



Financial Statements
December 31, 2022

McKenzie County

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Howdy Lawler
Kathy Skarda
Joel Brown
Clint Wold
Craig Hystad

Erica Johnsrud
Matthew Johansen
Katie Paulson
Ty Skarda
Nikki Johnsrud

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 aggregate 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, 2022, 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, 2022, 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 Aggregate 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 aggregate discretely presented component units, and each major fund as of December 31, 2022, 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 the County 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 – 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 County'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 County'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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The budgetary comparison schedules, Combining Statement of Net Position – Discretely Presented Component Units, and Combining Statement of Activities – Discretely Presented Component Units are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and is also not a required part of the financial statements.

The budgetary comparison schedules, Combining Statement of Net Position – Discretely Presented Component Units, Combining Statement of Activities – Discretely Presented Component Units, and Schedule of Expenditures of Federal Awards, as required by 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* 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 relate directly to the underlying accounting and other records used to prepare the 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 GAAS. In our opinion, the budgetary comparison schedules, Combining Statement of Net Position – Discretely Presented Component Units, and Combining Statement of Activities – Discretely Presented Component Units and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the County Officials listing but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we concluded that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2024, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the County's internal control over financial reporting and compliance.

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

Bismarck, North Dakota
January 16, 2024

McKenzie County
Statement of Net Position – Modified Cash Basis
December 31, 2022

	Primary Government <u>Governmental Activities</u>	Component <u>Units</u>
Assets		
Cash and investments	\$ 138,689,526	\$ 25,684,576
Restricted cash	-	1,039,672
Note receivable	2,746,256	-
Capital assets not being depreciated		
Land	7,810,908	89,000
Construction in progress	34,176,114	3,170,430
Capital assets net of accumulated depreciation		
Buildings	95,044,999	506,706
Furniture and equipment	9,576,058	259,832
Infrastructure	242,279,927	23,209,566
Vehicles and equipment	2,927,733	-
Total capital assets	<u>391,815,739</u>	<u>27,235,534</u>
 Total assets	 <u><u>\$ 533,251,521</u></u>	 <u><u>\$ 53,959,782</u></u>
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	\$ 3,825,000	\$ 606,362
Due after one year		
Loan payable	<u>17,185,000</u>	<u>8,934,713</u>
Total liabilities	<u><u>\$ 21,010,000</u></u>	<u><u>\$ 9,541,075</u></u>
Net Position		
Net investment in capital assets	\$ 370,805,739	\$ 17,694,459
Restricted for		
Public safety	211,763	-
Highways	3,514,000	-
Debt service	1,377,873	
Culture and recreation	-	388,529
Conservation of natural resources	-	26,132,879
Economic development	-	202,840
Unrestricted	<u>136,332,146</u>	<u>-</u>
 Total Net Position	 <u><u>\$ 512,241,521</u></u>	 <u><u>\$ 44,418,707</u></u>

McKenzie County
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2022

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	\$ 44,992,445	\$ 6,654,894	\$ 5,463,011	\$ -	\$ (32,874,540)	\$ -
Public safety	12,590,964	149,085	139	-	(12,441,740)	-
Highways	53,434,967	1,047,743	-	21,000,825	(31,386,399)	-
Health and welfare	272,320	-	-	-	(272,320)	-
Culture and recreation	592,358	-	157	-	(592,201)	-
Conservation of natural resources	12,772,636	-	3,647	-	(12,768,989)	-
Economic development	3,819,793	-	-	-	(3,819,793)	-
Other	1,019,582	-	-	-	(1,019,582)	-
Loss on disposal of asset	1,332,024	-	-	-	(1,332,024)	-
Interest	1,101,050	-	-	-	(1,101,050)	-
Total primary government	<u>\$ 131,928,139</u>	<u>\$ 7,851,722</u>	<u>\$ 5,466,954</u>	<u>\$ 21,000,825</u>	<u>(97,608,638)</u>	<u>-</u>
Component units	<u>\$ 12,073,965</u>	<u>\$ 4,928,203</u>	<u>\$ 15,896,551</u>	<u>\$ -</u>	<u>-</u>	<u>8,750,789</u>
General revenues						
Taxes						
Property taxes					7,327,492	544,210
Other taxes					3,288,542	-
Oil and gas production					86,798,382	-
State aid not restricted to specific program					878,515	17,652
Royalties					23,310,424	-
Earnings on investments					524,177	-
Miscellaneous revenue					3,016,670	4,801
Total general revenues					<u>125,144,202</u>	<u>566,663</u>
Change in net position					27,535,564	9,317,452
Net position - January 1					<u>484,705,957</u>	<u>35,101,255</u>
Net position - December 31					<u>\$ 512,241,521</u>	<u>\$ 44,418,707</u>

