



Financial Statements
December 31, 2021 and 2020
McKenzie County

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McKenzie County

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Howdy Lawler
Kathy Skarda
Joel Brown
Clint Wold
Kathy Skarda

Erica Johnsrud
Matthew Johansen
Katie Paulson
Ty Skarda
Carol Kieson

Commissioner - Chairman
Commissioner - Vice Chairman
Commissioner
Commissioner
Commissioner

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



Independent Auditor's Report

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the modified cash basis financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota (the County) as of and for the year ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Qualified Opinion on the Aggregate Remaining Funds

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the aggregate remaining funds of the County, as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Unmodified Opinions on the Governmental Activities, the Discretely Presented Component Unit, and Each Major Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the discretely presented component units, and each major fund as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of McKenzie County, North Dakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on the Aggregate Remaining Funds

Management has not adopted the methodology for reporting custodial funds in accordance with GASB-84, *Fiduciary Activities* affecting the aggregate remaining funds. Accounting principles generally accepted in the United States of America require that revenues and expenditures of custodial funds be recorded at gross and closed into custodial fund net position at the end of the year. The amount by which this departure would affect the revenues and expenditures of the custodial funds affecting the aggregate remaining funds has not been determined.

Emphasis of Matter – Restatements

As discussed in Note 17 to the financial statements, in 2020, the County discovered that capital assets in both the governmental activities and component units were capitalized in error and several reclassifications of capital assets needed to be performed. The effect of this misstatement was to decrease capital assets and net position by \$9,889,570 and \$30,171, respectively. Our opinions are not modified with respect to these matters.

The County previously recorded a premium on long-term debt. This error was discovered and the premium was removed. The effect of this misstatement was to decrease long-term debt and increase net position in the governmental activities by \$1,960,631. Our opinions are not modified with respect to these matters.

With the implementation of GASB 84, *Fiduciary Activities*, the County discovered several funds that needed to be reclassified. Accordingly, a restatement has been made to governmental activities net position as of January 1, 2020, to record the restatement. The effect of this misstatement was to decrease net position in the custodial funds and increase fund balance in the other government funds and increase net position in governmental activities by \$509,190. Our opinions are not modified with respect to these matters.

The County corrected an error in cash and net position in a custodial fund. The effect of this misstatement was to increase net position in the custodial funds and decrease net position and decrease general fund fund balance by \$808,112. Our opinions are not modified with respect to these matters.

Emphasis of Matter – Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 McKenzie County, North Dakota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the McKenzie County, North Dakota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the McKenzie County, North Dakota's basic financial statements. The budgetary comparison schedules, combining component unit schedules, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, combining component unit schedules, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

The County Officials listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2023, on our consideration of McKenzie County, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County, North Dakota's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
March 20, 2023

McKenzie County
Statement of Net Position – Modified Cash Basis - 2021
December 31, 2021

	Primary Government <u>Governmental Activities</u>	<u>Component Units</u>
Assets		
Cash and investments	\$ 117,420,287	\$ 19,905,499
Restricted cash	-	1,038,112
Note receivable	2,960,927	-
Capital assets not being depreciated		
Land	7,810,908	89,000
Construction in progress	35,234,083	659,557
Capital assets net of accumulated depreciation		
Buildings	97,460,491	529,379
Furniture and equipment	8,937,519	226,368
Infrastructure	236,136,558	22,783,294
Vehicles and equipment	3,400,184	-
Total capital assets	<u>388,979,743</u>	<u>24,287,598</u>
Total assets	<u><u>\$ 509,360,958</u></u>	<u><u>\$ 45,231,209</u></u>
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	\$ 3,645,000	\$ 588,880
Due after one year		
Loan payable	<u>21,010,000</u>	<u>9,541,074</u>
Total liabilities	<u><u>\$ 24,655,000</u></u>	<u><u>\$ 10,129,954</u></u>
Net Position		
Net investment in capital assets	\$ 364,324,743	\$ 14,157,644
Restricted for		
Public safety	164,068	-
Highways	3,514,000	-
Debt service	1,584,042	
Culture and recreation	-	172,738
Conservation of natural resources	-	20,205,018
Economic development	-	565,855
Unrestricted	<u>115,119,104</u>	<u>-</u>
Total Net Position	<u><u>\$ 484,705,957</u></u>	<u><u>\$ 35,101,255</u></u>

McKenzie County
Statement of Net Position – Modified Cash Basis - 2020
December 31, 2020

	Primary Government <u>Governmental Activities</u>	<u>Component Units</u>
Assets		
Cash and investments	\$ 120,356,968	\$ 6,372,646
Restricted cash	-	1,038,633
Note receivable	3,170,151	-
Capital assets not being depreciated		
Land	7,710,858	89,000
Construction in progress	98,204,910	2,321,447
Capital assets net of accumulated depreciation		
Buildings	95,310,596	523,280
Furniture and equipment	7,361,727	256,859
Infrastructure	164,295,293	19,817,620
Vehicles and equipment	5,405,811	-
Total capital assets	<u>378,289,195</u>	<u>23,008,206</u>
Total assets	<u><u>\$ 501,816,314</u></u>	<u><u>\$ 30,419,485</u></u>
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	\$ 3,470,000	\$ 571,379
Due after one year		
Loan payable	<u>24,655,000</u>	<u>10,129,954</u>
Total liabilities	<u><u>\$ 28,125,000</u></u>	<u><u>\$ 10,701,333</u></u>
Net Position		
Net investment in capital assets	\$ 350,164,195	\$ 12,306,873
Restricted for		
Public safety	282,597	-
Highways	1,100,362	-
Debt service	3,514,000	-
Culture and recreation	-	82,677
Conservation of natural resources	-	3,752,754
Economic development	-	3,575,848
Unrestricted	<u>118,630,160</u>	<u>-</u>
Total Net Position	<u><u>\$ 473,691,314</u></u>	<u><u>\$ 19,718,152</u></u>

McKenzie County
Statement of Activities – Modified Cash Basis - 2021
Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 3,786,188	\$ 5,541,425	\$ 4,214,436	\$ -	\$ 5,969,673	\$ -
Public safety	13,735,835	143,021	221	-	(13,592,593)	-
Highways	53,235,019	1,231,760	5,490,796	9,279,518	(37,232,945)	-
Health and welfare	301,251	-	4	-	(301,247)	-
Culture and recreation	513,096	-	118	-	(512,978)	-
Conservation of natural resources	19,594,946	-	445,381	-	(19,149,565)	-
Economic development	3,162,000	-	-	-	(3,162,000)	-
Other	369,000	-	-	-	(369,000)	-
Interest and other debt service	1,276,300	-	-	-	(1,276,300)	-
Total primary government	<u>\$ 95,973,635</u>	<u>\$ 6,916,206</u>	<u>\$10,150,956</u>	<u>\$ 9,279,518</u>	<u>(69,626,955)</u>	<u>-</u>
Component units	<u>\$ 12,139,754</u>	<u>\$ 4,741,048</u>	<u>\$22,018,520</u>	<u>\$ -</u>	<u>-</u>	<u>14,619,814</u>
General revenues						
Taxes						
Property taxes					1,418,511	678,008
Other taxes					2,149,617	-
Oil and gas production					62,312,067	-
State aid not restricted to specific program					909,005	18,320
Royalties					12,002,228	-
Earnings on investments					270,143	-
Miscellaneous revenue					2,706,482	66,961
Total general revenues					<u>81,768,053</u>	<u>763,289</u>
Loss on disposal of assets					<u>(1,126,455)</u>	<u>-</u>
Change in net position					11,014,643	15,383,103
Net position - January 1					<u>473,691,314</u>	<u>19,718,152</u>
Net position - December 31					<u>\$ 484,705,957</u>	<u>\$ 35,101,255</u>

