

**BILLINGS COUNTY
MEDORA, NORTH DAKOTA**

**FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANT
BEACH, NORTH DAKOTA**

**BILLINGS COUNTY
MEDORA, NORTH DAKOTA
TABLE OF CONTENTS**

	<u>Page</u>
MANAGEMENT DISCUSSION AND ANALYSIS	i - iii
COUNTY COMMISSIONERS AND OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2 - 4
FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet - Governmental Funds	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Government Funds to the Statement of Activities	9
Statement of Fiduciary Net Position	10
Notes to the Financial Statements	11 - 28
REQUIRED SUPPLEMENTARY INFORMATION	29
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund	30
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - Road and Bridge	31
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - Operating and Maintenance Reserve	32
Notes to Required Supplementary Information	33
SUPPLEMENTARY INFORMATION	34
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - Non-Major Special Revenue Funds	35
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	36 - 37

Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Expenditures of Federal Awards	39 – 40
Schedule of Findings and Questioned Costs	41
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE	42 - 44

COUNTY OF BILLINGS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

As the County Commissioners of the County of Billings, North Dakota, we offer readers of Billings County's discussion and analysis an overall review of the County's financial activities for the fiscal year ended December 31, 2015. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the transmittal letter, and the basic financial statements to help enhance their understanding of the County's financial performance.

THE FINANCIAL STATEMENTS:

- Billings County's assets exceeded its liabilities as of December 31, 2015 by \$44,755,508 (net position). Of this amount, \$31,504,694 (unrestricted net position), may be used to meet the government's ongoing obligations to its citizens and its creditors. The increase in net position was \$3,172,535.
- As of December 31, 2015, Billings County's governmental funds reported combined ending fund balances of \$38,664,844. Of this amount \$16,379,397 is in the general fund, and is available for spending at the government's discretion. The balance of \$22,285,447 is in special revenue funds and is to be used for the designated purposes of each fund.
- Billings County's total net increase in fund balances for the Governmental Funds was \$3,397,989.
- Billings County's total cash balance on December 31, 2015 was \$34,267,650.
- \$1,378,000 was transferred between different special revenue funds. The largest portions of the transfers were from funds that receive the state funds to the road & bridge fund, which expends the funds.
- Billings County had \$636,842 in capital asset purchases.
- SEE ATTACHED SCHEDULES OF NET POSITION, REVENUES AND EXPENDITURES.

USING THIS AUDIT REPORT:

This audit report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Billings County as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions. More detailed information for certain funds, reported as "Major Funds" include (Governmental Funds): General (which is Billings County's primary operating fund), Public Safety, Public Works and Public Health.

The Statement of Net Position and Statement of Activities provide information about the activities of the entire County. Net position is the difference between the assets and the liabilities. Over time, increases or decreases shown in the County's net position is one indicator of whether its financial health is

improving or deteriorating. Another factor which is beneficial to all of Billings County is the oil and gas revenues derived herein.

OVERVIEW OF THE FINANCIAL STATEMENTS:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities are designed to provide readers with a broad overview of Billings County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Billings County that are primarily supported by various revenues such as taxes, non-tax revenues such as oil and gas revenue, grants, intergovernmental revenues, charges for services, fines and forfeiture (referred to as "governmental activities"). These two statements report the County's net position and changes. The County's net position, (the difference between assets and liabilities), is one way to measure the financial status of the County. By watching the increases and decreases in the County's net position, the reader will note the County's improvement or deterioration. The Statement of Net Position and the Statement of Activities distinguishes between the following activities:

- **Governmental Activities** – Most of the County's basic services are reported here, including general administration public safety, public works, and health. Property taxes, state and federal grants and oil and gas revenues finance most of these activities. Federal funds are expended first.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Billings County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-side financial statements, governmental funds focus on near term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

Notes To The Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-28 of this report.

Required Supplementary Information -- This information precedes the basic financial statements or is included in the basic financial statements and accompanying notes, therefore no other information is presented in the section for required supplementary information.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions concerning this report or need additional information, please contact the Auditor's Office at the Billings County Courthouse.

