,685)</u> |
| General Revenues | | | | | | | |
| Property Taxes | | | | | \$ 2,057,043 | \$ 85,237 | \$ 68,558 |
| Other Unrestricted Grant Income | | | | | 372,195 | - | - |
| Gain on Sale of Capital Assets | | | | | 43,995 | - | - |
| Unrestricted Investment Earnings | | | | | 35,926 | 4,069 | 235 |
| Miscellaneous Revenue | | | | | 90,516 | - | - |
| Total General Revenues | | | | | <u>\$ 2,599,675</u> | <u>\$ 89,306</u> | <u>\$ 68,793</u> |
| Change in Net Position | | | | | <u>\$ 56,142</u> | <u>\$ 58,528</u> | <u>\$ 21,108</u> |
| Net Position - January 1 | | | | | <u>\$ 8,631,544</u> | <u>\$ 460,496</u> | <u>\$ 83,790</u> |
| Prior Period Adjustment | | | | | <u>\$ 36,833</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net Position - January 1, as Restated | | | | | <u>\$ 8,668,377</u> | <u>\$ 460,496</u> | <u>\$ 83,790</u> |
| Net Position - December 31 | | | | | <u>\$ 8,724,519</u> | <u>\$ 519,024</u> | <u>\$ 104,898</u> |

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

TOWNER COUNTY

Balance Sheet – Governmental Funds
December 31, 2019

| | General | Special Revenue | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 1,577,861 | \$ 2,710,194 | \$ 4,288,055 |
| Accounts Receivable | 1,754 | - | 1,754 |
| Intergovernmental Receivable | 129,573 | 69,052 | 198,625 |
| Road Receivables | 7,200 | 102,086 | 109,286 |
| Taxes Receivable | 61,898 | 38,763 | 100,661 |
| Total Assets | <u>\$ 1,778,286</u> | <u>\$ 2,920,095</u> | <u>\$ 4,698,381</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts Payable | \$ 37,025 | \$ 37,605 | \$ 74,630 |
| Salaries Payable | 29,804 | 18,654 | 48,458 |
| Grants Received in Advance | - | 99,886 | 99,886 |
| Total Liabilities | <u>\$ 66,829</u> | <u>\$ 156,145</u> | <u>\$ 222,974</u> |
| Deferred Inflows of Resources | | | |
| Taxes Receivable | \$ 61,898 | \$ 38,763 | \$ 100,661 |
| Road Receivables | 7,200 | 102,086 | 109,286 |
| Taxes Received In Advance | 440,293 | 238,350 | 678,643 |
| Total Deferred Inflows of Resources | <u>\$ 509,391</u> | <u>\$ 379,199</u> | <u>\$ 888,590</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 576,220</u> | <u>\$ 535,344</u> | <u>\$ 1,111,564</u> |
| Fund Balances | | | |
| Restricted | | | |
| Highways and Bridges | \$ - | \$ 1,888,531 | \$ 1,888,531 |
| Health and Welfare | - | 1,805 | 1,805 |
| Conservation of Natural Resources | - | 147,275 | 147,275 |
| Emergency | - | 347,140 | 347,140 |
| Unassigned | 1,202,066 | - | 1,202,066 |
| Total Fund Balances | <u>\$ 1,202,066</u> | <u>\$ 2,384,751</u> | <u>\$ 3,586,817</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,778,286</u> | <u>\$ 2,920,095</u> | <u>\$ 4,698,381</u> |

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

TOWNER COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position December 31, 2019

| | |
|---|---------------------|
| Total Fund Balances for Governmental Funds | \$ 3,586,817 |
|---|---------------------|

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

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. | 7,087,833 |
|--|-----------|

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenues in the funds.

| | | |
|-------------------------------------|----------------|---------|
| Property Taxes Receivable | \$ 100,661 | |
| Road Department Accounts Receivable | <u>109,286</u> | 209,947 |

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

| | | |
|--|------------------|---------|
| Deferred Outflows Related to Pensions and OPEB | \$ 866,958 | |
| Deferred Inflows Related to Pensions and OPEB | <u>(736,615)</u> | 130,343 |

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position.

| | | |
|--------------------------------|--------------------|--------------------|
| Long Term Debt | \$ (667,195) | |
| Interest Payable | (11,735) | |
| Retainages Payable | (2,006) | |
| Compensated Absences | (56,455) | |
| Net Pension and OPEB Liability | <u>(1,553,030)</u> | <u>(2,290,421)</u> |

| | |
|---|---------------------|
| Total Net Position of Governmental Activities | <u>\$ 8,724,519</u> |
|---|---------------------|

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

TOWNER COUNTY

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

| | General | Special Revenue | Total Governmental Funds |
|--|--------------|--------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 1,263,278 | \$ 752,234 | \$ 2,015,512 |
| Intergovernmental | 379,185 | 551,361 | 930,546 |
| Licenses, Permits and Fees | 1,640 | - | 1,640 |
| Charges for Services | 268,918 | 398,354 | 667,272 |
| Fines and Forfeitures | 2,560 | - | 2,560 |
| Interest Income | 32,058 | 3,868 | 35,926 |
| Miscellaneous | 38,796 | 51,718 | 90,514 |
| Total Revenues | \$ 1,986,435 | \$ 1,757,535 | \$ 3,743,970 |
| EXPENDITURES | | | |
| Current | | | |
| General Government | \$ 1,303,664 | \$ 99,238 | \$ 1,402,902 |
| Public Safety | 602,699 | 49,368 | 652,067 |
| Highways and Bridges | - | 1,390,908 | 1,390,908 |
| Flood Repair | - | 87,787 | 87,787 |
| Health and Welfare | 2,169 | 7,782 | 9,951 |
| Culture and Recreation | 11,180 | - | 11,180 |
| Conserv. of Natural Resources | - | 65,852 | 65,852 |
| Economic Development | 8,000 | - | 8,000 |
| Debt Service | | | |
| Principal | 52,862 | 262,579 | 315,441 |
| Interest and Fees | - | 19,521 | 19,521 |
| Total Expenditures | \$ 1,980,574 | \$ 1,983,035 | \$ 3,963,609 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 5,861 | \$ (225,500) | \$ (219,639) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | \$ 27,399 | \$ 96,126 | \$ 123,525 |
| Lease Financing | - | 324,367 | 324,367 |
| Sale Of Assets | 500 | 117,000 | 117,500 |
| Transfers Out | (5,491) | (118,034) | (123,525) |
| Total Other Financing Sources and Uses | \$ 22,408 | \$ 419,459 | \$ 441,867 |
| Net Change in Fund Balances | \$ 28,269 | \$ 193,959 | \$ 222,228 |
| Fund Balances - January 1 | \$ 1,173,797 | \$ 2,190,792 | \$ 3,364,589 |
| Fund Balances - December 31 | \$ 1,202,066 | \$ 2,384,751 | \$ 3,586,817 |

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

TOWNER COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities For the Year Ended December 31, 2019

| | |
|---|-------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 222,228 |
|---|-------------------|

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 | \$ 498,071 | |
| Capital Contribution | 70,792 | |
| Current Year Depreciation Expense | <u>(487,631)</u> | 81,232 |

In the statement of activities, only the gain on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

| | | |
|--------------------------------------|------------------|----------|
| Gain on Sale of Capital Assets | \$ 43,995 | |
| Proceeds from Sale of Capital Assets | <u>(117,500)</u> | (73,505) |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net position.

| | | |
|-------------------|------------------|---------|
| Repayment of Debt | \$ 315,441 | |
| Lease Issuance | <u>(324,367)</u> | (8,926) |