McKenzie County
Statement of Activities – Modified Cash Basis - 2020
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 14,623,599	\$ 6,341,254	\$ 9,117,699	\$ -	\$ 835,354	\$ -
Public safety	13,033,448	-	285	-	(13,033,163)	-
Highways	42,689,394	777,430	1,618,360	17,316,182	(22,977,422)	-
Health and welfare	315,926	-	6	-	(315,920)	-
Culture and recreation	509,786	-	120	-	(509,666)	-
Conservation of natural resources	4,232,814	153,847	561,498	-	(3,517,469)	-
Economic development	10,330,000	-	-	-	(10,330,000)	-
Other	431,000	-	-	-	(431,000)	-
Interest and other debt service	1,441,300	-	-	-	(1,441,300)	-
Total primary government	<u>\$ 87,607,267</u>	<u>\$ 7,272,531</u>	<u>\$11,297,968</u>	<u>\$ 17,316,182</u>	<u>(51,720,586)</u>	<u>-</u>
Component units	<u>\$ 14,088,770</u>	<u>\$ 4,516,939</u>	<u>\$13,724,140</u>	<u>\$ -</u>	<u>-</u>	<u>4,152,309</u>
General revenues						
Taxes						
Property taxes					1,154,840	557,065
Other taxes					2,332,955	-
Oil and gas production					40,636,116	-
State aid not restricted to specific program					734,919	15,053
Royalties					7,395,373	-
Earnings on investments					522,205	-
Miscellaneous revenue					4,241,693	106,232
Total general revenues					<u>57,018,101</u>	<u>678,350</u>
Loss on disposal of assets					<u>(1,454,341)</u>	<u>-</u>
Change in net position					<u>3,843,174</u>	<u>4,830,659</u>
Net position - January 1, as restated					<u>469,848,140</u>	<u>14,887,493</u>
Net position - December 31					<u>\$ 473,691,314</u>	<u>\$ 19,718,152</u>

McKenzie County
Balance Sheet – Governmental Funds – Modified Cash Basis - 2021
December 31, 2021

	Major Funds			Other	Total
	General	County Road and Bridge	Debt Service	Governmental Funds	Governmental Funds
Assets					
Cash and investments	\$ 67,235,399	\$ 17,055,380	\$ 19,587,393	\$ 11,627,363	\$ 115,505,535
Note receivable	2,960,927	-	-	-	2,960,927
Total assets	\$ 70,196,326	\$ 17,055,380	\$ 19,587,393	\$ 11,627,363	\$ 118,466,462
Fund Balances					
Nonspendable	\$ 2,960,927	\$ -	\$ -	\$ -	\$ 2,960,927
Restricted					
Public safety	-	-	-	164,068	164,068
Debt Service	-	-	3,514,000	-	3,514,000
Highways	-	-	-	1,584,042	1,584,042
Assigned					
General government	1,828,888	-	-	4,459,325	6,288,213
Public safety	177,266	-	-	87,002	264,268
Highways	-	17,055,380	-	4,595,530	21,650,910
Health and welfare	-	-	-	10	10
Debt Service	-	-	16,073,393	-	16,073,393
Culture and recreation	938,280	-	-	-	938,280
Conservation of Natural resources	-	-	-	570,145	570,145
Economic development	-	-	-	158,235	158,235
Unassigned	64,290,965	-	-	9,006	64,299,971
Total fund balances	\$ 70,196,326	\$ 17,055,380	\$ 19,587,393	\$ 11,627,363	\$ 118,466,462

McKenzie County
Balance Sheet – Governmental Funds – Modified Cash Basis - 2020
December 31, 2020

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Debt Service		
Assets					
Cash and investments	\$ 55,539,136	\$ 36,609,374	19,382,494	\$ 7,258,052	\$ 118,789,056
Note receivable	3,170,151	-	-	-	3,170,151
Total assets	\$ 58,709,287	\$ 36,609,374	\$ 19,382,494	\$ 7,258,052	\$ 121,959,207
Fund Balances					
Nonspendable	\$ 3,170,151	\$ -	\$ -	\$ -	\$ 3,170,151
Restricted					
Public safety	-	-	-	282,597	282,597
Debt Service	-	-	3,514,000	-	3,514,000
Highways	-	-	-	1,100,362	1,100,362
Assigned					
General government	1,828,888	-	-	657,169	2,486,057
Public safety	177,266	-	-	391,329	568,595
Highways	-	36,609,374	-	4,212,629	40,822,003
Health and welfare	-	-	-	6	6
Debt Service	-	-	15,868,494	-	15,868,494
Culture and recreation	938,280	-	-	-	938,280
Conservation of Natural resources	-	-	-	455,954	455,954
Economic development	-	-	-	158,006	158,006
Unassigned	52,594,702	-	-	-	52,594,702
Total fund balances	\$ 58,709,287	\$ 36,609,374	\$ 19,382,494	\$ 7,258,052	\$ 121,959,207

McKenzie County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis – 2021 December 31, 2021

Total fund balances for governmental funds		\$ 118,466,462
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 496,611,934	
Less accumulated depreciation	<u>(107,632,191)</u>	388,979,743
Net capital assets		
Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position is:		1,914,752
Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.		<u>(24,655,000)</u>
Total net position of governmental activities		<u>\$ 484,705,958</u>

McKenzie County

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

\$ 121,959,207

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

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 472,026,385	
Less accumulated depreciation	<u>(93,737,190)</u>	378,289,195
Net capital assets		

Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position is:

1,567,912

Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.

(28,125,000)

Total net position of governmental activities

\$ 473,691,314

McKenzie County

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

Basis - 2021

Year Ended December 31, 2021

	Major Funds			Other	Total
	General	County Road and Bridge	Debt Service	Governmental Funds	Governmental Funds
Revenues					
Taxes	\$ 1,360,374	\$ 3,554,872	\$ -	\$ 2,387,352	\$ 7,302,598
Special assessments	-	7,554	-	-	7,554
Licenses, permits and fees	3,580,724	-	-	-	3,580,724
Intergovernmental	55,403,677	9,924,281	4,837,980	8,743,580	78,909,518
Charges for services	1,960,701	1,231,760	-	143,021	3,335,482
Royalties	12,002,228	-	-	-	12,002,228
Interest income	106,573	47,859	112,969	2,742	270,143
Miscellaneous	2,402,171	294,143	250	9,918	2,706,482
Total revenues	<u>76,816,448</u>	<u>15,060,469</u>	<u>4,951,199</u>	<u>11,286,613</u>	<u>108,114,729</u>
Expenditures					
Current					
General government	1,723,435	-	-	-	1,723,435
Public safety	13,499,514	26,328	-	208,143	13,733,985
Highways	-	40,340,276	-	-	40,340,276
Health and welfare	259,404	-	-	41,847	301,251
Culture and recreation	498,667	-	-	-	498,667
Conservation of natural resources	19,105,738	-	-	414,570	19,520,308
Economic development	3,162,000	-	-	-	3,162,000
Other	369,000	-	-	-	369,000
Capital outlay	27,212,252	-	-	-	27,212,252
Debt Service					
Principal	-	-	3,470,000	-	3,470,000
Interest	-	-	1,276,300	-	1,276,300
Total expenditures	<u>65,830,010</u>	<u>40,366,604</u>	<u>4,746,300</u>	<u>664,560</u>	<u>111,607,474</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,986,438</u>	<u>(25,306,135)</u>	<u>204,899</u>	<u>10,622,053</u>	<u>(3,492,745)</u>
Other Financing Sources (Uses)					
Transfers in	500,601	5,800,000	-	-	6,300,601
Transfers out	-	(47,859)	-	(6,252,742)	(6,300,601)
Total other financing sources and (uses)	<u>500,601</u>	<u>5,752,141</u>	<u>-</u>	<u>(6,252,742)</u>	<u>-</u>
Net Change in Fund Balances	11,487,039	(19,553,994)	204,899	4,369,311	(3,492,745)
Fund Balance - January 1	<u>58,709,287</u>	<u>36,609,374</u>	<u>19,382,494</u>	<u>7,258,052</u>	<u>121,959,207</u>
Fund Balance - December 31	<u>\$ 70,196,326</u>	<u>\$ 17,055,380</u>	<u>\$ 19,587,393</u>	<u>\$ 11,627,363</u>	<u>\$ 118,466,462</u>