BILLINGS COUNTY

STATEMENT OF NET POSITION

	2014	2015	2014/2015 CHANGE
ASSETS			
CASH AND CASH EQUIVALENTS	\$32,171,144	\$34,267,650	\$2,096,506
RECEIVABLES	\$691,632	\$644,119	(\$47,513)
PREPAIDS	\$0	\$0	\$0
INVENTORY	\$3,361,791	\$4,104,813	\$743,022
CURRENT ASSETS	\$36,224,567	\$39,016,582	\$2,792,015
CAPITAL ASSETS (LAND)	\$58,670	\$58,670	\$0
CAPITAL ASSETS (INFRASTRUCTURE)	\$570,525	\$570,525	\$0
CAPITAL ASSETS (NET)	\$8,768,180	\$8,245,661	(\$522,519)
TOTAL ASSETS	\$45,621,942	\$47,891,438	\$2,269,496
DEFERRED OUTFLOWS OF RESOURCES			
	\$0	\$53,699	\$53,699
CURRENT LIABILITIES			
DUE WITHIN ONE YEAR	\$947,443	\$345,333	(\$602,110)
LONG-TERM LIABILITIES	\$167,476	\$173,907	\$6,431
TOTAL LIABILITIES	\$1,103,875	\$2,670,389	\$1,566,514
NET INVESTMENT IN CAPITAL ASSETS			
RESTRICTED FOR OTHER PURPOSES	\$8,687,887	\$8,332,844	(\$355,043)
UNRESTRICTED	\$5,666,744	\$4,917,970	(\$748,774)
NET POSITION	\$29,048,517	\$31,504,694	\$2,456,177
	\$43,403,148	\$44,755,508	\$1,352,360

STATEMENT OF REVENUES

CHARGE FOR SERVICES	\$494,457	\$898,274	\$403,817
PROPERTY TAXES	\$889,170	\$1,067,882	\$178,712
LICENSES AND PERMITS	\$546,871	\$143,017	(\$403,854)
FEDERAL AND STATE SHARED REVENUE	\$19,192,146	\$14,299,965	(\$4,892,181)
GRANTS AND CONTRIBUTIONS	\$352,414	\$415,429	\$63,015
INVESTMENT EARNINGS	\$35,901	\$62,785	\$26,884
OTHER	\$281,644	\$275,170	(\$6,474)
TOTAL	\$21,792,603	\$17,162,522	(\$4,630,081)

STATEMENT OF EXPENDITURES

GENERAL GOVERNMENT	\$2,047,186	\$2,049,528	\$2,342
PUBLIC SAFETY	\$2,121,602	\$1,690,486	(\$431,116)
PUBLIC WORKS	\$9,629,530	\$9,667,395	\$37,865
PUBLIC HEALTH	\$116,673	\$119,634	\$2,961
SOCIAL AND ECONOMIC	\$11,500	\$12,000	\$500
CULTURE AND RECREATION	\$46,937	\$52,502	\$5,565
CONSERVATION	\$399,460	\$398,442	(\$1,018)
TOTAL	\$14,372,888	\$13,989,987	(\$382,901)
CHANGE IN NET POSITION	\$7,419,715	\$3,172,535	(\$4,247,180)

BILLINGS COUNTY

COUNTY OFFICIALS

County Commissioner	Joseph Kessel
County Commissioner	Jim Arthaud
County Commissioner	Mike Kasian
County Auditor/Treasurer	Marcia Lamb
County Sheriff	Pat Rummel
Clerk of District Court and County Recorder	Donna Adams
States Attorney	Jay V. Brovold



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Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Billings County
Medora, North Dakota 58645

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Billings County, Medora, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Billings County, Medora, North Dakota, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2015 the County adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i - iii and 29 - 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Billings County, Medora, North Dakota's basic financial statements. The combining and individual nonmajor fund financial statements are

presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2016, on our consideration of Billings County, Medora, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Billings County, Medora, North Dakota's internal control over financial reporting and compliance.

James J. Wosepka, PC

August 18, 2016
Beach, North Dakota

By  James J. Wosepka
CPA

BILLINGS COUNTY
STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 34,267,650
Taxes/Assessments receivable	6,405
Due from other governments	561,398
Other receivables	76,316
Inventories	4,104,813
Capital assets not being depreciated	
Land	58,670
Infrastructure	570,525
Capital assets being depreciated (net of accumulated depreciation)	8,245,661
	8,245,661
Total Assets	47,891,438
 DEFERRED OUTFLOWS OF RESOURCES	
	53,699
 LIABILITIES	
Accounts payable and other current liabilities	345,333
Noncurrent liabilities:	
Due within one year	173,907
Due in more than one year	2,670,389
	2,670,389
Total Liabilities	3,189,629
 NET POSITION	
Net investment in capital assets	8,332,844
Restricted for:	
Inventory	4,104,813
Other Restricted	813,157
Unrestricted	31,504,694
	31,504,694
Total Net Position	\$ 44,755,508