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

| | | |
|------------------------------------|----------------|----------|
| Net Change in Compensated Absences | \$ (26,590) | |
| Net Change in Retainages Payable | 6,761 | |
| Net Change in Interest Payable | <u>(1,691)</u> | (21,520) |

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

| | | |
|--|------------------|-----------|
| Net Change in Net Pension & OPEB Liability | \$ 357,759 | |
| Net Change in Deferred Outflows of Resources | 95,509 | |
| Net Change in Deferred Inflows of Resources | <u>(635,392)</u> | (182,124) |

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

| | | |
|--------------------------------|----------------|--------|
| Net Change in Taxes Receivable | \$ 41,531 | |
| Net Change in Road Receivable | <u>(2,774)</u> | 38,757 |

| | |
|--|-------------------------|
| Change in Net Position of Governmental Activities | <u>\$ 56,142</u> |
|--|-------------------------|

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

TOWNER COUNTY

Statement of Fiduciary Net Position-- Fiduciary Funds
December 31, 2020 and 2019

| | Custodial Funds | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Cash and cash equivalents | <u>\$ 1,329,536</u> | <u>\$ 1,156,742</u> |
| LIABILITIES & DEFERRED INFLOWS OF RESOURCES | | |
| Liabilities | | |
| Funds Held for Other Governmental Units | \$ 9,922 | \$ 13,245 |
| Funds Held for Other Purposes | <u>81,891</u> | <u>76,414</u> |
| Total Liabilities | <u>\$ 91,813</u> | <u>\$ 89,659</u> |
| Deferred Inflows of Resources | | |
| Taxes Received in Advance | <u>\$ 1,237,723</u> | <u>\$ 1,067,083</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 1,329,536</u> | <u>\$ 1,156,742</u> |

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

TOWNER COUNTYStatement of Changes in Fiduciary Net Position– Fiduciary Funds
December 31, 2020 and 2019

| | Custodial Funds | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| ADDITIONS | | |
| Tax Collections for Other Governments | \$ 3,636,996 | \$ 3,550,360 |
| Grant Collections for Other Governments | 92,831 | 91,760 |
| Miscellaneous Collections | 10,829 | 18,086 |
| Total Additions | <u>\$ 3,740,656</u> | <u>\$ 3,660,206</u> |
| DEDUCTIONS | | |
| Tax Disbursements to Other Governments | \$ 3,636,996 | \$ 3,550,360 |
| Grant Disbursements to Other Governments | 92,831 | 91,760 |
| Miscellaneous Disbursements | 10,829 | 18,086 |
| Total Deductions | <u>\$ 3,740,656</u> | <u>\$ 3,660,206</u> |
| Net Increase (Decrease) in Fiduciary Net Position | <u>\$ -</u> | <u>\$ -</u> |
| Net Position - Beginning | <u>\$ -</u> | <u>\$ -</u> |
| Net Position - Ending | <u>\$ -</u> | <u>\$ -</u> |

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

TOWNER COUNTY

Notes to the Financial Statements

For the Year Ended December 31, 2020 and 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Component Units

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

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

Towner County Health District ("Health District") - The County's governing board appoints a voting majority of the members of the Health District's board. The County has the authority to approve or modify the Health District authority's operational and capital budgets. The County also must approve the tax levy established by the Health District.

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

Basis of Presentation

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

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

The County reports the following major governmental funds:

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

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

Additionally, the County reports the following fiduciary 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 fiduciary funds are used to account for property taxes collected on behalf of other governments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Cash, Cash Equivalents, 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.

TOWNER COUNTYNotes to the Financial Statements – Continued

Capital Assets

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

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

| Assets | Years |
|-----------------|--------------|
| Buildings | 50 |
| Equipment | 5 - 20 |
| Small Equipment | 3 - 10 |
| Infrastructure | 50 |

Compensated Absences

Vacation leave is earned at the rate of 5 to 15 days per year depending on years of service. Vacation leave may be carried over from one year to the next, but it must be used within 15 months from when earned; if not used within that time frame, the employee will forfeit the unused time. Upon termination vacation benefits that have accrued through the last day of work will be paid. Employees accrue sick leave benefits at the rate of 12 days per year. Unused sick leave benefits will be allowed to accumulate to a limit of 60 days.

Long-Term Obligations

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

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

Pension

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

Other Post-Employment Benefits (OPEB)

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

Fund Balances

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

Minimum Fund Balance Policy/Budget Stabilization. The County adopted a minimum fund balance policy for the general fund to protect against cash flow shortfalls related to timing of project revenues and receipts and to maintain a budget stabilization commitment. The County intends to maintain a minimum unassigned fund balance in its general fund of \$550,000, but not less than 15% of annual general fund expenditures.

When fund balance falls below 15% range, the County will replenish shortages/deficiencies using the budget strategies and time frames described below:

- a. Reduce recurring expenditures to eliminate any structural deficit, or
 - b. Increase revenues or pursue other funding sources, or
 - c. Some combination of the two options above
-
- Deficiency resulting in a minimum fund balance between 12.5 percent and 15 percent shall be replenished over a period not exceeding one year
 - Deficiency resulting in a minimum fund balance between 10 percent and 12.5 percent shall be replenished over a period not to exceed 3 years
 - Deficiency resulting in a minimum fund balance of less than 10 percent shall be replenished over a period not to exceed five years

Unassigned fund balance of the general fund balance at December 31, 2020 and 2019 of \$1,586,165 and \$1,202,066, respectively, was 78% and 61% of 2020 and 2019 general fund expenditures, respectively.

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

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

Net Position

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

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

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

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

Interfund Transactions

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

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

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 2: PRIOR PERIOD ADJUSTMENTS

Net position of the County as of January 1, 2019 has been restated for the net capital asset and capital lease adjustments as shown below. The result of the adjustments increased the beginning net position of the County.

| Primary Government | Amounts |
|--|----------------|
| Beginning Net Position, as previously reported | \$ 8,631,544 |
| Prior Period Adjustment | |
| Capital Assets, Net | 60,173 |
| Capital Leases | (23,340) |
| Net Position January 1, as restated | \$ 8,668,377 |

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 deposits totaled \$6,312,824, and the bank balances totaled \$6,364,236. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2020, the Towner County Water Resource District's carrying amount of deposits totaled \$571,809, and the bank balances totaled \$573,109. Of the bank balances, \$515,841 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 Towner County Health District carrying amount of deposits totaled \$77,601, and the bank balances totaled \$134,702. All of the bank balances were covered by Federal Depository Insurance.

At year ended December 31, 2019, the County's carrying amount of deposits totaled \$5,444,546, and the bank balances totaled \$5,481,551. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2019, the Towner County Water Resource District's carrying amount of deposits totaled \$515,362, and the bank balances totaled \$517,513. Of the bank balances, \$511,722 was covered by Federal Depository Insurance. The remaining bank balances, besides \$5,791 that were not collateralized, were collateralized with securities held by the pledging financial institution's agent in the government's name.

TOWNER COUNTY

Notes to the Financial Statements – Continued

At year ended December 31, 2019, the Towner County Health District carrying amount of deposits totaled \$188,360, and the bank balances totaled \$208,228. All of which was covered by Federal Depository Insurance.