McKenzie County

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

Basis - 2020

Year Ended December 31, 2020

	Major Funds			Other	Total
	General	County Road and Bridge	Debt Service	Governmental Funds	Governmental Funds
Revenues					
Taxes	\$ 1,096,707	\$ 3,057,272	\$ -	\$ 2,170,504	\$ 6,324,483
Special assessments	-	7,572	-	-	7,572
Licenses, permits and fees	3,873,873	-	-	-	3,873,873
Intergovernmental	40,152,485	17,963,364	4,744,144	4,280,932	67,140,925
Charges for services	2,467,381	777,430	-	153,847	3,398,658
Royalties	7,395,373	-	-	-	7,395,373
Interest income	210,665	94,599	211,535	5,406	522,205
Miscellaneous	3,947,196	83,492	-	211,005	4,241,693
Total revenues	<u>59,143,680</u>	<u>21,983,729</u>	<u>4,955,679</u>	<u>6,821,694</u>	<u>92,904,782</u>
Expenditures					
Current					
General government	12,505,026	-	-	-	12,505,026
Public safety	12,841,967	-	-	185,913	13,027,880
Highways	-	32,980,577	-	-	32,980,577
Health and welfare	280,329	-	-	34,983	315,312
Culture and recreation	497,990	-	-	-	497,990
Conservation of					
Natural resources	3,647,405	-	-	509,834	4,157,239
Economic development	10,330,000	-	-	-	10,330,000
Other	394,000	-	-	37,000	431,000
Capital outlay	6,547,937	71,138,892	-	-	77,686,829
Debt service					
Principal	-	-	3,305,000	-	3,305,000
Interest and fees	-	-	1,441,300	-	1,441,300
Total expenditures	<u>47,044,654</u>	<u>104,119,469</u>	<u>4,746,300</u>	<u>767,730</u>	<u>156,678,153</u>
Excess (deficiency) of Revenues over Expenditures	<u>12,099,026</u>	<u>(82,135,740)</u>	<u>209,379</u>	<u>6,053,964</u>	<u>(63,773,371)</u>
Other Financing Sources (Uses)					
Transfers in	850,005	51,970,115	-	-	52,820,120
Transfers out	(46,220,115)	(94,599)	-	(6,505,406)	(52,820,120)
Total other financing sources and uses	<u>(45,370,110)</u>	<u>51,875,516</u>	<u>-</u>	<u>(6,505,406)</u>	<u>-</u>
Net Change in Fund Balances	(33,271,084)	(30,260,224)	209,379	(451,442)	(63,773,371)
Fund Balance - January 1, as restated	<u>91,980,371</u>	<u>66,869,598</u>	<u>19,173,115</u>	<u>7,709,494</u>	<u>185,732,578</u>
Fund Balance - December 31	<u>\$ 58,709,287</u>	<u>\$ 36,609,374</u>	<u>\$ 19,382,494</u>	<u>\$ 7,258,052</u>	<u>\$ 121,959,207</u>

McKenzie County

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis - 2021 Year Ended December 31, 2021

Net change in fund balance - total governmental funds \$ (3,492,745)

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

Governmental funds report capital outlays as expenditures.

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

Current year capital outlay	\$ 27,212,252	
Net book value of assets disposed	(1,131,455)	
Current year depreciation expense	<u>(15,390,249)</u>	
		10,690,548

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

346,840

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

3,470,000

Change in net position of governmental activities

\$ 11,014,643

McKenzie County

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

Net change in fund balance - total governmental funds \$ (63,773,371)

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

Governmental funds report capital outlays as expenditures.

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

Current year capital outlay	\$ 77,686,829	
Current year depreciation expense	(12,268,505)	
Loss on disposal of assets	<u>(1,454,341)</u>	63,963,983

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

347,562

The payment of long-term debt expends current financial resources to governmental funds, but the payment decreases long term liabilities in the statement of net position.

3,305,000

Change in net position of governmental activities

\$ 3,843,174

McKenzie County
Statement of Net Position – Proprietary Fund – Modified Cash Basis
December 31, 2021 and 2020

	Internal Service	
	2021	2020
Assets		
Current assets		
Cash	<u>\$ 1,914,752</u>	<u>\$ 1,567,912</u>
Net Position		
Unrestricted	<u>\$ 1,914,752</u>	<u>\$ 1,567,912</u>

McKenzie County

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis
Years Ended December 31, 2021 and 2020

	Internal Service	
	2021	2020
Operating Revenues		
Contributions	\$ 3,691,603	\$ 3,444,507
Operating Expenses		
Premiums	1,278,147	1,299,603
Claims	2,072,265	1,807,417
Total operating expenses	<u>3,350,412</u>	<u>3,107,020</u>
Operating Gain	<u>341,191</u>	<u>337,487</u>
Non-Operating Revenues		
Interest income	5,045	10,076
Miscellaneous	604	-
Total nonoperating revenue	<u>5,649</u>	<u>10,076</u>
Net Income	346,840	347,563
Net Position - January 1	<u>1,567,912</u>	<u>1,220,349</u>
Net Position - December 31	<u><u>\$ 1,914,752</u></u>	<u><u>\$ 1,567,912</u></u>

McKenzie County
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
Years Ended December 31, 2021 and 2020

	Internal Service	
	2021	2020
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 3,692,207	\$ 3,444,507
Cash paid for health claims	(2,072,265)	(1,807,417)
Cash paid for services	(1,278,147)	(1,299,603)
Net Cash from Operating Activities	<u>341,795</u>	<u>337,487</u>
Cash Flows from Investing Activities		
Interest received	<u>5,045</u>	<u>10,076</u>
Net Change in Cash	346,840	347,563
Cash - January 1	<u>1,567,912</u>	<u>1,220,349</u>
Cash - December 31	<u><u>\$ 1,914,752</u></u>	<u><u>\$ 1,567,912</u></u>

McKenzie County

Statement of Fiduciary Assets and Liabilities – Fiduciary Funds – Modified Cash Basis

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and investments	<u>\$ 782,623</u>	<u>\$ 2,320,744</u>
Net position		
Restricted - held for others	<u>\$ 782,623</u>	<u>\$ 2,320,744</u>

McKenzie County

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Additions		
Taxes	\$ 457,758	\$ 827,844
Intergovernmental	1,620,968	1,708,547
Miscellaneous revenue	<u>899</u>	<u>6,002</u>
Total revenues	<u>2,079,625</u>	<u>2,542,393</u>
Deductions		
Tax disbursements to other governments	3,602,135	3,248,633
Other governmental disbursements	<u>15,611</u>	<u>15,608</u>
Total expenditures	<u>3,617,746</u>	<u>3,264,241</u>
Change in net position	(1,538,121)	(721,848)
Net position, beginning, as restated	<u>2,320,744</u>	<u>3,042,592</u>
Net position, ending	<u><u>\$ 782,623</u></u>	<u><u>\$ 2,320,744</u></u>

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Component Units

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

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

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

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

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

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

Government-wide and Fund Financial Statements

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

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

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

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

Fund Balance Classification Policies and Procedures

The County classifies governmental fund balances as follows:

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

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

Equity Classifications

Government-wide Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

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

Amounts reported as program revenue include 1) changes to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Restricted and Unrestricted Resources

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

Cash and Investments

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

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

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Furniture and equipment	5-25
Infrastructure	20-50
Vehicles and equipment	5-10

Long-Term Obligations

In the government-wide modified cash basis financial statements, long term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position when the initial transaction arose from cash transactions or events. The face amount of the debt is reported as other financing sources. Payments on debt are recognized as debt service expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Tax Revenues

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

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

Interfund Transactions

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

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

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

Note 2 - Legal Compliance – Budget

Budget

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

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

Expenditures over Appropriations – the County exceeded the budget for the year ended December 31, 2021 in the County Road and Bridge fund by \$5,509,806. For the year ended December 31, 2020 the County exceeded budget in the County Road and Bridge fund by \$7,758,622. These overages were covered by excess funds. No remedial action is required for the expenditures over appropriations.

Note 3 - Deposits and Investments

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

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

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

At the year ended December 31, 2021, the pooled bank balances for all County, discretely presented component units, and fiduciary funds was \$145,685,389. The carrying amount of the pooled deposits for the County, discretely presented component units, and fiduciary funds was \$140,023,161 with \$119,335,039 in County funds, \$19,905,499 in discretely presented component units, and \$782,623 in fiduciary funds.

At the year ended December 31, 2020, the pooled bank balances for all County, discretely presented component units, and fiduciary funds was \$125,771,484. The carrying amount of the pooled deposits for the County, discretely presented component units, and fiduciary funds was \$130,618,270 with \$121,924,880 in County funds, \$6,372,646 in discretely presented component units, and \$2,320,744 in fiduciary funds.