McKenzie County

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2022

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Debt Service		
Assets					
Cash and investments	\$ 70,633,660	\$ 27,865,008	\$ 19,670,289	\$ 18,517,426	\$ 136,686,383
Note receivable	2,746,256	-	-	-	2,746,256
Total assets	<u>\$ 73,379,916</u>	<u>\$ 27,865,008</u>	<u>\$ 19,670,289</u>	<u>\$ 18,517,426</u>	<u>\$ 139,432,639</u>
Fund Balances					
Nonspendable	\$ 2,746,256	\$ -	\$ -	\$ -	\$ 2,746,256
Restricted					
Public safety	-	-	-	211,763	211,763
Debt Service	-	-	3,514,000	-	3,514,000
Highways	-	-	-	1,377,873	1,377,873
Assigned					
General government	1,989,532	-	-	1,871,614	3,861,146
Public safety	172,666	-	-	223,376	396,042
Highways	-	27,865,008	-	4,044,380	31,909,388
Health and welfare	-	-	-	10	10
Debt Service	-	-	16,156,289	-	16,156,289
Culture and recreation	696,141	-	-	-	696,141
Conservation of Natural resources	-	-	-	615,682	615,682
Economic development	-	-	-	158,394	158,394
Unassigned	67,775,321	-	-	10,014,334	77,789,655
Total fund balances	<u>\$ 73,379,916</u>	<u>\$ 27,865,008</u>	<u>\$ 19,670,289</u>	<u>\$ 18,517,426</u>	<u>\$ 139,432,639</u>

Total fund balances for governmental funds		\$ 139,432,639
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	\$ 515,710,182	
Less accumulated depreciation	<u>(123,894,443)</u>	391,815,739
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:		2,003,143
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>(21,010,000)</u>
Total net position of governmental activities		<u>\$ 512,241,521</u>

McKenzie County

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash Basis Year Ended December 31, 2022

	Major Funds			Other	Total
	General	County Road and Bridge	Debt Service	Governmental Funds	Governmental Funds
Revenues					
Taxes	\$ 1,479,257	\$ 3,572,594	\$ -	\$ 2,275,641	\$ 7,327,492
Special assessments	-	7,554	-	-	7,554
Licenses, permits and fees	4,710,928	-	-	-	4,710,928
Intergovernmental	79,209,242	22,356,237	4,733,525	11,126,660	117,425,664
Charges for services	1,943,966	1,047,743	-	149,085	3,140,794
Royalties	23,310,424	-	-	-	23,310,424
Interest income	289,717	130,099	96,921	7,440	524,177
Miscellaneous	879,392	158,449	-	1,978,829	3,016,670
Total revenues	<u>111,822,926</u>	<u>27,272,676</u>	<u>4,830,446</u>	<u>15,537,655</u>	<u>159,463,703</u>
Expenditures					
Current					
General government	38,330,043	39,721	-	4,325,871	42,695,635
Public safety	12,313,297	2,506	-	273,311	12,589,114
Highways	-	38,341,972	-	-	38,341,972
Health and welfare	272,320	-	-	-	272,320
Culture and recreation	579,310	-	-	-	579,310
Conservation of natural resources	12,311,479	-	-	394,388	12,705,867
Economic development	3,819,793	-	-	-	3,819,793
Other	871,500	-	1,500	146,582	1,019,582
Capital outlay	3,879,133	17,848,750	-	-	21,727,883
Debt Service					
Principal	-	-	3,645,000	-	3,645,000
Interest	-	-	1,101,050	-	1,101,050
Total expenditures	<u>72,376,875</u>	<u>56,232,949</u>	<u>4,747,550</u>	<u>5,140,152</u>	<u>138,497,526</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>39,446,051</u>	<u>(28,960,273)</u>	<u>82,896</u>	<u>10,397,503</u>	<u>20,966,177</u>
Other Financing Sources (Uses)					
Transfers in	137,539	39,900,000	-	5,000,000	45,037,539
Transfers out	(36,400,000)	(130,099)	-	(8,507,440)	(45,037,539)
Total other financing sources and (uses)	<u>(36,262,461)</u>	<u>39,769,901</u>	<u>-</u>	<u>(3,507,440)</u>	<u>-</u>
Net Change in Fund Balances	3,183,590	10,809,628	82,896	6,890,063	20,966,177
Fund Balance - January 1	<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>
Fund Balance - December 31	<u>\$ 73,379,916</u>	<u>\$ 27,865,008</u>	<u>\$ 19,670,289</u>	<u>\$ 18,517,426</u>	<u>\$ 139,432,639</u>