NOTE 4: PROPERTY TAXES

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

NOTE 5: CAPITAL ASSETS**Primary Government**

The following is a summary of changes in capital assets for the year ended December 31, 2020 and 2019:

| Primary Government - 2020 | Balance January 1 | Increases | Decreases | Transfers | Balance December 31 |
|--|------------------------------|--------------------|-------------------|---------------------|--------------------------------|
| Capital Assets Not Being Depreciated | | | | | |
| Land | \$ 12,250 | \$ - | \$ - | \$ - | \$ 12,250 |
| Construction in Progress | 687,719 | 5,507 | - | (693,226) | - |
| Total Capital Assets, Not Being Depreciated | \$ 699,969 | \$ 5,507 | \$ - | \$ (693,226) | \$ 12,250 |
| Capital Assets, Being Depreciated | | | | | |
| Buildings | \$ 392,500 | \$ - | \$ - | \$ - | \$ 392,500 |
| Equipment | 3,365,643 | 448,038 | 256,027 | - | 3,557,654 |
| Small Equipment | 76,881 | - | - | - | 76,881 |
| Infrastructure | 5,836,582 | - | - | 693,226 | 6,529,808 |
| Total Capital Assets, Being Depreciated | \$ 9,671,606 | \$ 448,038 | \$ 256,027 | \$ 693,226 | \$ 10,556,843 |
| Less Accumulated Depreciation | | | | | |
| Buildings | \$ 365,638 | \$ 1,227 | \$ - | \$ - | \$ 366,865 |
| Equipment | 1,774,014 | 349,833 | 188,527 | - | 1,935,320 |
| Small Equipment | 71,273 | 502 | - | - | 71,775 |
| Infrastructure | 1,072,817 | 163,245 | - | - | 1,236,062 |
| Total Accumulated Depreciation | \$ 3,283,742 | \$ 514,807 | \$ 188,527 | \$ - | \$ 3,610,022 |
| Total Capital Assets Being Depreciated, Net | \$ 6,387,864 | \$ (66,769) | \$ 67,500 | \$ 693,226 | \$ 6,946,821 |
| Capital Assets - Net | \$ 7,087,833 | \$ (61,262) | \$ 67,500 | \$ - | \$ 6,959,071 |

| Primary Government - 2019 | Balance January 1 | Increases | Decreases | Transfers | Balance December 31 |
|--|------------------------------|--------------------|-------------------|------------------|--------------------------------|
| Capital Assets Not Being Depreciated | | | | | |
| Land | \$ 12,250 | \$ - | \$ - | \$ - | \$ 12,250 |
| Construction in Progress | 537,379 | 150,341 | - | - | 687,720 |
| Total Capital Assets, Not Being Depreciated | \$ 549,629 | \$ 150,341 | \$ - | \$ - | \$ 699,970 |
| Capital Assets, Being Depreciated | | | | | |
| Buildings | \$ 392,500 | \$ - | \$ - | \$ - | \$ 392,500 |
| Equipment | 3,245,805 | 418,522 | 298,682 | - | 3,365,645 |
| Small Equipment | 76,880 | - | - | - | 76,880 |
| Infrastructure | 5,836,582 | - | - | - | 5,836,582 |
| Total Capital Assets, Being Depreciated | \$ 9,551,767 | \$ 418,522 | \$ 298,682 | \$ - | \$ 9,671,607 |
| Less Accumulated Depreciation | | | | | |
| Buildings | \$ 364,411 | \$ 1,227 | \$ - | \$ - | \$ 365,638 |
| Equipment | 1,659,205 | 339,987 | 225,177 | - | 1,774,015 |
| Small Equipment | 70,771 | 502 | - | - | 71,273 |
| Infrastructure | 926,903 | 145,915 | - | - | 1,072,818 |
| Total Accumulated Depreciation | \$ 3,021,290 | \$ 487,631 | \$ 225,177 | \$ - | \$ 3,283,744 |
| Total Capital Assets Being Depreciated, Net | \$ 6,530,477 | \$ (69,109) | \$ 73,505 | \$ - | \$ 6,387,863 |
| Capital Assets - Net | \$ 7,080,106 | \$ 81,232 | \$ 73,505 | \$ - | \$ 7,087,833 |

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

| Primary Government | 2020 | 2019 |
|-----------------------------------|-------------------|-------------------|
| Public Safety | \$ 39,830 | \$ 29,339 |
| Highways | 469,300 | 452,615 |
| Conservation of Natural Resources | 5,677 | 5,677 |
| Total | \$ 514,807 | \$ 487,631 |

Discretely Presented Component Unit

The following is a summary of changes in capital assets for the year ended December 31, 2020 and 2019:

| Health District - 2020 | Balance January 1 | Increases | Decreases | Transfers | Balance December 31 |
|--|------------------------------|------------------|------------------|------------------|--------------------------------|
| Capital Assets, Being Depreciated | | | | | |
| Buildings | \$ - | \$ 94,854 | \$ - | \$ - | \$ 94,854 |
| Less Accumulated Depreciation | | | | | |
| Buildings | \$ - | \$ 3,162 | \$ - | \$ - | \$ 3,162 |
| Total Capital Assets Being Depreciated, Net | \$ - | \$ 91,692 | \$ - | \$ - | \$ 91,692 |
| Capital Assets - Net | \$ - | \$ 91,692 | \$ - | \$ - | \$ 91,692 |

Depreciation expense was charged to the health and welfare function.

NOTE 6: LONG-TERM LIABILITIES

During the year ended December 31, 2020 and 2019, the following changes occurred in governmental activities long-term liabilities:

| Primary Government - 2020 | Balance January 1 | Increases | Decreases | Balance December 31 | Due Within One Year |
|----------------------------------|------------------------------|---------------------|-------------------|--------------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Capital Leases Payable | \$ 667,195 | \$ 175,000 | \$ 146,797 | \$ 695,398 | \$ 178,331 |
| Compensated Absences * | 56,455 | 10,728 | - | 67,183 | 6,718 |
| Net Pension and OPEB Liability | 1,553,030 | 2,089,867 | - | 3,642,897 | - |
| Total Primary Government | \$ 2,276,680 | \$ 2,275,595 | \$ 146,797 | \$ 4,405,478 | \$ 185,049 |

| Primary Government - 2019 | Balance January 1 | Increases | Decreases | Balance December 31 | Due Within One Year |
|----------------------------------|------------------------------|-------------------|-------------------|--------------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Capital Leases Payable | \$ 658,269 | \$ 324,367 | \$ 315,441 | \$ 667,195 | \$ 146,797 |
| Compensated Absences * | 29,865 | 26,590 | - | 56,455 | 5,645 |
| Net Pension and OPEB Liability | 1,910,789 | - | 377,759 | 1,553,030 | - |
| Total Primary Government | \$ 2,598,923 | \$ 350,957 | \$ 693,200 | \$ 2,276,680 | \$ 152,442 |

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

| Year Ending Dec 31 | Leases Payable | |
|-----------------------|----------------|-----------|
| | Principal | Interest |
| 2021 | \$ 178,331 | \$ 22,859 |
| 2022 | 211,894 | 17,302 |
| 2023 | 117,878 | 10,044 |
| 2024 | 91,703 | 6,218 |
| 2025 | 64,129 | 3,151 |
| 2026-2030 | 31,463 | 986 |
| Total | \$ 695,398 | \$ 60,560 |

Discretely Presented Component Unit

During the year ended December 31, 2020 and 2019, the following changes occurred in governmental long-term liabilities of the Health District:

| Health Unit - 2020 | Balance January 1 | Increases | Decreases | Balance December 31 | Due Within One Year |
|--------------------------------|----------------------|------------|-----------|------------------------|------------------------|
| Compensated Absences * | \$ 6,076 | \$ - | \$ 6,076 | \$ - | \$ - |
| Net Pension and OPEB Liability | 118,484 | 328,094 | - | 446,578 | - |
| Total Primary Government | \$ 124,560 | \$ 328,094 | \$ 6,076 | \$ 446,578 | \$ - |

| Health Unit - 2019 | Balance January 1 | Increases | Decreases | Balance December 31 | Due Within One Year |
|--------------------------------|----------------------|-----------|-----------|------------------------|------------------------|
| Compensated Absences * | \$ 12,637 | \$ - | \$ 6,561 | \$ 6,076 | \$ 608 |
| Net Pension and OPEB Liability | 153,167 | - | 34,683 | 118,484 | - |
| Total | \$ 165,804 | \$ - | \$ 41,244 | \$ 124,560 | \$ 608 |

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

NOTE 7: 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.