For each year, \$250,000 of the bank balance was covered by Federal Depository Insurance and National Credit Union Share Insurance for each bank. Balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

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

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

Credit Risk

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

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

As of December 31, 2021 and 2020, the County held certificates of deposit in the amount of \$1,600,000 of which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2021, the County held certificates of Deposit with the following maturity dates:

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

As of December 31, 2020, the County held certificates of Deposit with the following maturity dates:

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

Concentration of Credit Risk

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

Note 4 - Note Receivable

On March 6, 2013, the County entered into an agreement to loan the McKenzie County Water Resource District \$4,500,000. The loan was provided in two advances with a first advance of \$3,000,000 and a second advance of \$1,500,000. The note is unsecured and bears interest at the prime rate for loans originated by the Bank of North Dakota less 0.75% not to be less than 0%. As of December 31, 2021, the interest rate has been adjusted to 4.00%. The note matures in February 2033 and is due in annual principal payments ranging from approximately \$175,000 to \$300,000 plus interest. The note receivable balance as of December 31, 2021 and 2020 was \$2,960,000 and \$3,170,151. As noted in Note 1, the McKenzie County Water Resource District, a component unit of the County, has been included in the County's basic financial statements.

Note 5 - Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2021:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 7,710,858	\$ 105,050	\$ 5,000	\$ 7,810,908
Construction in progress	98,204,910	20,314,203	83,285,030	35,234,083
Total capital assets, not being depreciated	<u>105,915,768</u>	<u>20,419,253</u>	<u>83,290,030</u>	<u>43,044,991</u>
Capital assets being depreciated				
Buildings	115,146,472	4,602,594	284,138	119,464,928
Furniture and equipment	11,327,400	2,838,746	6,096	14,160,050
Infrastructure	223,137,926	82,127,395	-	305,265,321
Vehicles and equipment	16,498,819	509,294	2,331,469	14,676,644
Total capital assets, being depreciated	<u>366,110,617</u>	<u>90,078,029</u>	<u>2,621,703</u>	<u>453,566,943</u>
Less accumulated depreciation for				
Buildings	19,835,876	2,390,350	221,789	22,004,437
Furniture and equipment	3,965,673	1,262,954	6,096	5,222,531
Infrastructure	58,842,633	10,286,130	-	69,128,763
Vehicles and equipment	11,093,008	1,450,815	1,267,363	11,276,460
Total accumulated depreciation	<u>93,737,190</u>	<u>15,390,249</u>	<u>1,495,248</u>	<u>107,632,191</u>
Total capital assets being depreciated, net	<u>272,373,427</u>	<u>74,687,780</u>	<u>1,126,455</u>	<u>345,934,752</u>
Governmental activities - capital assets, net	<u>\$ 378,289,195</u>	<u>\$ 95,107,033</u>	<u>\$ 84,416,485</u>	<u>\$ 388,979,743</u>

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

Governmental Activities	
General government	\$ 2,404,587
Public safety	1,850
Highways	12,894,743
Culture and recreation	14,429
Conservation of natural resources	74,638
Total depreciation expense - governmental activities	<u>\$ 15,390,247</u>

Component Units

<u>Water Resource District</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Construction in progress	\$ 2,321,447	\$ 1,946,787	\$ 3,608,677	\$ 659,557
Capital assets being depreciated				
Equipment	232,231		-	232,231
Infrastructure	25,720,259	3,608,680	-	29,328,939
Total capital assets, being depreciated	25,952,490	3,608,680	-	29,561,170
Less accumulated depreciation for				
Equipment	133,115	30,491	-	163,606
Infrastructure	5,902,639	643,006	-	6,545,645
Total accumulated depreciation	6,035,754	673,497	-	6,709,251
Total capital assets being depreciated, net	19,916,736	2,935,183	-	22,851,919
Total component unit capital assets, net	<u>\$ 22,238,183</u>	<u>\$ 4,881,970</u>	<u>\$ 3,608,677</u>	<u>\$ 23,511,476</u>
 <u>Public Library</u>	 <u>January 1</u>	 <u>Increases</u>	 <u>Decreases</u>	 <u>December 31</u>
Capital assets not being depreciated				
Land	\$ 89,000	\$ -	\$ -	\$ 89,000
Capital assets being depreciated				
Equipment	212,303	10,911	-	223,214
Buildings	1,359,771	45,981	-	1,405,752
Total capital assets, being depreciated	1,572,074	56,892	-	1,628,966
Less accumulated depreciation for				
Equipment	54,560	19,811	-	74,371
Buildings	836,491	39,882	-	876,373
Total accumulated depreciation	891,051	59,693	-	950,744
Total capital assets being depreciated, net	681,023	(2,801)	-	678,222
Total component unit capital assets, net	<u>\$ 770,023</u>	<u>\$ (2,801)</u>	<u>\$ -</u>	<u>\$ 767,222</u>

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

Governmental Activities	Balance January 1, as restated	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 4,713,629	\$ 2,997,229	\$ -	\$ 7,710,858
Construction in progress	77,807,882	66,507,751	46,110,723	98,204,910
Total capital assets, not being depreciated	<u>82,521,511</u>	<u>69,504,980</u>	<u>46,110,723</u>	<u>105,915,768</u>
Capital assets being depreciated				
Buildings	92,987,680	22,193,437	34,645	115,146,472
Furniture and equipment	8,259,406	3,362,324	294,330	11,327,400
Infrastructure	195,525,622	27,612,304	-	223,137,926
Vehicles and equipment	18,114,085	1,124,507	2,739,773	16,498,819
Total capital assets, being depreciated	<u>314,886,793</u>	<u>54,292,572</u>	<u>3,068,748</u>	<u>366,110,617</u>
Less accumulated depreciation for				
Buildings	17,507,955	2,353,407	25,486	19,835,876
Furniture and equipment	3,080,757	1,169,066	284,150	3,965,673
Infrastructure	51,923,571	6,919,062	-	58,842,633
Vehicles and equipment	10,570,809	1,826,970	1,304,771	11,093,008
Total accumulated depreciation	<u>83,083,092</u>	<u>12,268,505</u>	<u>1,614,407</u>	<u>93,737,190</u>
Total capital assets being depreciated, net	<u>231,803,701</u>	<u>42,024,067</u>	<u>1,454,341</u>	<u>272,373,427</u>
Governmental activities - capital assets, net	<u>\$ 314,325,212</u>	<u>\$ 111,529,047</u>	<u>\$ 47,565,064</u>	<u>\$ 378,289,195</u>
Governmental Activities				
General government				\$ 2,466,136
Public safety				5,568
Highways				9,708,817
Health and welfare				614
Culture and recreation				11,796
Conservation of natural resources				75,575
Total depreciation expense - governmental activities				<u>\$ 12,268,505</u>

Component Units

	Balance January 1, as restated	Increases	Decreases	Balance December 31
Water Resource District				
Capital assets not being depreciated				
Construction in progress	\$ 29,500	\$ 2,291,947	\$ -	\$ 2,321,447
Capital assets being depreciated				
Equipment	223,216	35,529	26,514	232,231
Infrastructure	25,720,259	-	-	25,720,259
Total capital assets, being depreciated	25,943,475	35,529	26,514	25,952,490
Less accumulated depreciation for				
Equipment	118,763	33,137	18,785	133,115
Infrastructure	5,259,633	643,006	-	5,902,639
Total accumulated depreciation	5,378,396	676,143	18,785	6,035,754
Total capital assets being depreciated, net	20,565,079	(640,614)	7,729	19,916,736
Total component unit capital assets, net	\$ 20,594,579	\$ 1,651,333	\$ 7,729	\$ 22,238,183
	Balance January 1, as restated	Increases	Decreases	Balance December 31
Public Library				
Capital assets not being depreciated				
Land	\$ 89,000	\$ -	\$ -	\$ 89,000
Capital assets being depreciated				
Equipment	177,337	34,966	-	212,303
Buildings	1,302,135	57,636	-	1,359,771
Total capital assets, being depreciated	1,479,472	92,602	-	1,572,074
Less accumulated depreciation for				
Equipment	33,913	20,647	-	54,560
Buildings	803,578	32,913	-	836,491
Total accumulated depreciation	837,491	53,560	-	891,051
Total capital assets being depreciated, net	641,981	39,042	-	681,023
Total component unit capital assets, net	\$ 730,981	\$ 39,042	\$ -	\$ 770,023

Note 6 - Long-Term Liabilities

Changes in long-term liabilities for the Primary Government

During the year ended December 31, 2021, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of Indebtedness, Series 2018	<u>\$ 28,125,000</u>	<u>\$ -</u>	<u>\$ (3,470,000)</u>	<u>\$ 24,655,000</u>	<u>\$ 3,645,000</u>

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

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of Indebtedness, Series 2018	<u>\$ 31,430,000</u>	<u>\$ -</u>	<u>\$ (3,305,000)</u>	<u>\$ 28,125,000</u>	<u>\$ 3,470,000</u>

Outstanding debt at December 31, 2021 consists of the following:

Certificate of Indebtedness

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

\$ 24,655,000

Debt service requirements on long-term debt at December 31, 2021 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2022	\$ 3,645,000	\$ 1,101,050
2023	3,825,000	918,800
2024	4,015,000	727,550
2025	4,220,000	526,800
2026	4,385,000	358,000
2027	4,565,000	182,600
	<u>\$ 24,655,000</u>	<u>\$ 3,814,800</u>

The County has committed revenue sharing appropriations from the State of North Dakota to pay the annual principal and interest requirements on the 2018 certificates. The revenue sharing appropriations in the current year were \$4,837,980. Certificates are also being repaid with oil and tax revenues as authorized by the County. The certificates bear an interest rate of 4.00 - 5.00% and call for semi-annual interest payments and annual principal payments. Payments are due in February and August of each year with the final payment due in August 2027.