McKenzie County

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis Year Ended December 31, 2022

Net change in fund balance - total governmental funds \$ 20,966,177

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	\$ 21,727,883	
Net book value of assets disposed	(1,332,024)	
Current year depreciation expense	<u>(17,559,863)</u>	
		2,835,996

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

88,391

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.

3,645,000

Change in net position of governmental activities

\$ 27,535,564

McKenzie County
Statement of Net Position – Proprietary Fund – Modified Cash Basis
December 31, 2022

	Internal Service
	<u>2022</u>
Assets	
Current assets	
Cash	<u>\$ 2,003,143</u>
Net Position	
Unrestricted	<u>\$ 2,003,143</u>

McKenzie County
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis
Years Ended December 31, 2022

	<u>Internal Service</u>
	<u>2022</u>
Operating Revenues	
Contributions	<u>\$ 3,704,264</u>
Operating Expenses	
Premiums	1,392,516
Claims	<u>2,230,808</u>
Total operating expenses	<u>3,623,324</u>
Operating Gain	<u>80,940</u>
Non-Operating Revenues	
Interest income	4,498
Miscellaneous	<u>2,953</u>
Total nonoperating revenue	<u>7,451</u>
Net Income	88,391
Net Position - January 1	<u>1,914,752</u>
Net Position - December 31	<u><u>\$ 2,003,143</u></u>

McKenzie County
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
Years Ended December 31, 2022

	Internal Service
	<u>2022</u>
Cash Flows from Operating Activities	
Cash received from customers and users	\$ 3,707,217
Cash paid for health claims	(2,230,808)
Cash paid for services	<u>(1,392,516)</u>
Net Cash from Operating Activities	<u>83,893</u>
Cash Flows from Investing Activities	
Interest received	<u>4,498</u>
Net Change in Cash	88,391
Cash - January 1	<u>1,914,752</u>
Cash - December 31	<u><u>\$ 2,003,143</u></u>

McKenzie County
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds – Modified Cash Basis
December 31, 2022

Assets	<u>2022</u>
Cash and investments	<u>\$ 769,779</u>
Net position	
Restricted - held for others	<u>\$ 769,779</u>

McKenzie County

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis

December 31, 2022

	<u>2022</u>
Additions	
Taxes	\$ 471,103
Intergovernmental	2,562,657
Miscellaneous revenue	<u>899</u>
Total revenues	<u>3,034,659</u>
Deductions	
Tax disbursements to other governments	3,031,894
Other governmental disbursements	<u>15,609</u>
Total expenditures	<u>3,047,503</u>
Change in net position	(12,844)
Net position, beginning	<u>782,623</u>
Net position, ending	<u><u>\$ 769,779</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 three 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, 2022 in the County Road and Bridge fund by \$4,872,251. These overages were covered by excess revenue. 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 December 31, 2022, the pooled and non-pooled bank balances for all County, discretely presented component units, and fiduciary funds was \$169,336,530. The carrying amount of the pooled and non-pooled deposits for the County funds, discretely presented component units, and fiduciary funds was \$166,183,552. Of the bank balances at December 31, 2022, \$1,250,000 was covered by either Federal Depository Insurance or National Credit Union Share Insurance. As of December 31, 2022, the remaining balance was covered by pledged collateral held by a joint agent of the depository and the County, jointly in the name of the depository and the County.