Law Enforcement System (With prior main system service)

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55) with three or more years of service. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members first enrolled in the plan after December 31, 2019 the multiplier was reduced from 2.0% to 1.75%. The plan permits early retirement at ages 50-55 with three or more years of service.

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

Death and Disability Benefits (Main and Law Enforcement Systems)

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

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

Refunds of Member Account Balance***Main System***

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

Law Enforcement System

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

Member and Employer Contributions**Main System**

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

Law Enforcement System

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

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

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

| | |
|----------------------------------|--|
| 1 to 12 months of service | Greater of one percent of monthly salary or \$25 |
| 13 to 25 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 |

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

At December 31, 2020, the following net pension liabilities were reported:

| | 2020 | 2019 |
|------------------------|--------------|--------------|
| Main System | \$ 3,139,289 | \$ 1,459,781 |
| Law Enforcement System | 401,851 | - |
| Health District | 435,315 | 111,370 |

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 that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2020, the entities had the following proportions, change in proportions, and pension expense:

| | Proportion | Increase (Decrease) in Proportion from June 30, 2020 and 2019 Measurement | Pension Expense |
|-------------------------------|-------------------|--|----------------------------|
| Main System | | | |
| 2020 | 0.099786% | -0.024761% | \$ 544,910 |
| 2019 | 0.124547% | 0.016075% | 314,918 |
| Law Enforcement System | | | |
| 2020 | 0.613064% | 0.613064% | \$ 94,074 |
| Health District | | | |
| 2020 | 0.013837% | 0.004335% | \$ 94,140 |
| 2019 | 0.009502% | 0.000807% | 25,559 |

At December 31, 2020, the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were reported:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Primary Government - 2020 | | |
| Differences Between Expected and Actual Experience | \$ 12,217 | \$ 159,071 |
| Changes in Assumptions | 1,682,857 | 278,218 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 101,320 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 124,275 | 244,988 |
| Contributions - Employer | 78,443 | - |
| Total | \$ 1,999,112 | \$ 682,277 |

TOWNER COUNTY

Notes to the Financial Statements – Continued

| Law Enforcement System - 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 8,621 | \$ 6,879 |
| Changes of Assumptions | 299,905 | 41,459 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 15,027 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 46,210 | - |
| Employer Contributions Subsequent to the Measurement Date | 21,300 | - |
| Total | \$ 391,063 | \$ 48,338 |

| Public Health District - 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 1,694 | \$ 22,058 |
| Changes in Assumptions | 233,356 | 38,580 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 14,050 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 57,518 | 584 |
| Contributions - Employer | 3,214 | - |
| Total | \$ 309,832 | \$ 61,222 |

\$78,443 for the county main system, \$21,300 for the Law Enforcement System, and \$3,214 for the Health District was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

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

| | Main System | Law Enforcement System | Public Health District |
|---------------------|--------------------|---------------------------------------|-----------------------------------|
| 2021 | \$ 387,336 | \$ 72,644 | \$ 72,898 |
| 2022 | 324,132 | 67,789 | 64,387 |
| 2023 | 254,352 | 57,163 | 53,044 |
| 2024 | 272,572 | 53,885 | 55,067 |
| 2025 | - | 61,615 | - |
| 2026 and Thereafter | - | 8,329 | - |

Actuarial Assumptions**Main and Law Enforcement Systems**

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 |

TOWNER 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 Equity | 30% | 6.30% |
| International Equity | 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 (Main and Law Enforcement Systems)

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; 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 entities proportionate share of the net pension liability calculated using the discount rate of 4.64 percent, as well as what their 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:

| Proportionate Share of the Net Pension Liability | 1% Decrease (3.64%) | Current Discount Rate (4.64%) | 1% Increase (5.64%) |
|---|----------------------------|--------------------------------------|----------------------------|
| Main System | \$ 4,072,992 | \$ 3,139,289 | \$ 2,375,293 |
| Law Enforcement System | 567,786 | 401,851 | 270,652 |
| Public Health District | 564,789 | 435,315 | 329,374 |

Pension Plan Fiduciary Net Position

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

NOTE 8: 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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

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

| | 2020 | 2019 |
|--------------------|-------------|-------------|
| Primary Government | \$ 101,757 | \$ 93,249 |
| Health District | 11,263 | 7,114 |

The net OPEB 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 that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2020, the entities had the following proportions, change in proportions, and pension expense:

| | Proportion | Increase (Decrease) in Proportion from June 30, 2020 and 2019 Measurement | OPEB Expense |
|---------------------------|-------------------|--|-------------------------|
| Primary Government | | | |
| 2020 | 0.120967% | 0.004868% | \$ 16,543 |
| 2019 | 0.116099% | 0.014259% | 13,663 |
| Health District | | | |
| 2020 | 0.013389% | 0.004532% | \$ 2,294 |
| 2019 | 0.008857% | 0.000694% | 1,075 |

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

| Primary Government - 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 2,260 | \$ 2,440 |
| Changes of Assumptions | 13,644 | - |
| Net Difference Between Projected and Actual Investment | | |
| Earnings on OPEB Plan Investments | 3,499 | - |
| Changes in Proportion and Differences Between Employer | | |
| Contributions and Proportionate Share of Contributions | 8,743 | 347 |
| Contributions - Employer | 7,737 | - |
| Total | \$ 35,883 | \$ 2,787 |

| Public Health District - 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 249 | \$ 270 |
| Changes of Assumptions | 1,510 | - |
| Net Difference Between Projected and Actual Investment | | |
| Earnings on OPEB Plan Investments | 387 | - |
| Changes in Proportion and Differences Between Employer | | |
| Contributions and Proportionate Share of Contributions | 3,113 | 68 |
| Contributions - Employer | 300 | - |
| Total | \$ 5,559 | \$ 338 |

TOWNER COUNTY

Notes to the Financial Statements – Continued

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

| | |
|--------------------|----------|
| Primary Government | \$ 7,737 |
| Health District | 300 |

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

| | Primary Government | Public Health District |
|------|--------------------|------------------------|
| 2021 | \$ 5,173 | \$ 1,034 |
| 2022 | 6,077 | 1,134 |
| 2023 | 5,911 | 1,116 |
| 2024 | 4,919 | 1,019 |
| 2025 | 2,898 | 590 |
| 2026 | 381 | 28 |

Actuarial assumptions

The total OPEB 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 or 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 | 40% | 1.15% |
| U.S. High Yield | 21% | 6.45% |

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, 2019, and July 1, 2018, 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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

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:

| Proportionate Share of the OPEB Liability | 1% Decrease (5.50%) | Current Discount Rate (6.50%) | 1% Increase (7.50%) |
|--|--------------------------------|--|--------------------------------|
| Primary Government | \$ 133,457 | \$ 101,757 | \$ 74,951 |
| Public Health District | 14,771 | 11,263 | 8,296 |

NOTE 9: TRANSFERS

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

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 (NDRF), 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 NDRF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDRF is limited to losses of one million dollars per occurrence for general liability, one million for automobile, and \$2,954,351 for public assets/mobile equipment and portable property.

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

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

NOTE 11: CONDUIT DEBT OBLIGATIONS

From time to time, Towner County has obtained community development block grant loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facility transfers to the private-sector entity served by the loan. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

As of December 31, 2020 there was one community development block grant loan outstanding, with an aggregate principal amount payable of \$42,784.