Changes in long-term liabilities for the Water Resource District:

During the year ended December 31, 2021, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bonds					
Series 2005A	\$ 500,288	\$ -	\$ 11,806	\$ 488,482	\$ 12,293
Series 2015A	2,033,853	-	34,451	1,999,402	35,442
Series 2015B	1,204,300	-	20,898	1,183,402	21,473
	<u>3,738,441</u>	<u>-</u>	<u>67,155</u>	<u>3,671,286</u>	<u>69,208</u>
Loans					
McKenzie County	3,170,151	-	209,224	2,960,927	214,672
State Revolving Fund	3,792,741	-	295,000	3,497,741	305,000
	<u>6,962,892</u>	<u>-</u>	<u>504,224</u>	<u>6,458,668</u>	<u>519,672</u>
	<u>\$ 10,701,333</u>	<u>\$ -</u>	<u>\$ 571,379</u>	<u>\$ 10,129,954</u>	<u>\$ 588,880</u>

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

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bonds					
Series 2005A	\$ 511,626	\$ -	\$ 11,338	\$ 500,288	\$ 11,806
Series 2015A	2,067,183	-	33,330	2,033,853	34,451
Series 2015B	1,224,549	-	20,249	1,204,300	20,898
	<u>3,803,358</u>	<u>-</u>	<u>64,917</u>	<u>3,738,441</u>	<u>67,155</u>
Loans					
McKenzie County	3,374,484	-	204,333	3,170,151	209,224
State Revolving Fund	4,082,741	-	290,000	3,792,741	295,000
	<u>7,457,225</u>	<u>-</u>	<u>494,333</u>	<u>6,962,892</u>	<u>504,224</u>
	<u>\$ 11,260,583</u>	<u>\$ -</u>	<u>\$ 559,250</u>	<u>\$ 10,701,333</u>	<u>\$ 571,379</u>

Outstanding debt at December 31, 2021 consists of the following:

Bonds

\$630,000 Water Revenue Bond, Series 2005A - due in annual installments of \$32,426 through July 14, 2045; 4.125% interest rate. Liquidated from the Water Resource District.	\$ 488,482
\$2,191,000 Water Revenue Bond, Series 2015A - due in annual Installments of \$92,899 through July 30, 2055. 2.875% interest rate. Liquidated from the Water Resource District.	1,999,402
\$1,300,000 Water Revenue Bond, Series 2015A - due in annual Installments of \$54,002 through July 30, 2055. 2.75% interest rate. Liquidated from the Water Resource District.	1,183,402

Loans

\$4,500,000 loan from McKenzie County - due in annual installments through 2/16/2033; 3.75% interest rate. Liquidated from the Water Resource District.	\$ 2,960,927
State Revolving Fund of \$4,897,259 - due in annual installments through 9/1/2031; 2.5% interest rate. Liquidated from the Water Resource District.	3,497,741

Debt service requirements on long-term debt at December 31, 2021 are as follows:

Year Ending December 31	Bonds		Loans	
	Principal	Interest	Principal	Interest
2022	\$ 69,198	\$ 89,986	\$ 519,672	\$ 199,036
2023	71,324	88,277	535,038	183,360
2024	73,269	86,960	550,539	165,232
2025-2029	402,501	405,360	2,989,879	578,440
2030-2034	468,448	358,395	1,863,540	134,659
2035-2039	545,307	302,091	-	-
2040-2044	635,225	237,469	-	-
2045-2049	602,599	162,888	-	-
2050-2054	657,242	77,293	-	-
2055	146,173	4,087	-	-
	<u>\$ 3,671,286</u>	<u>\$ 1,812,806</u>	<u>\$ 6,458,668</u>	<u>\$ 1,260,727</u>

Note 7 - Interfund Transfers

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2021:

Funds	Transfers In	Transfers Out
General Fund	\$ 500,601	\$ -
County Road and Bridge	5,800,000	47,859
Other Governmental Funds	-	6,252,742
Total transfers	<u>\$ 6,300,601</u>	<u>\$ 6,300,601</u>

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2020:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 850,005	\$ 46,220,115
County Road and Bridge	51,970,115	94,599
Other Governmental Funds	-	6,505,406
	<u> </u>	<u> </u>
Total transfers	<u>\$ 52,820,120</u>	<u>\$ 52,820,120</u>

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

Note 8 - Related Party

McKenzie County is responsible for levying a property tax for the Historical Society but the County's accountability for this entity does not extend beyond levying the tax. In 2021 and 2020, the County remitted \$67,657 and 63,939, respectively, to the Historical Society.

McKenzie County provides a contribution each year to the Atmospheric Resources. In 2021 and 2020, the County remitted \$130,000 and \$120,000, respectively, to the Atmospheric Resources.

Note 9 - Risk Management

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. McKenzie County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$17,003,069 for inland marine coverage as of December 31, 2021.

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

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

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

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

Note 10 - Joint Venture

Upper Missouri District Health Unit

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

Audited summary financial information for the year ended December 31, 2020, the last year audited, is as follows:

Cash and investments	\$ 1,645,453
Total assets and deferred outflows of resources	5,058,438
Total liabilities and deferred inflows of resources	5,215,140
Total net position	(156,699)
Total revenues	3,711,185
Total expenditures	3,715,193
	<hr/>
Net decrease in net position	<u><u>\$ (4,011)</u></u>

Note 11 - Joint Powers Agreement

McKenzie County Correctional Facility, Law Enforcement Center

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

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

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

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

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

Note 12 - Pension Plan

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

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

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

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

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

Pension Benefits

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

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

Pension Contributions

During the year ended December 31, 2021 and December 31, 2020, the County made employer cash contributions for the pension plans of \$1,131,624 and \$1,082,554, respectively.

Note 13 - Other Post-Employment Benefits

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Contributions

During the year ended December 31, 2021 and December 31, 2020, the County made employer cash contributions for the OPEB plans of \$135,535 and \$144,029, respectively.

Note 14 - Landfill Post Closure Costs

State and federal laws and regulations require the County to place a final cover on its County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County does not report the closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date under the modified cash basis of accounting. The estimated landfill closure and post closure care liability at December 31, 2021 and 2020, that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were \$613,046 and \$1,889,268, respectively. The estimated liability is based on the use of approximately 23 percent and 72 percent of the estimated capacity of the landfill and total estimated closure and post closure costs. During 2021, the County added 3,267,000 cubic yards for a total landfill capacity of 4,717,550 cubic yards. Under the modified cash basis of accounting used, the County will recognize these costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2021 and 2020. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

Note 15 - Commitments

The County had commitments of approximately \$102,081,000 outstanding at December 31, 2021 related to construction in progress.

The McKenzie County Water Resource District has guaranteed the debt for the Western Area Water Supply Authority. As of December 31, 2021, the balance on the debt that is guaranteed by McKenzie County Water Resource District is approximately \$9,600,000.

The County will receive an additional \$1,459,000 in Coronavirus State and Local Fiscal Recovery Funds in 2022.

Note 16 - Subsequent Events

Subsequent to year-end, the McKenzie County Water Resource District approved a construction project for \$5 million.