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, 2022, the County held certificates of deposit in the amount of \$1,614,162 of which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2022, 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>\$ 1,614,162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,614,162</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 five financial institutions: Bank of North Dakota, 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, 2022, the interest rate has been adjusted to 6.75%. 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, 2022 was \$2,746,256. 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, 2022:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 7,810,908	\$ -	\$ -	\$ 7,810,908
Construction in progress	35,234,083	17,848,750	18,906,719	34,176,114
Total capital assets, not being depreciated	<u>43,044,991</u>	<u>17,848,750</u>	<u>18,906,719</u>	<u>41,987,022</u>
Capital assets being depreciated				
Buildings	119,464,928	-	-	119,464,928
Furniture and equipment	14,160,050	3,239,797	1,825,000	15,574,847
Infrastructure	305,265,321	18,906,719	122,719	324,049,321
Vehicles and equipment	14,676,644	639,336	681,916	14,634,064
Total capital assets, being depreciated	<u>453,566,943</u>	<u>22,785,852</u>	<u>2,629,635</u>	<u>473,723,160</u>
Less accumulated depreciation for				
Buildings	22,004,437	2,415,492	-	24,419,929
Furniture and equipment	5,222,531	1,391,953	615,695	5,998,789
Infrastructure	69,128,763	12,640,631	-	81,769,394
Vehicles and equipment	11,276,460	1,111,787	681,916	11,706,331
Total accumulated depreciation	<u>107,632,191</u>	<u>17,559,863</u>	<u>1,297,611</u>	<u>123,894,443</u>
Total capital assets being depreciated, net	<u>345,934,752</u>	<u>5,225,989</u>	<u>1,332,024</u>	<u>349,828,717</u>
Governmental activities - capital assets, net	<u>\$ 388,979,743</u>	<u>\$ 23,074,739</u>	<u>\$ 20,238,743</u>	<u>\$ 391,815,739</u>

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

Governmental Activities	
General government	\$ 2,385,201
Public safety	1,850
Highways	15,092,995
Culture and recreation	13,048
Conservation of natural resources	66,769
Total depreciation expense - governmental activities	<u>\$ 17,559,863</u>

Component Units

<u>Water Resource District</u>	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Construction in progress	\$ 659,557	\$ 3,727,517	\$ 1,216,644	\$ 3,170,430
Capital assets being depreciated				
Equipment	232,231	52,747	28,668	256,310
Infrastructure	29,328,939	1,186,996	-	30,515,935
Total capital assets, being depreciated	29,561,170	1,239,743	28,668	30,772,245
Less accumulated depreciation for				
Equipment	163,606	33,056	28,668	167,994
Infrastructure	6,545,645	760,724	-	7,306,369
Total accumulated depreciation	6,709,251	793,780	28,668	7,474,363
Total capital assets being depreciated, net	22,851,919	445,963	-	23,297,882
Total Water Resource District assets, net	\$ 23,511,476	\$ 4,173,480	\$ 1,216,644	\$ 26,468,312

<u>Public Library</u>	Balance January 1	Transfers	Increases	Decreases	Balance December 31
Capital assets not being depreciated					
Land	\$ 89,000	\$ -	\$ -	\$ -	\$ 89,000
Capital assets being depreciated					
Equipment	223,214	22,673	-	-	245,887
Buildings	1,405,752	(22,673)	-	-	1,383,079
Total capital assets, being depreciated	1,628,966	-	-	-	1,628,966
Less accumulated depreciation for					
Equipment	74,371	-	20,266	-	74,371
Buildings	876,373	-	40,648	-	876,373
Total accumulated depreciation	950,744	-	60,914	-	950,744
Total capital assets being depreciated, net	678,222	-	(60,914)	-	678,222
Total Public Library capital assets, net	\$ 767,222	\$ -	\$ (60,914)	\$ -	\$ 767,222

Note 6 - Long-Term Liabilities

Changes in long-term liabilities for the Primary Government

During the year ended December 31, 2022, 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>\$ 24,655,000</u>	<u>\$ -</u>	<u>\$ (3,645,000)</u>	<u>\$ 21,010,000</u>	<u>\$ 3,825,000</u>

Outstanding debt at December 31, 2022 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

\$ 21,010,000

Debt service requirements on long-term debt at December 31, 2022 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
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	<u>4,565,000</u>	<u>182,600</u>
	<u>\$ 21,010,000</u>	<u>\$ 2,713,750</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 \$4,733,525. 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. See Note 16.