TOWNER COUNTYNotes to the Financial Statements – Continued

NOTE 12: SUBSEQUENT EVENTS

In April of 2022, the County issued a new 6-year lease for a new tractor. Future loan payments are due annually in the amount of \$11,134 for the life of the lease. The lease expires in April of 2028.

In March of 2022, The County approved a road construction contract with RJ Zavoral & Sons in the amount of \$1,707,905 for project SC-4819(063).

TOWNER COUNTY

Budgetary Comparison Schedule – General Fund For the Year Ended December 31, 2020 and 2019

| | 2020 | | | | 2019 | | | |
|--|--------------------|-----------------|-------------|----------------------------------|--------------------|-----------------|-------------|----------------------------------|
| | Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| REVENUES | | | | | | | | |
| Taxes | \$1,466,516 | \$1,466,516 | \$1,432,310 | \$ (34,206) | \$1,315,117 | \$1,315,117 | \$1,263,278 | \$(51,839) |
| Intergovernmental | 323,364 | 323,364 | 566,100 | 9,919 | 313,364 | 313,364 | 379,185 | 65,821 |
| Licenses, Permits and Fees | 1,350 | 1,350 | 5,010 | 3,660 | 1,800 | 1,800 | 1,640 | (160) |
| Charges for Services | 313,427 | 313,427 | 329,507 | 16,080 | 302,344 | 302,344 | 268,918 | (33,426) |
| Fines and Forfeitures | 2,000 | 2,000 | 2,035 | 35 | 1,500 | 1,500 | 2,560 | 1,060 |
| Interest Income | 10,000 | 10,000 | 16,534 | 6,534 | 8,000 | 8,000 | 32,058 | 24,058 |
| Miscellaneous | 15,000 | 15,000 | 40,420 | 251,037 | 15,000 | 15,000 | 38,796 | 23,796 |
| Total Revenues | \$2,131,657 | \$2,131,657 | \$2,391,916 | \$253,059 | \$1,957,125 | \$1,957,125 | \$1,986,435 | \$ 29,310 |
| EXPENDITURES | | | | | | | | |
| Current | | | | | | | | |
| General Government | \$1,453,522 | \$1,453,522 | \$1,350,474 | \$103,048 | \$1,265,805 | \$1,344,162 | \$1,303,664 | \$ 40,498 |
| Public Safety | 745,026 | 745,026 | 664,385 | 80,641 | 640,254 | 640,254 | 602,699 | 37,555 |
| Health and Welfare | 7,100 | 7,100 | 5,180 | 1,920 | 3,500 | 3,500 | 2,169 | 1,331 |
| Culture and Recreation | 13,500 | 13,500 | 13,512 | (12) | 13,950 | 13,950 | 11,180 | 2,770 |
| Economic Development | 8,000 | 8,000 | 8,000 | - | 8,000 | 8,000 | 8,000 | - |
| Debt Service: | | | | | | | | |
| Principal | - | - | - | - | 52,862 | 52,862 | 52,862 | - |
| Total Expenditures | \$2,227,148 | \$2,227,148 | \$2,041,551 | \$185,597 | \$1,984,371 | \$2,062,728 | \$1,980,574 | \$ 82,154 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (95,491) | \$ (95,491) | \$ 350,365 | \$ 67,462 | \$ (27,246) | \$ (105,603) | \$ 5,861 | \$(52,844) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers In | \$ 33,734 | \$ 33,734 | \$ 33,734 | \$ - | \$ 27,246 | \$ 27,246 | \$ 27,399 | \$ 153 |
| Sale of Assets | - | - | - | - | - | - | 500 | 500 |
| Transfers Out | - | - | - | - | - | - | (5,491) | (5,491) |
| Total Other Financing Sources (Uses) | \$ 33,734 | \$ 33,734 | \$ 33,734 | \$ - | \$ 27,246 | \$ 27,246 | \$ 22,408 | \$ (4,838) |
| Net Change in Fund Balances | \$ (61,757) | \$ (61,757) | \$ 384,099 | \$ 67,462 | \$ - | \$ (78,357) | \$ 28,269 | \$(57,682) |
| Fund Balances - January 1 | \$1,202,066 | \$1,202,066 | \$1,202,066 | \$ - | \$1,173,797 | \$1,173,797 | \$1,173,797 | \$ - |
| Fund Balances - December 31 | \$1,140,309 | \$1,140,309 | \$1,586,165 | \$ 67,462 | \$1,173,797 | \$1,095,440 | \$1,202,066 | \$(57,682) |

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

TOWNER COUNTY

Budgetary Comparison Schedule – Special Revenue Fund For the Year Ended December 31, 2020 and 2019

| | 2020 | | | | 2019 | | | |
|--|---------------------|---------------------|---------------------|----------------------------------|---------------------|---------------------|---------------------|----------------------------------|
| | Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| REVENUES | | | | | | | | |
| Taxes | \$ 784,822 | \$ 784,822 | \$ 764,316 | \$ (20,506) | \$ 783,471 | \$ 783,471 | \$ 752,234 | \$ (31,237) |
| Intergovernmental | 382,825 | 382,825 | 389,073 | 6,248 | 369,176 | 369,176 | 551,361 | 182,185 |
| Interest | 3,500 | 3,500 | 1,685 | (1,815) | 800 | 800 | 3,868 | 3,068 |
| Charge for Service | 327,000 | 327,000 | 265,400 | (61,600) | 305,000 | 305,000 | 398,354 | 93,354 |
| Miscellaneous | 43,000 | 43,000 | 92,529 | 49,529 | 43,000 | 43,000 | 51,718 | 8,718 |
| Total Revenues | <u>\$ 1,541,147</u> | <u>\$ 1,541,147</u> | <u>\$ 1,513,003</u> | <u>\$ (28,144)</u> | <u>\$ 1,501,447</u> | <u>\$ 1,501,447</u> | <u>\$ 1,757,535</u> | <u>\$ 256,088</u> |
| EXPENDITURES | | | | | | | | |
| Current | | | | | | | | |
| General Government | \$ 104,370 | \$ 104,370 | \$ 103,845 | \$ 525 | \$ 107,507 | \$ 107,507 | \$ 99,238 | \$ 8,269 |
| Public Safety | - | - | 54,527 | (54,527) | - | - | 49,368 | (49,368) |
| Highways and Bridges | 1,091,146 | 1,141,760 | 967,297 | 174,463 | 950,915 | 1,159,237 | 1,066,541 | 92,696 |
| Flood Repair | - | - | 2,390 | (2,390) | - | - | 87,787 | (87,787) |
| Health and Welfare | - | - | - | - | - | - | 7,782 | (7,782) |
| Conserv. of Natural Resources | 74,500 | 91,029 | 92,403 | (1,374) | 76,500 | 76,500 | 65,852 | 10,648 |
| Debt Service | | | | | | | | |
| Principle | 146,797 | 146,797 | 146,797 | - | 262,579 | 262,579 | 262,579 | - |
| Interest | 21,944 | 21,944 | 21,944 | - | 19,521 | 19,521 | 19,521 | - |
| Total Expenditures | <u>\$ 1,438,757</u> | <u>\$ 1,505,900</u> | <u>\$ 1,389,203</u> | <u>\$ 116,697</u> | <u>\$ 1,417,022</u> | <u>\$ 1,625,344</u> | <u>\$ 1,658,668</u> | <u>\$ (33,324)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 102,390</u> | <u>\$ 35,247</u> | <u>\$ 123,800</u> | <u>\$ 88,553</u> | <u>\$ 84,425</u> | <u>\$ (123,897)</u> | <u>\$ 98,867</u> | <u>\$ 222,764</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers In | \$ 150,000 | \$ 150,000 | \$ 150,429 | \$ 429 | \$ 150,000 | \$ 150,000 | \$ 96,126 | \$ (53,874) |
| Sale of Assets | - | - | 106,611 | 106,611 | - | - | 117,000 | 117,000 |
| Transfers Out | (183,734) | (183,734) | (184,163) | (429) | (177,246) | (177,246) | (118,034) | 59,212 |
| Total Other Financing Sources (Uses) | <u>\$ (33,734)</u> | <u>\$ (33,734)</u> | <u>\$ 72,877</u> | <u>\$ 106,611</u> | <u>\$ (27,246)</u> | <u>\$ (27,246)</u> | <u>\$ 95,092</u> | <u>\$ 122,338</u> |
| Net Change in Fund Balances | <u>\$ 68,656</u> | <u>\$ 1,513</u> | <u>\$ 196,677</u> | <u>\$ 195,164</u> | <u>\$ 57,179</u> | <u>\$ (151,143)</u> | <u>\$ 193,959</u> | <u>\$ 345,102</u> |
| Fund Balances - January 1 | <u>\$ 2,384,751</u> | <u>\$ 2,384,751</u> | <u>\$ 2,384,751</u> | <u>\$ -</u> | <u>\$ 2,190,792</u> | <u>\$ 2,190,792</u> | <u>\$ 2,190,792</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u>\$ 2,453,407</u> | <u>\$ 2,386,264</u> | <u>\$ 2,581,428</u> | <u>\$ 195,164</u> | <u>\$ 2,247,971</u> | <u>\$ 2,039,649</u> | <u>\$ 2,384,751</u> | <u>\$ 345,102</u> |