Note 17 - Restatement for Governmental Activities, Component Units and Custodial Funds

During the 2020 year, it was noted that capital assets in both the governmental activities and component units were capitalized in error and several reclassifications of capital assets needed to be performed. The effect of this misstatement was to decrease capital assets and net position by \$9,889,570 and \$30,171, respectively.

The County also discovered bond premiums were recorded. The bond premiums were removed in 2020. The effect of this misstatement was to decrease long-term debt and increase net position by \$1,960,631.

The County has carried an error for the under recording of a custodial fund for many years. The County corrected this error for the 2020 financial statements. The effect of this misstatement was to increase net position in the custodial funds and decrease net position and decrease general fund fund balance by \$808,112

In addition, with the implementation of GASB 84, *Fiduciary Activities*, the County discovered several funds that needed to be reclassified. The effect of this misstatement was to decrease net position in the custodial funds and increase fund balance in the other government funds and increase net position in governmental activities by \$509,190.

See the summary of restatements below:

	Governmental Activities	Government		Total Government Funds	Custodial Funds	Component Unit Water Resource District	Component Unit Public Library	Total Component Units
		General Fund	Other Government					
Net Position - January 1, as previously reported	\$ 476,575,210	\$ 92,788,483	\$ 7,200,304	\$ 186,031,500	\$ 2,743,670	\$ 13,038,773	\$ 903,082	\$ 14,917,664
Restatements								
Land	(8,883)	-	-	-	-	-	-	-
CIP	(1,434,763)	-	-	-	-	-	-	-
Buildings	12,073,646	-	-	-	-	-	(22,297)	(22,297)
Furniture and Equipment	(195,085)	-	-	-	-	(6,616)	1,555	(5,061)
Infrastructure	(18,824,423)	-	-	-	-	(2,813)	-	(2,813)
Vehicles	729	-	-	-	-	-	-	-
Bond premiums	1,960,631							
Underrecording of custodial fund	(808,112)	(808,112)		(808,112)	808,112	-	-	-
Reclassification to other government	509,190	-	509,190	509,190	(509,190)	-	-	-
Net Position - January 1, as restated	<u>\$ 469,848,140</u>	<u>\$ 91,980,371</u>	<u>\$ 7,709,494</u>	<u>\$ 185,732,578</u>	<u>\$ 3,042,592</u>	<u>\$ 13,029,344</u>	<u>\$ 882,340</u>	<u>\$ 14,887,493</u>



Supplementary Information
December 31, 2021 and 2020
McKenzie County

McKenzie County

Budgetary Comparison Schedule – General Fund – Modified Cash Basis - 2021

Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 985,350	\$ 983,088	\$ 1,360,374	\$ 377,286
Licenses, permits and fees	3,014,040	3,014,040	3,580,724	566,684
Intergovernmental	22,000,000	22,000,000	55,403,677	33,403,677
Charges for services	27,000	2,325,110	1,960,701	(364,409)
Royalties	3,000,000	3,000,000	12,002,228	9,002,228
Interest income	150,000	150,000	106,573	(43,427)
Miscellaneous	500,000	527,000	2,402,171	1,875,171
Total revenues	<u>29,676,390</u>	<u>31,999,238</u>	<u>76,816,448</u>	<u>44,817,210</u>
Expenditures				
Current				
General government	47,813,690	47,813,690	1,723,435	46,090,255
Public safety	13,902,005	13,902,005	13,499,514	402,491
Health and welfare	-	-	259,404	(259,404)
Culture and recreation	-	-	498,667	(498,667)
Conservation of natural resources	18,800,000	18,800,000	19,105,738	(305,738)
Economic development	742,000	742,000	3,162,000	(2,420,000)
Other	-	-	369,000	(369,000)
Capital outlay	-	-	27,212,252	(27,212,252)
Total expenditures	<u>81,257,695</u>	<u>81,257,695</u>	<u>65,830,010</u>	<u>15,427,685</u>
Excess of Revenues over Expenditures	<u>(51,581,305)</u>	<u>(49,258,457)</u>	<u>10,986,438</u>	<u>60,244,895</u>
Other Financing Sources (Uses)				
Transfers in	-	-	500,601	500,601
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>500,601</u>	<u>500,601</u>
Net Change in Fund Balances	(51,581,305)	(49,258,457)	11,487,039	60,745,496
Fund Balance - January 1	<u>58,709,287</u>	<u>58,709,287</u>	<u>58,709,287</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,127,982</u>	<u>\$ 9,450,830</u>	<u>\$ 70,196,326</u>	<u>\$ 60,745,496</u>

McKenzie County

Budgetary Comparison Schedule – General Fund – Modified Cash Basis - 2020

Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 602,748	\$ 662,502	\$ 1,096,707	\$ 434,205
Licenses, permits and fees	3,084,050	3,084,050	3,873,873	789,823
Intergovernmental	52,060,000	54,000,000	40,152,485	(13,847,515)
Charges for services	27,000	2,952,210	2,467,381	(484,829)
Royalties	3,000,000	1,000,000	7,395,373	6,395,373
Interest income	150,000	150,000	210,665	60,665
Miscellaneous	500,000	527,000	3,947,196	3,420,196
Total revenues	<u>59,423,798</u>	<u>62,375,762</u>	<u>59,143,680</u>	<u>(3,232,082)</u>
Expenditures				
Current				
General government	48,050,055	48,050,055	12,505,026	(35,545,029)
Public safety	11,450,508	11,450,508	12,841,967	1,391,459
Health and welfare	-	-	280,329	280,329
Culture and recreation	-	-	497,990	497,990
Conservation of natural resources	-	-	-	-
Economic development	2,600,000	2,600,000	3,647,405	1,047,405
Other	4,330,000	4,330,000	10,330,000	6,000,000
Capital outlay	-	-	394,000	394,000
Total expenditures	<u>66,430,563</u>	<u>66,430,563</u>	<u>6,547,937</u>	<u>6,547,937</u>
Excess of Revenues over Expenditures	<u>(7,006,765)</u>	<u>(4,054,801)</u>	<u>12,099,026</u>	<u>16,153,827</u>
Other Financing Sources (Uses)				
Transfers in	-	-	850,005	850,005
Transfers out	(39,250,000)	(39,250,000)	(46,220,115)	(6,970,115)
Total other financing sources and uses	<u>(39,250,000)</u>	<u>(39,250,000)</u>	<u>(45,370,110)</u>	<u>(6,120,110)</u>
Net Change in Fund Balances	(46,256,765)	(43,304,801)	(33,271,084)	10,033,717
Fund Balance - January 1, as restated	<u>91,980,371</u>	<u>91,980,371</u>	<u>91,980,371</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 45,723,606</u>	<u>\$ 48,675,570</u>	<u>\$ 58,709,287</u>	<u>\$ 10,033,717</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis - 2021

Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 3,554,000	\$ 3,554,000	\$ 3,554,872	\$ 872
Special assessments	7,000	7,000	7,554	554
Intergovernmental	7,082,734	7,082,734	9,924,281	2,841,547
Charges for services	1,500,000	1,500,000	1,231,760	(268,240)
Interest income	-	-	47,859	47,859
Miscellaneous	7,500	7,500	294,143	286,643
Total revenues	<u>12,151,234</u>	<u>12,151,234</u>	<u>15,060,469</u>	<u>2,909,235</u>
Expenditures				
Current				
Highways	19,936,388	19,936,388	40,340,276	(20,403,888)
Public safety	-	-	26,328	(26,328)
Capital outlay	14,920,410	14,920,410	-	14,920,410
Total expenditures	<u>34,856,798</u>	<u>34,856,798</u>	<u>40,366,604</u>	<u>(5,509,806)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(22,705,564)</u>	<u>(22,705,564)</u>	<u>(25,306,135)</u>	<u>(2,600,571)</u>
Other Financing Sources (Uses)				
Transfers in	5,800,000	5,800,000	5,800,000	-
Transfers out	-	-	(47,859)	(47,859)
Total other financing sources and (uses)	<u>5,800,000</u>	<u>5,800,000</u>	<u>5,752,141</u>	<u>(47,859)</u>
Net Change in Fund Balances	(16,905,564)	(16,905,564)	(19,553,994)	(2,648,430)
Fund Balance - January 1	<u>36,609,374</u>	<u>36,609,374</u>	<u>36,609,374</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 19,703,810</u>	<u>\$ 19,703,810</u>	<u>\$ 17,055,380</u>	<u>\$ (2,648,430)</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis - 2020 Year Ended Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 2,846,000	\$ 2,858,383	\$ 3,057,272	\$ 198,889
Special assessments	7,000	7,000	7,572	572
Intergovernmental	153,134	11,403,134	17,963,364	6,560,230
Charges for services	12,500,000	1,250,000	777,430	(472,570)
Interest income	-	-	94,599	94,599
Miscellaneous	7,500	7,500	83,492	75,992
Total revenues	<u>15,513,634</u>	<u>15,526,017</u>	<u>21,983,729</u>	<u>6,457,712</u>
Expenditures				
Current				
Highways	20,425,847	20,425,847	32,980,577	12,554,730
Capital outlay	75,935,000	75,935,000	71,138,892	(4,796,108)
Total expenditures	<u>96,360,847</u>	<u>96,360,847</u>	<u>104,119,469</u>	<u>7,758,622</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(80,847,213)</u>	<u>(80,834,830)</u>	<u>(82,135,740)</u>	<u>(1,300,910)</u>
Other Financing Sources (Uses)				
Transfers in	45,500,000	45,500,000	51,970,115	6,470,115
Transfers out	-	-	(94,599)	-
Total other financing sources and uses	<u>45,500,000</u>	<u>45,500,000</u>	<u>51,875,516</u>	<u>6,470,115</u>
Net Change in Fund Balances	<u>(35,347,213)</u>	<u>(35,334,830)</u>	<u>(30,260,224)</u>	<u>5,169,205</u>
Fund Balance - January 1	<u>66,869,598</u>	<u>66,869,598</u>	<u>66,869,598</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 31,522,385</u>	<u>\$ 31,534,768</u>	<u>\$ 36,609,374</u>	<u>\$ 5,169,205</u>