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

During the year ended December 31, 2022, 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	\$ 488,482	\$ -	\$ 12,293	\$ 476,189	\$ 12,800
Series 2015A	1,999,402	-	35,442	1,963,960	36,461
Series 2015B	1,183,402	-	21,473	1,161,929	22,063
	<u>3,671,286</u>	<u>-</u>	<u>69,208</u>	<u>3,602,078</u>	<u>71,324</u>
Loans					
McKenzie County	2,960,927	-	214,671	2,746,256	220,038
State Revolving Fund	3,497,741	-	305,000	3,192,741	315,000
	<u>6,458,668</u>	<u>-</u>	<u>519,671</u>	<u>5,938,997</u>	<u>535,038</u>
	<u>\$ 10,129,954</u>	<u>\$ -</u>	<u>\$ 588,879</u>	<u>\$ 9,541,075</u>	<u>\$ 606,362</u>

Outstanding debt at December 31, 2022 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.	\$ 476,189
\$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.	1,963,960
\$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.	1,161,929

Loans

\$4,500,000 loan from McKenzie County - due in annual installments through 2/16/2033; 6.75% interest rate. Liquidated from the Water Resource District.	\$ 2,746,256
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.	3,192,741

Debt service requirements on long-term debt at December 31, 2022 are as follows:

Year Ending December 31	Bonds		Loans	
	Principal	Interest	Principal	Interest
2023	\$ 71,324	\$ 88,277	\$ 535,039	\$ 183,360
2024	73,269	86,960	550,539	165,232
2025	75,752	83,027	566,020	150,650
2026	78,074	83,278	581,952	133,913
2027	80,470	81,477	597,877	116,101
2028-2032	440,667	379,012	2,826,201	301,259
2033-2037	513,081	325,550	281,369	11,176
2038-2042	597,631	264,329	-	-
2043-2047	630,199	193,934	-	-
2048-2052	621,469	113,036	-	-
2053-2055	420,142	23,940	-	-
	<u>\$ 3,602,078</u>	<u>\$ 1,722,820</u>	<u>\$ 5,938,997</u>	<u>\$ 1,061,691</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, 2022:

Funds	Transfers In	Transfers Out
General Fund	\$ 137,539	\$ 36,400,000
County Road and Bridge	39,900,000	130,099
Other Governmental Funds	5,000,000	8,507,440
Total transfers	<u>\$ 45,037,539</u>	<u>\$ 45,037,539</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 provides a contribution each year to the Atmospheric Resources. In 2022, the County remitted \$140,000 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 \$19,165,468 for inland marine coverage as of December 31, 2022.

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. During 2022, the County did not make any contributions to the joint venture.

Audited summary financial information for the year ended December 31, 2021, the last year audited, is as follows:

Cash and investments	\$ 1,728,859
Total assets and deferred outflows of resources	4,558,578
Total liabilities and deferred inflows of resources	4,158,520
Total net position	400,058
Total revenues	4,171,461
Total expenditures	<u>3,614,704</u>
Net decrease in net position	<u><u>\$ 556,757</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, 2022 the County made employer cash contributions for the pension plans of \$1,259,658.

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, 2022 the County made employer cash contributions for the OPEB plans of \$129,742.

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, 2022 that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America was \$3,715,519. The estimated liability is based on the use of approximately 93 percent of the estimated capacity of the landfill and total estimated closure and post closure costs. Under the modified cash basis of accounting used, the County will recognize the costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2022. 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 \$3,900,000 outstanding at December 31, 2022 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, 2022, the balance on the debt that is guaranteed by McKenzie County Water Resource District is approximately \$9,100,000.

Note 16 - Subsequent Events

Subsequent to year-end on September 1, 2023, McKenzie County paid off the remaining portion of the State Aid Refunding Certificates of Indebtedness, Series 2018, in the amount of \$17,245,629, including interest.