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

TOWNER COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
For the Year Ended December 31, 2020

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

| | Proportion of the Net Pension Liability (Asset) | Proportionate Share of the Net Pension Liability (Asset) | Covered-Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------------|---|--|--------------------------|--|--|
| Main System | | | | | |
| 2020 | 0.099786% | \$ 3,139,289 | \$ 1,100,756 | 285.19% | 48.91% |
| 2019 | 0.124547% | 1,459,781 | 1,295,500 | 112.68% | 71.66% |
| 2018 | 0.108472% | 1,830,583 | 1,114,350 | 164.27% | 62.80% |
| 2017 | 0.107431% | 1,726,769 | 1,096,705 | 157.45% | 61.98% |
| 2016 | 0.102013% | 994,216 | 1,028,054 | 96.71% | 70.46% |
| 2015 | 0.097330% | 661,827 | 867,092 | 76.33% | 77.70% |
| 2014 | 0.095191% | 698,810 | 801,874 | 87.15% | 77.15% |
| Law Enforcement System | | | | | |
| 2020 | 0.613064% | 401,851 | 278,232 | 144.43% | 53.12% |
| Health District | | | | | |
| 2020 | 0.013837% | \$ 435,315 | \$ 152,634 | 285.20% | 48.91% |
| 2019 | 0.009502% | 111,370 | 98,836 | 112.68% | 71.66% |
| 2018 | 0.008695% | 146,738 | 89,325 | 164.27% | 62.80% |
| 2017 | 0.007951% | 127,799 | 81,170 | 157.45% | 61.98% |
| 2016 | 0.005754% | 56,078 | 57,989 | 96.70% | 70.46% |
| 2015 | 0.006288% | 42,757 | 56,015 | 76.33% | 77.70% |
| 2014 | 0.006311% | 46,330 | 53,165 | 87.14% | 77.15% |

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

| | Statutory Required Contribution | Contributions in Relation to the Statutory Required Contribution | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|-------------------------------|---------------------------------|--|----------------------------------|--------------------------|---|
| Primary Government | | | | | |
| 2020 | \$ 77,943 | \$ 92,418 | \$ (14,475) | \$ 1,124,485 | 8.22% |
| 2019 | 94,320 | 78,442 | 15,878 | 1,295,500 | 6.05% |
| 2018 | 82,077 | 77,273 | 4,804 | 1,114,350 | 6.93% |
| 2017 | 79,524 | 77,638 | 1,886 | 1,096,705 | 7.08% |
| 2016 | 74,429 | (70,862) | 3,567 | 1,028,054 | 7.24% |
| 2015 | 65,863 | (64,886) | 977 | 867,092 | 7.60% |
| 2014 | 57,093 | (57,093) | - | 801,874 | 7.12% |
| Law Enforcement System | | | | | |
| 2020 | 29,705 | 13,648 | 16,057 | 334,179 | 10.66% |
| Health District | | | | | |
| 2020 | \$ 10,808 | \$ 9,977 | \$ 831 | \$ 129,426 | 7.71% |
| 2019 | 7,196 | 7,016 | 180 | 98,836 | 7.10% |
| 2018 | 6,579 | 6,270 | 309 | 89,325 | 7.02% |
| 2017 | 5,886 | 4,948 | 938 | 81,170 | -6.10% |
| 2016 | 4,198 | (4,130) | 68 | 57,989 | 7.24% |
| 2015 | 4,255 | (3,988) | 267 | 56,015 | 7.60% |
| 2014 | 3,785 | (3,785) | - | 53,165 | 0.47% |

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

TOWNER COUNTY

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions – Continued
For the Year Ended December 31, 2020

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

| | Proportion of the Net OPEB Liability (Asset) | Proportionate Share of the Net OPEB (Asset) | Covered- Employee Payroll | Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered- Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---------------------------|---|--|--|---|--|
| Primary Government | | | | | |
| 2020 | 0.120967% | \$ 101,757 | \$ 1,378,988 | 7.38% | 63.38% |
| 2019 | 0.116099% | 93,249 | 1,295,500 | 7.20% | 63.13% |
| 2018 | 0.101840% | 80,206 | 1,114,350 | 7.20% | 62.80% |
| 2017 | 0.101374% | 80,188 | 1,096,705 | 7.31% | 59.78% |
| Health District | | | | | |
| 2020 | 0.013389% | \$ 11,263 | \$ 152,634 | 7.38% | 63.38% |
| 2019 | 0.008857% | 7,114 | 98,836 | 7.20% | 63.13% |
| 2018 | 0.008163% | 6,429 | 89,325 | 7.20% | 59.78% |
| 2017 | 0.007503% | 5,935 | 81,170 | 7.31% | 59.78% |

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

| | Statutory Required Contribution | Contributions in Relation to the Statutory Required Contribution | Contribution Deficiency (Excess) | Covered- Employee Payroll | Contributions as a Percentage of Covered- Employee Payroll |
|---------------------------|--|---|---|--|---|
| Primary Government | | | | | |
| 2020 | \$ 16,200 | \$ 16,383 | \$ (183) | \$ 1,458,665 | 1.12% |
| 2019 | 15,067 | 12,560 | 2,507 | 1,295,500 | 0.97% |
| 2018 | 13,071 | 12,372 | 699 | 1,114,350 | 1.11% |
| 2017 | 12,748 | 12,431 | 317 | 1,096,705 | 1.13% |
| Health District | | | | | |
| 2020 | \$ 1,793 | \$ 1,597 | \$ 196 | \$ 129,426 | 1.23% |
| 2019 | 1,149 | 1,123 | 26 | 98,836 | 1.14% |
| 2018 | 1,048 | 1,004 | 44 | 89,325 | 1.12% |
| 2017 | 944 | 792 | 152 | 81,170 | 0.98% |

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

TOWNER COUNTY

Notes to the Required Supplementary Information
For the Year Ended December 31, 2020

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- The County commission adopts an appropriated budget on a basis consistent with accounting principles generally accepted in the United States (GAAP).
- 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: SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