McKenzie County
Combining Statement of Net Position – Component Units – Modified Cash Basis - 2021
December 31, 2021

	Water Resource District	Public Library	JDA Development Funds	Total
Assets				
Cash and investments	\$ 19,166,906	\$ 172,738	\$ 565,855	\$ 19,905,499
Restricted cash	1,038,112	-	-	1,038,112
Capital assets not being depreciated				
Land	-	89,000	-	89,000
Construction in progress	659,557	-	-	659,557
Capital assets (net of accumulated depreciation)				
Equipment	68,625	157,743	-	226,368
Buildings	-	529,379	-	529,379
Infrastructure	22,783,294	-	-	22,783,294
Total assets	<u>\$ 43,716,494</u>	<u>\$ 948,860</u>	<u>\$ 565,855</u>	<u>\$ 45,231,209</u>
Liabilities				
Long-term liabilities				
Due within one year				
Loans and bonds payable	\$ 588,880	\$ -	\$ -	\$ 588,880
Due after one year				
Loans and bonds payable	9,541,074	-	-	9,541,074
Total liabilities	<u>\$ 10,129,954</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,129,954</u>
Net Position				
Net investment in capital assets	\$ 13,381,522	\$ 776,122	\$ -	\$ 14,157,644
Restricted for				
Culture and recreation	-	172,738	-	172,738
Conservation of natural resources	20,205,018	-	-	20,205,018
Economic development	-	-	565,855	565,855
Total net position	<u>\$ 33,586,540</u>	<u>\$ 948,860</u>	<u>\$ 565,855</u>	<u>\$ 35,101,255</u>

McKenzie County
Combining Statement of Net Position – Component Units – Modified Cash Basis - 2020
December 31, 2020

	Water Resource District	Public Library	JDA Development Funds	Total
Assets				
Cash and investments	\$ 2,714,121	\$ 82,677	\$ 3,575,848	\$ 6,372,646
Restricted cash	1,038,633	-	-	1,038,633
Capital assets not being depreciated				
Land	-	89,000	-	89,000
Construction in progress	2,321,447	-	-	2,321,447
Capital assets (net of accumulated depreciation)				
Equipment	99,116	157,743	-	256,859
Buildings	-	523,280	-	523,280
Infrastructure	19,817,620	-	-	19,817,620
Total assets	<u>\$ 25,990,937</u>	<u>\$ 852,700</u>	<u>\$ 3,575,848</u>	<u>\$ 30,419,485</u>
Liabilities				
Long-term liabilities				
Due within one year				
Loans and bonds payable	\$ 571,379	\$ -	\$ -	\$ 571,379
Due after one year				
Loans and bonds payable	10,129,954	-	-	10,129,954
Total liabilities	<u>\$ 10,701,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,701,333</u>
Net Position				
Net investment in capital assets	\$ 11,536,850	\$ 770,023	\$ -	\$ 12,306,873
Restricted for				
Culture and recreation	-	82,677	-	82,677
Conservation of natural resources	3,752,754	-	-	3,752,754
Economic development	-	-	3,575,848	3,575,848
Total net position	<u>\$ 15,289,604</u>	<u>\$ 852,700</u>	<u>\$ 3,575,848</u>	<u>\$ 19,718,152</u>

McKenzie County

Combining Statement of Activities – Component Units – Modified Cash Basis - 2021

Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Water Resource District	Public Library	JDA Development Funds	Totals
Component units							
Water Resource District	\$ 5,296,635	\$ 4,726,299	\$ 18,800,000	\$ 18,229,664	\$ -	\$ -	\$ 18,229,664
Public Library	503,370	14,749	56,498	-	(432,123)	-	(432,123)
Job Development Authority	6,339,749	-	3,162,022	-	-	(3,177,727)	(3,177,727)
Total component units	<u>\$ 12,139,754</u>	<u>\$ 4,741,048</u>	<u>\$ 22,018,520</u>	<u>18,229,664</u>	<u>(432,123)</u>	<u>(3,177,727)</u>	<u>14,619,814</u>
General revenues							
Taxes							
Property taxes, levied for general purposes				-	528,283	149,725	678,008
State aid not restricted to specific program				311	-	18,009	18,320
Miscellaneous revenue				66,961	-	-	66,961
Total general revenues				<u>67,272</u>	<u>528,283</u>	<u>167,734</u>	<u>763,289</u>
Change in net position				18,296,936	96,160	(3,009,993)	15,383,103
Net position - January 1				<u>15,289,604</u>	<u>852,700</u>	<u>3,575,848</u>	<u>19,718,152</u>
Net position - December 31				<u>\$ 33,586,540</u>	<u>\$ 948,860</u>	<u>\$ 565,855</u>	<u>\$ 35,101,255</u>

McKenzie County
Combining Statement of Activities – Component Units – Modified Cash Basis - 2020
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Water Resource District	Public Library	JDA Development Funds	Totals
Component units								
Water Resource District	\$ 5,706,619	\$ 4,512,098	\$ 3,348,308	\$ -	\$ 2,153,787	\$ -	\$ -	\$ 2,153,787
Public Library	482,765	4,841	45,832	-	-	(432,092)	-	(432,092)
Job Development Authority	7,899,386	-	10,330,000	-	-	-	2,430,614	2,430,614
Total component units	<u>\$ 14,088,770</u>	<u>\$ 4,516,939</u>	<u>\$ 13,724,140</u>	<u>\$ -</u>	<u>2,153,787</u>	<u>(432,092)</u>	<u>2,430,614</u>	<u>4,152,309</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					-	402,452	154,613	557,065
State aid not restricted to specific program					311	-	14,742	15,053
Miscellaneous revenue					106,162	-	70	106,232
Total general revenues					<u>106,473</u>	<u>402,452</u>	<u>169,425</u>	<u>678,350</u>
Change in net position					2,260,260	(29,640)	2,600,039	4,830,659
Net position - January 1, as restated					<u>13,029,344</u>	<u>882,340</u>	<u>975,809</u>	<u>14,887,493</u>
Net position - December 31					<u>\$ 15,289,604</u>	<u>\$ 852,700</u>	<u>\$ 3,575,848</u>	<u>\$ 19,718,152</u>