Supplementary Information
December 31, 2022 and 2020
McKenzie County

McKenzie County
Budgetary Comparison Schedule – General Fund – Modified Cash Basis
Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 65,789	\$ 65,789	\$ 1,479,257	\$ 1,413,468
Licenses, permits and fees	3,035,040	3,035,040	4,710,928	1,675,888
Intergovernmental	53,000,000	53,000,000	79,209,242	26,209,242
Charges for services	33,000	2,012,650	1,943,966	(68,684)
Royalties	4,500,000	4,500,000	23,310,424	18,810,424
Interest income	175,000	175,000	289,717	114,717
Miscellaneous	1,000,000	1,035,700	879,392	(156,308)
Total revenues	61,808,829	63,824,179	111,822,926	47,998,747
Expenditures				
Current				
General government	46,569,871	46,569,871	38,330,043	8,239,828
Public safety	14,687,786	14,687,786	12,313,297	2,374,489
Health and welfare	-	-	272,320	(272,320)
Culture and recreation	-	-	579,310	(579,310)
Conservation of natural resources	-	-	12,311,479	(12,311,479)
Economic development	2,815,000	2,815,000	3,819,793	(1,004,793)
Other	-	-	871,500	(871,500)
Capital outlay	12,000,000	12,000,000	3,879,133	8,120,867
Total expenditures	76,072,657	76,072,657	72,376,875	3,695,782
Excess of Revenues over Expenditures	(14,263,828)	(12,248,478)	39,446,051	51,694,529
Other Financing Sources (Uses)				
Transfers in	-	-	137,539	137,539
Transfers out	(35,000,000)	(35,000,000)	(36,400,000)	(1,400,000)
Total other financing sources and (uses)	(35,000,000)	(35,000,000)	(36,262,461)	(1,262,461)
Net Change in Fund Balances	(49,263,828)	(47,248,478)	3,183,590	50,432,068
Fund Balance - January 1	70,196,326	70,196,326	70,196,326	-
Fund Balance - December 31	\$ 20,932,498	\$ 22,947,848	\$ 73,379,916	\$ 50,432,068

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 3,357,988	\$ 3,357,988	\$ 3,572,594	\$ 214,606
Special assessments	7,000	7,000	7,554	554
Intergovernmental	7,203,334	7,203,334	22,356,237	15,152,903
Charges for services	1,500,000	1,500,000	1,047,743	(452,257)
Interest income	-	-	130,099	130,099
Miscellaneous	7,500	7,500	158,449	150,949
Total revenues	<u>12,075,822</u>	<u>12,075,822</u>	<u>27,272,676</u>	<u>15,196,854</u>
Expenditures				
Current				
General government	-	-	39,721	(39,721)
Highways	18,068,198	18,068,198	38,341,972	(20,273,774)
Public safety	-	-	2,506	(2,506)
Capital outlay	33,292,500	33,292,500	17,848,750	15,443,750
Total expenditures	<u>51,360,698</u>	<u>51,360,698</u>	<u>56,232,949</u>	<u>(4,872,251)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(39,284,876)</u>	<u>(39,284,876)</u>	<u>(28,960,273)</u>	<u>10,324,603</u>
Other Financing Sources (Uses)				
Transfers in	39,900,000	39,900,000	39,900,000	-
Transfers out	-	-	(130,099)	(130,099)
Total other financing sources and (uses)	<u>39,900,000</u>	<u>39,900,000</u>	<u>39,769,901</u>	<u>(130,099)</u>
Net Change in Fund Balances	615,124	615,124	10,809,628	10,194,504
Fund Balance - January 1	<u>17,055,380</u>	<u>17,055,380</u>	<u>17,055,380</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 17,670,504</u>	<u>\$ 17,670,504</u>	<u>\$ 27,865,008</u>	<u>\$ 10,194,504</u>

McKenzie County
Combining Statement of Net Position – Component Units – Modified Cash Basis
December 31, 2022

	Water Resource District	Public Library	JDA Development Funds	Total
Assets				
Cash and investments	\$ 25,093,207	\$ 388,529	\$ 202,840	\$ 25,684,576
Restricted cash	1,039,672	-	-	1,039,672
Capital assets not being depreciated				
Land	-	89,000	-	89,000
Construction in progress	3,170,430	-	-	3,170,430
Capital assets (net of accumulated depreciation)				
Equipment	88,316	171,516	-	259,832
Buildings	-	506,706	-	506,706
Infrastructure	23,209,566	-	-	23,209,566
Total assets	<u>\$ 52,601,191</u>	<u>\$ 1,155,751</u>	<u>\$ 202,840</u>	<u>\$ 53,959,782</u>
Liabilities				
Long-term liabilities				
Due within one year				
Loans and bonds payable	\$ 606,362	\$ -	\$ -	\$ 606,362
Due after one year				
Loans and bonds payable	8,934,713	-	-	8,934,713
Total liabilities	<u>\$ 9,541,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,541,075</u>
Net Position				
Net investment in capital assets	\$ 16,927,237	\$ 767,222	\$ -	\$ 17,694,459
Restricted for				
Culture and recreation	-	388,529	-	388,529
Conservation of natural resources	26,132,879	-	-	26,132,879
Economic development	-	-	202,840	202,840
Total net position	<u>\$ 43,060,116</u>	<u>\$ 1,155,751</u>	<u>\$ 202,840</u>	<u>\$ 44,418,707</u>