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

NOTE 3: CHANGES OF BENEFIT TERMS – PENSION AND OPEB

Pension

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

OPEB

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

TOWNER COUNTY

Notes to the Required Supplementary Information - Continued

NOTE 4: CHANGES OF ASSUMPTIONS – PENSION AND OPEB

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

Pension

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

OPEB

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

NOTE 5: BUDGET TO ACTUAL RECONCILIATION

The County entered into various lease agreements in 2020 and 2019. The lease proceeds and corresponding expenditures were reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the special revenue fund. The County didn't budget for these funds and these transactions were not recorded on the County's general ledger. The differences are as follows:

| 2020 Special Revenue Fund | Combined Statement | Adjustment | Budget to Actual |
|--------------------------------------|-------------------------------|-------------------|-----------------------------|
| Expenditures | \$ 1,564,203 | \$ (175,000) | \$ 1,389,203 |
| Lease Proceeds | 175,000 | (175,000) | - |

| 2019 Special Revenue Fund | Combined Statement | Adjustment | Budget to Actual |
|--------------------------------------|-------------------------------|-------------------|-----------------------------|
| Expenditures | \$ 1,983,035 | \$ (324,367) | \$ 1,658,668 |
| Lease Proceeds | 324,367 | (324,367) | - |

NOTE 6: LEGAL COMPLIANCE - BUDGETS**Budget Amendments**

The board of County commissioners amended the 2020 and 2019 County expenditures and transfers budget for various funds as follows:

| 2020 | EXPENDITURES/TRANSFERS OUT | | |
|----------------------|-----------------------------------|------------------|---------------------------|
| | Original Budget | Amendment | Amended Budget |
| Fund | | | |
| General Fund | \$ 2,227,148 | \$ - | \$ 2,227,148 |
| Special Revenue Fund | 1,622,491 | 67,143 | 1,689,634 |

| 2019 | EXPENDITURES/TRANSFERS OUT | | |
|----------------------|-----------------------------------|------------------|---------------------------|
| | Original Budget | Amendment | Amended Budget |
| Fund | | | |
| General Fund | \$ 1,984,371 | \$ 78,357 | \$ 2,062,728 |
| Special Revenue Fund | 1,594,268 | 208,322 | 1,802,590 |

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

Independent Auditor's Report

Board of County Commissioners
Towner County
Cando, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and aggregate remaining fund information of Towner County as of and for the years ended December 31, 2020 and December 31, 2019, and the related notes to the financial statements, which collectively comprise Towner County's basic financial statements, and have issued our report thereon dated May 6, 2022. Our report qualified the aggregate discretely presented component units financial statements because the Towner County Health District 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 Towner 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 Towner County's internal control. Accordingly, we do not express an opinion on the effectiveness of Towner 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 2020-001 and 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, and 2020-009 that we consider to be material weaknesses.

TOWNER COUNTY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Towner 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, and 2020-003.

Towner County's Response to Findings

Towner County's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Towner 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
May 6, 2022

TOWNER COUNTY

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

Financial Statements

| Type of Report Issued: | 2020 | 2019 |
|--|------------|------------|
| Governmental Activities | Unmodified | Unmodified |
| Aggregate Discretely Presented Component Units | Unmodified | Qualified |
| Major Funds | Unmodified | Unmodified |
| Aggregate Remaining Fund Information | Unmodified | Unmodified |

Internal control over financial reporting

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

TOWNER COUNTY

Schedule of Audit Findings

For the Year Ended December 31, 2020

2020-001 – BUDGET PREPARATION – MATERIAL NONCOMPLIANCE – MATERIAL WEAKNESS

Condition

Towner County did not prepare its 2019 and 2020 budget in compliance with all attributes of N.D.C.C. §11-23-02.

Criteria

N.D.C.C. §11-23-02 states, " The county auditor shall prepare an annual budget for the general fund, each special revenue fund, and each debt service fund of the county in the form prescribed by the state auditor. The budget must set forth specifically:

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.
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.
5. The beginning and ending balance of each fund or estimates of the balances for the preceding year, current year, and ensuing year.
6. The tax levy request for any funds levying taxes for the ensuing year.
7. The certificate of levy showing the amount levied for each fund and the total amount levied.
8. The budget must be prepared on the same basis of accounting used by the county for its annual financial reports.
9. The amount of cash reserve for the general fund and each special revenue fund, not to exceed seventy-five percent of the appropriation for the fund.

Cause

Towner County may not have been aware of the requirements of N.D.C.C. §11-23-02.

Effect

The attributes identified in N.D.C.C. §11-23-02 are key components in the tax levy calculation in any budget year. Thus, Towner County may have improperly calculated the tax levies.

Repeat Finding

No.

Recommendation

We recommend Towner County review its preliminary and final budgets to ensure compliance with all aspects of N.D.C.C. §11-23-02.

Towner County's Response

Agree. Towner County will review the county's budget to ensure compliance with N.D.C.C. §11-23-02.

2020-002 – LEVY CALCULATION – MATERIAL NONCOMPLIANCE – MATERIAL WEAKNESS

Condition

Towner County did not have supporting documentation for its mill levy calculation to ensure the computation is in accordance with N.D.C.C. §57-15-31(1).

Criteria

N.D.C.C. §57-15-31(1) states, “The amount to be levied by any county, city, township, school district, park district, or other municipality authorized to levy taxes must be computed by deducting from the amount of estimated expenditures for the current fiscal year as finally determined, plus the required reserve fund determined upon by the governing board from the past experience of the taxing district, the total of the following items:

- a. The available surplus consisting of the free and unencumbered cash balance;
- b. Estimated revenues from sources other than direct property taxes;
- c. The total estimated collections from tax levies for previous years;
- d. Expenditures that must be made from bond sources;
- e. The amount of distributions received from an economic growth increment pool under section 57-15-61; and
- f. The estimated amount to be received from payments in lieu of taxes on a project under section 40-57.1-03.

Cause

Towner County did not prepare its budget in accordance with N.D.C.C. §11-23-02 as noted in finding 2020-003. In addition, Towner County may not have been aware of the requirements of N.D.C.C. §57-15-31(1).

Effect

The attributes identified in N.D.C.C. §57-15-31(1) are key components in the tax levy calculation in any budget year. Thus, Towner County may have improperly calculated the tax levies.

Repeat Finding

No.

Recommendation

We recommend Towner County maintain supporting documentation for all elements required for its mill levy calculation to ensure the computation is in compliance with all aspects of N.D.C.C. §57-15-31(1).

Towner County’s Response

Agree. Towner County will review the county’s preliminary and final budgets to ensure compliance with N.D.C.C. §57-15-31(1).

2020-003 – IMPROPER BIDDING OF ROAD EQUIPMENT – MATERIAL NONCOMPLIANCE – MATERIAL WEAKNESS

Condition

Towner County did not advertise for bids for the two lease-purchase agreements of motor graders at a cost of \$661,351. Instead, the County utilized an out of state cooperative purchase agreement that was not applicable to the County.

Criteria

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

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

Additionally, N.D.C.C. § 54-44.4-13(7) states “Before entering into a cooperative purchasing agreement under this section, the office of management and budget must determine that the contracts were awarded through full and open competition or source selection methods specified in section 54-44.4-05 and shall send notice to approved vendors of the office's intent to make a cooperative purchase in accordance with this chapter.

Cause

Towner County may not have accurately interpreted the out of state cooperative purchase agreement used to acquire the motor graders.

Effect

Towner County may not be in compliance with N.D.C.C. §24-05-04(2)(3) and N.D.C.C. §54-44-.4-13(7).

Repeat Finding

No.

Recommendation

We recommend that Towner County review upcoming lease-purchase agreements of county road machinery to ensure compliance with N.D.C.C. §24-05-04(2)(3). We further recommend that Towner County consult with the Office of Management and Budget to ensure compliance with N.D.C.C. §54-44-.4-13(7).