McKenzie County
Schedule of Expenditures of Federal Awards - 2021
Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Financial Assisting Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
<u>Direct Program</u>			
Forest Service Schools and Roads Cluster			
School and Roads - Grants to Counties (Bankhead-Jones)	10.666	N/A	\$ 7,894,280
U.S. Department of Interior			
<u>Passed-Through State Treasurer</u>			
Taylor Grazing	15.227	Unknown	43
Flood Control Act	15.433	Unknown	6,629,061
Flood Control Act (Annual)	15.433	Unknown	16,432
COVID-19 Coronavirus Relief Fund	21.019	Unknown	370,982
Late Disbursement Interest	15.436	Unknown	341
Mineral Leasing Act (Public Domain Royalties)	15.437	Unknown	10,194,179
Payments in Lieu of Taxes	15.226	Unknown	239,342
Total U.S. Department of Interior			<u>17,450,380</u>
U.S. Department of Homeland Security			
<u>Passed-Through State Department of Emergency Services</u>			
Emergency Management Performance Grants	97.047	Unknown	29,360
Planning - HMEP19	20.703	Unknown	11,380
COVID-19 FEMA COVID Reimbursement	97.036	Unknown	11,754
Total U.S. Department of Homeland Security			<u>52,494</u>
Total Federal Financial Assistance			<u>\$ 25,397,154</u>

McKenzie County
Schedule of Expenditures of Federal Awards -2020
Year Ended December 31, 2020

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assisting Listing/ Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
<u>Direct Program</u>			
Forest Service Schools and Roads Cluster			
School and Roads - Grants to Counties (Bankhead-Jones)	10.666	N/A	\$ 15,858,141
U.S. Department of Interior			
<u>Passed-Through State Treasurer</u>			
Taylor Grazing	15.227	Unknown	24
Flood Control Act	15.433	Unknown	7,219,937
Flood Control Act (Annual)	15.433	Unknown	6,039
COVID-19 Coronavirus Relief Fund	21.019	Unknown	3,160,689
Late Disbursement Interest	15.436	Unknown	1,755
Mineral Leasing Act (Public Domain Royalties)	15.437	Unknown	6,406,195
Payments in Lieu of Taxes	15.226	Unknown	233,499
Total U.S. Department of Interior			<u>17,028,138</u>
U.S. Department of Homeland Security			
<u>Passed-Through State Department of Emergency Services</u>			
Emergency Management Performance Grants	97.042	P0328	86,824
COVID-19 FEMA COVID reimbursement	97.036	Unknown	35,262
Total U.S. Department of Homeland Security			<u>122,086</u>
Total Federal Financial Assistance			<u>\$ 33,008,365</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McKenzie County under programs of the federal government for the year ended December 31, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of McKenzie County, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of McKenzie County.

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

McKenzie County has not elected to use the 10% de minimis cost rate.



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

Board of County Commissioners
McKenzie County
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise McKenzie County's basic financial statements, and have issued our report thereon dated March 20, 2023.

In our report we issued a qualified opinion on the aggregate remaining funds.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs listed as items 2021-001, 2021-002, 2021-003, and 2021-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether McKenzie County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2021-005.

McKenzie County's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on McKenzie County's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. McKenzie County's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota

March 20, 2023



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited McKenzie County, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal programs for the years ended December 31, 2021 and 2020. McKenzie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, McKenzie County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the years ended December 31, 2021 and 2020.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of McKenzie County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of McKenzie County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to McKenzie County 's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on McKenzie County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about McKenzie County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding McKenzie County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of McKenzie County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of McKenzie County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
March 20, 2023

Section I – Summary of Auditor’s Results

	<u>2021</u>	<u>2020</u>
<u>Financial Statements</u>		
Type of auditors' report issued on the governmental activities, each major fund, and the discretely presented component units	Unmodified	Unmodified
Aggregate remaining fund information	Qualified	Qualified
Internal control over financial reporting:		
Material weaknesses identified	Yes	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Noncompliance material to financial statements noted	Yes	Yes
<u>Federal Awards</u>		
Internal control over major programs:		
Material weaknesses identified	No	No
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Type of auditors' report issued on compliance for major programs	Unmodified	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance.	No	No
Identification of major programs:		
<u>Name of Federal Program</u>	<u>CFDA number</u>	<u>CFDA number</u>
Coronavirus Relief Fund	21.019	21.019
School and Roads - Grants to Counties (Bankhead Jones)		10.666
Mineral Leasing Act	15.437	
Dollar threshold used to distinguish between Type A and Type B programs	\$ 761,915	\$ 990,251
Auditee qualified as low-risk auditee	No	No

Section II – Financial Statement Findings

**2021-001 Documentation of Approval
Material Weakness**

Criteria - A good system of internal accounting control contemplates an adequate documentation of approval to show duties have been segregated appropriately.

Condition - The County does not formally document the approval for duties that have been segregated.

Cause – The County does not document the approval.

Effect - Inadequate documentation of approval does not allow an user to determine what transactions were appropriate. This could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Repeat Finding - Yes

Recommendation – The County should document approval of various transactions. This documentation of approval could either be on each transaction or a checklist could be devised that documents each approvals.

Response – The Auditor's and Treasurer's Offices were combined on March 3, 2015, by the McKenzie County Board of County Commissioners as provided by Chapter 11-10.2 of the North Dakota Century Code. Duties are segregated within the combined office between cash receipts, payroll, and cash disbursements. Duties are additionally segregated within those divisions by rotating the person responsible for the daily work so that the one conducting the daily balancing and producing the month-end reports and/or general ledger work are not always the same people. The Treasurer's office staff work closely with the Auditor's office staff to provide daily receipt and disbursement reports and compare general ledger records on a monthly basis no later than the 10th business day of each month. All records must reconcile prior to month-end processing. The combination of offices has resulted in increased efficiencies, increased communication, and allows for additional cross-training, internal controls, and security within the office. These processes are reviewed annually and updated as needed. A new checklist is being implemented to document approval of transactions by the Auditor/Treasurer each month.

2021-002 Recording of Transactions
Material Weakness

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

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

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

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

Repeat Finding - Yes

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

Response – Since it is not cost-effective for an organization of our size to have staff prepare all adjustments needed for an audit-ready trial balance, we have chosen to hire Eide Bailly, a public accounting firm, to assist us in preparing these transactions. County accounts are reconciled monthly by two separate employees working in separate functions within the combined office and completed no later than the 10th business day of each month. Office staff review the adjustments made by our accounting firm and make the adjustments needed.

**2021-003 Preparation of Financial Statements related Footnotes, Schedule of Federal Expenditures, GASB-84 GAAP Departure and Restatement
Material Weakness**

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

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements and schedule of federal expenditures being audited. Also, McKenzie County has not appropriately implemented GASB-84 due to a significant number of custodial funds not being accounted for appropriately in terms of reporting revenues, expenditures and net position. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

Repeat Finding - Yes

Recommendation - It is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of McKenzie County and changes in reporting requirements.

Response - Since it is not cost-effective for an organization of our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of McKenzie County. The Auditor/Treasurer's Office works closely with Eide Bailly to ensure the financial statements are materially correct with county reports and has the opportunity to approve all audit adjustments.

**2021-004 Cash Reconciliation
Material Weakness**

Criteria – A good system of internal accounting control contemplates proper reconcilements of treasurer’s report to the general ledger and the appropriate adjustments made to the general ledger.

Condition – It was noted that treasurer’s report did not agree to cash per the general ledger. It was noted that the bank process does not reconcile the cash balances per the general ledger to the treasurer’s report.

Cause – The County was not reconciling the treasurer’s report to the county’s general ledger. This resulted in the auditor’s adjusting the reconciliations to be accurate and a variance of cash from general ledger to treasurer’s report.

Effect – Inadequate internal controls over the treasurer’s report affect the County’s ability to detect misstatements in amounts that could be material in relation to the financial statements. This could result in the County making decisions based on cash balances that are not correct. It could also result in inappropriate or fraudulent activity going unnoticed.

Repeat Finding - No

Recommendation – We recommend management of the County implement internal controls to reconcile the treasurer’s report monthly and ensure they agree to the county’s general ledger.

Response - - Internal controls and financial security are important components of the County’s financial position. Bank statements and account reconciliations are being performed and we acknowledge additional assurances to maintain security and fraud detection are needed. As such new internal controls, including reconciliation checklists and bank balance monthly reviews, are being implemented to ensure the treasurer’s report each month agrees to the county’s general ledger balances.

Compliance Item for Continuing Disclosure

2021-005 Failure to Provide Continuing Disclosure

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

Condition – The County did not complete the required continuing disclosures within 9 months of its year-end which was by September 30, 2022 for the year ended December 31, 2021.

Cause – The County was aware of the continuing disclosure requirements but the audit report for the year ended December 31, 2021 was not finalized within 9 months of the year end.

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

Repeat Finding - Yes

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

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

Section III – Federal Award Findings and Questioned Costs

None