McKenzie County
Combining Statement of Activities – Component Units – Modified Cash Basis
Year Ended December 31, 2022

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	\$ 7,455,549	\$ 4,924,013	\$ 12,000,000	\$ 9,468,464	\$ -	\$ -	\$ 9,468,464
Public Library	416,446	4,190	76,460	-	(335,796)	-	(335,796)
Job Development Authority	4,201,970	-	3,820,091	-	-	(381,879)	(381,879)
Total component units	<u>\$ 12,073,965</u>	<u>\$ 4,928,203</u>	<u>\$ 15,896,551</u>	<u>9,468,464</u>	<u>(335,796)</u>	<u>(381,879)</u>	<u>8,750,789</u>
General revenues							
Taxes							
Property taxes, levied for general purposes				-	542,687	1,523	544,210
State aid not restricted to specific program				311	-	17,341	17,652
Miscellaneous revenue				4,801	-	-	4,801
Total general revenues				<u>5,112</u>	<u>542,687</u>	<u>18,864</u>	<u>566,663</u>
Change in net position				9,473,576	206,891	(363,015)	9,317,452
Net position - January 1				<u>33,586,540</u>	<u>948,860</u>	<u>565,855</u>	<u>35,101,255</u>
Net position - December 31				<u>\$ 43,060,116</u>	<u>\$ 1,155,751</u>	<u>\$ 202,840</u>	<u>\$ 44,418,707</u>



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 (*Government Auditing Standards*), 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 (the County), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 16, 2024.

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 the 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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 2022-001, 2022-002, 2022-003, and 2021-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

McKenzie County's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The 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
January 16, 2024



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 the McKenzie County, North Dakota's (the County) 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 year ended December 31, 2022. The 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, the 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 year ended December 31, 2022.

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

Bismarck, North Dakota
January 16, 2024

McKenzie County
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assisting Listing</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	<u>\$ 19,608,072</u>
U.S. Department of Treasury			
<u>Direct Program</u>			
COVID-19 American Rescue Plan Act	21.027	N/A	<u>2,918,236</u>
U.S. Department of Interior			
<u>Passed-Through State Treasurer</u>			
Taylor Grazing	15.227	Unknown	24
Late Disbursement Interest	15.436	Unknown	180
Mineral Leasing Act (Public Domain Royalties)	15.437	Unknown	19,682,092
Payments in Lieu of Taxes	15.226	Unknown	245,187
Total U.S. Department of Interior			<u>19,927,483</u>
U.S. Department of Homeland Security			
<u>Passed-Through State Department of Emergency Services</u>			
Hazard Mitigation Grant	97.039	Unknown	<u>79,031</u>
Total Federal Financial Assistance			<u><u>\$ 42,532,822</u></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, 2022. 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.

Section I – Summary of Auditor’s Results

	<u>2022</u>
<u>Financial Statements</u>	
Type of auditors' report issued on the governmental activities, each major fund, and the discretely presented component units	Unmodified
Aggregate remaining fund information	Qualified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No
<u>Federal Awards</u>	
Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance.	No
Identification of major programs:	
<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 American Rescue Plan Act	21.027
School and Roads - Grants to Counties (Bankhead Jones)	10.666
Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,275,985
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

**2022-001 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.

2022-002 Recording of Transactions and Passed Audit Adjustments
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 and Water Resource District (discretely presented component unit) financial statements causing us to propose material audit adjustments and passed audit adjustments.

Cause – The County and Water Resource District has not trained staff in the recording of certain transactions.

Effect - Inadequate internal controls over recording of transactions affects the County' and Water Resource District'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.

**2022-003 Preparation of Financial Statements related Footnotes, Schedule of Federal Expenditures, GASB-84 GAAP Departure
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.

**2022-004 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 - Yes

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.

Section III – Federal Award Findings and Questioned Costs

None