Towner County's Response

Agree. Towner County will review future road equipment purchases and/or leases to ensure they comply with N.D.C.C. §24-05-04.

2020-004 – LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Towner County Public Health District and Towner County Water Resource District each have limited employees who are responsible for the primary accounting functions. A lack of segregation of duties exists as limited staff is responsible for collect monies, issue checks, send checks to vendors, record receipts and disbursements in the ledger, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

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 Public Health District and Water Resource District.

Cause

Management of all the entities have chosen to allocate its economic resources to other functions of the Public Health District, and Water Resource District.

Effect

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

Repeat Finding

Yes.

Recommendation

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

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

Towner County Public Health District's Response

Agree. Towner County Public Health District will segregate duties when it becomes feasible.

Towner County Water Resource District's Response

Agree. Towner County Water Resource District will segregate duties when it becomes feasible.

2020-005 – MATERIAL AUDIT ADJUSTMENTS – MATERIAL WEAKNESS – HEALTH DISTRICT

Condition

Material auditor-identified adjusting entries to the financial statements were proposed and adjusted for receivables, payables, and capital assets to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Additionally, during 2020 revenues and expenditures were improperly adjusted by the Health District in the amounts of \$28,356 and \$49,792 respectively to fix reconciliations issues and/or unrecorded transactions. This led to an overstatement of revenues and expenditures in the amount of \$28,356. Audit adjustments to the financial statements were proposed and accepted by management.

Criteria

Towner County Public Health District is responsible for ensuring its annual financial statements, including revenues and expenses, are reliable, appropriately classified, accurate, free of material misstatement, and in accordance with Generally Accepted Accounting Principles (GAAP).

Cause

Towner County Public Health District management does not have sufficient procedures in place to ensure adjusting entries used to compile the financial statements are reviewed. Additionally, the Health District did not prepare and approve bank reconciliations on a timely basis.

Effect

Towner County Public Health District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

We recommend Towner County Public Health District review all adjusting entries to the financial statements to properly reflect the financial statements are in accordance with GAAP. Additionally, we recommend the Public Health District prepare and approve bank reconciliations in a timely matter as discussed in Recommendation 2020-006.

Towner County Public Health District's Response

Agree. Towner County Public Health District will prepare and review all entries to ensure they are free of material misstatements.

2020-006 – BANK RECONCILIATIONS – MATERIAL WEAKNESS – COMPONENT UNITS

Condition

During testing, it was found that Bank reconciliations for Towner County Public Health (2020) and Towner County Water Resource District (2019-2020) were not accurately completed.

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 the bank reconciliations, management is responsible policies and procedures for accurate and timely bank reconciliations.

Cause

Towner County Public Health District did not have a review process to ensure all bank reconciliations are completed accurately and within a timely manner.

Towner County Water Resource District has not done year-end reconciliations as there typically minimal reconciling items at year-end.

Effect

There is an increased risk of material misstatement to Towner County Public Health District's and Towner County Water Resource District's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate.

Repeat Finding

No.

Recommendation

We recommend Towner County Public Health District and Towner County Water Resource District review its current procedures and ensure that all bank reconciliations are accurately completed and approved in a timely manner.

Towner County Public Health District's Response

Agree. Towner County Public Health District will complete bank reconciliations accurately and approved in a timely manner.

Towner County Water Resource District's Response

Agree. Towner County Water Resource District will complete bank reconciliations accurately and approved in a timely manner.

2020-007 – CAPITAL ASSET MAINTENANCE – MATERIAL WEAKNESS – PUBLIC HEALTH DISTRICT

Condition

Towner County Public Health District did not include the COVID house as a capital asset in the amount of \$94,854 in FY2020.

Criteria

Accounting principles generally accepted in the United States of America require the financial statements include capital assets for governmental activities, net of accumulated depreciation.

Cause

Towner County Public Health District does not maintain a capital asset listing for the entity.

Effect

The financial statements may have been materially misstated if the capital assets had not been adjusted during the audit.

Repeat Finding

No.

Recommendation

We recommend Towner County Public Health District establish and maintain capital asset records including accumulated depreciation for governmental activities using historical cost or estimated historical cost for these assets.

Towner County Public Health District's Response

Agree. Towner County Public Health District will establish and maintain a capital asset listing.

2020-008 – EXPENDITURE SUPPORTING DOCUMENTATION– MATERIAL WEAKNESS – PUBLIC HEALTH DISTRICT

Condition

Towner County Public Health District was unable to provide supporting documentation for 6 out of the 15 expenditures tested, totaling \$8,038 in FY2019. Projecting this error to the total population results in a potential error of approximately \$86,993 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

Towner County Public District does not have a filing system in place to ensure records are ready and available.

Effect

Towner County Public Health District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

We recommend Towner County Public Health District ensure all payments for goods and services have supporting documentation. We further recommend Towner County Public Health District review its current record keeping procedures and update, if necessary, to decrease the risk of loss whether due to error or fraud.

Towner County Public Health District's Response

Agree. Towner County Public Health District will establish a formal document retention policy.

2020-009 – BOARD APPROVAL OF EXPENDITURES– MATERIAL WEAKNESS – PUBLIC HEALTH DISTRICT

Condition

Towner County Public Health District was unable to provide evidence of board approval for 1 out of 15 expenditures tested in 2019 and 15 out of 25 expenditures tested in 2020.

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.

Cause

Towner County Public District does not maintain a listing of bills that were approved during the board meetings.

Effect

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

Repeat Finding

No.

Recommendation

We recommend Towner County Public Health District ensure all payments for goods and services are approved by the board. We further recommend Towner County Public Health District maintain a listing of bills that were approved during the meeting minutes.

Towner County Public Health District's Response

Agree. Towner County Public Health District has made a detailed list of checks being approved at the latest meeting.



GOVERNANCE COMMUNICATION

Board of County Commissioners
Towner County
Cando, North Dakota

We have audited the financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Towner County, North Dakota, for the years ended December 31, 2020 and December 31, 2019 which collectively comprise Towner County's basic financial statements, and have issued our report thereon dated May 6, 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 October 12, 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 Towner 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 Towner 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 Towner 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.

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.

TOWNER COUNTY

Governance Communication – Continued

Corrected and Uncorrected Misstatements

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

| 2020 Adjustments | Audit Adjustments | |
|---|--------------------------|---------------|
| | Debit | Credit |
| Health District | | |
| <i>To Record Intergovernmental Receivable</i> | | |
| Intergovernmental Receivable | 56,864 | - |
| Revenue | - | 56,864 |
| <i>To Record Capital Asset</i> | | |
| Capital Assets, Net | 91,692 | - |
| Net Position | - | 91,692 |
| <i>To Record Accounts Payable</i> | | |
| Expenditures | 30,734 | - |
| Accounts Payable | - | 30,734 |
| <i>To Correct Client Adjustment</i> | | |
| Revenue | 28,356 | - |
| Expenditures | - | 28,356 |
| 2019 Adjustments | | |
| Health District | | |
| <i>To Record Intergovernmental Receivable</i> | | |
| Intergovernmental Receivable | 24,500 | - |
| Revenue | - | 24,500 |

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 May 6, 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.

Difficulties Encountered in Performing the Audit

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

The Towner County Public Health District does not maintain adequate supporting documentation to provide sufficient information for the preparation of the financial statements as approximately 40% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$86,993. However, the auditor doesn't believe this is a pervasive issue across all Towner County Public Health District expenditures. All expenditures are reported as a health and welfare 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 the aggregate discretely presented component units, 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 Towner 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 Towner 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 Towner County.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 6, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505