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

**BILLINGS COUNTY
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services, Fines, Forfeitures, etc.	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 2,049,528	\$ 93,110	\$ -	\$ (1,956,418)
Public safety	1,690,486	271,183	129,747	(1,289,556)
Public works	9,667,395	367,468	-	(9,299,927)
Public health	119,634	-	-	(119,634)
Social and economic services	12,000	-	-	(12,000)
Culture and recreation	52,502	-	-	(52,502)
Conservation of natural resources	398,442	166,513	-	(231,929)
Total governmental activities	\$ 13,989,987	\$ 898,274	\$ 129,747	(12,961,966)
General revenues:				
Property taxes				1,067,882
Licenses and permits				143,017
Unrestricted Federal/State shared revenues				14,299,965
Unrestricted grants				285,682
Unrestricted investment earnings				62,785
Miscellaneous				263,170
Gain on sale of capital assets				12,000
Total general revenues and transfers				16,134,501
				Change in net position
				3,172,535
Total net position - January 1, 2015 - as previously reported				43,403,148
Restatement				(1,820,175)
Total net position - January 1, 2015 - as restated				41,582,973
Total net position - December 31, 2015				\$ 44,755,508

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

**BILLINGS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015**

Description	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Road & Bridge		
ASSETS				
Cash and cash equivalents	\$ 15,864,804	\$ 14,445,179	\$ 3,957,667	\$ 34,267,650
Tax/assessment receivable	997	1,101	4,307	6,405
Other receivables	35,464	40,852	-	76,316
Due from other governments	490,420	-	70,978	561,398
Prepaid expenses	-	-	-	-
Inventories	-	4,104,813	-	4,104,813
Total Assets	16,391,685	18,591,945	4,032,952	39,016,582
LIABILITIES				
Accounts payable	11,291	334,042	-	345,333
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	997	1,101	4,307	6,405
Fund balances:				
Nonspendable	-	4,104,813	-	4,104,813
Restricted	-	-	840,846	840,846
Committed	-	-	196,145	196,145
Assigned	-	14,151,989	2,991,654	17,143,643
Unassigned	16,379,397	-	-	16,379,397
Total fund balances	16,379,397	18,256,802	4,028,645	38,664,844
Total liabilities, deferred inflows of resources and fund balances	\$ 16,391,685	\$ 18,591,945	\$ 4,032,952	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>8,874,856</u>
Certain property tax collections are not available to pay current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	<u>6,405</u>
Long-term liabilities, including bonds and pensions payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,790,597)</u>
Net Position of Governmental Funds	<u>\$ 44,755,508</u>

BILLINGS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2015

Description	<u>Major Funds</u>			Total Governmental Funds
	General	Road & Bridge	Other Governmental Funds	
REVENUES				
Taxes/assessments	\$ 227,963	\$ 172,912	\$ 670,871	\$ 1,071,746
Licenses and permits	28,315	114,702	-	143,017
Intergovernmental revenues	2,726,885	10,520,703	1,338,059	14,585,647
Charges for services	88,280	404,658	179,592	672,530
Miscellaneous	542,702	44,757	31,202	618,661
Investment and royalty earnings	47,691	-	15,094	62,785
Total Revenues	3,661,836	11,257,732	2,234,818	17,154,386
EXPENDITURES				
Current:				
General government	1,816,267	-	336,511	2,152,778
Public safety	1,761,363	-	13,032	1,774,395
Public works	-	9,272,491	-	9,272,491
Public health	-	-	119,634	119,634
Social and economic services	-	-	12,000	12,000
Culture and recreation	-	-	52,502	52,502
Conservation of natural resources	9,000	-	363,597	372,597
Total Expenditures	3,586,630	9,272,491	897,276	13,756,397
Excess of revenues over (under) expenditures	75,206	1,985,241	1,337,542	3,397,989
OTHER FINANCING SOURCES (USES):				
Transfers in	242,000	1,126,000	68,900	1,436,900
Transfers out	(58,900)	-	(1,378,000)	(1,436,900)
Total other financing sources (uses)	183,100	1,126,000	(1,309,100)	-
Net change in fund balances	258,306	3,111,241	28,442	3,397,989
Fund balances - January 1, 2015	16,121,091	15,145,561	4,000,203	35,266,855
Fund balances - December 31, 2015	\$ 16,379,397	\$ 18,256,802	\$ 4,028,645	\$ 38,664,844

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

BILLINGS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2015

Net change in fund balances - total governmental funds (page 8)	\$ 3,397,989
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	636,842
Depreciation expense	<u>(1,159,361)</u>
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
Gain (loss) on the disposal of capital assets	12,000
Proceeds from the sale of capital assets	<u>(12,000)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Unavailable property taxes	<u>(3,864)</u>
Repayment of debt principal is and expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Capital lease payments	<u>167,476</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	<u>(30,429)</u>
Change in pension liability	<u>163,882</u>
Change in Net Position in Governmental Activities	\$ <u>3,172,535</u>

**BILLINGS COUNTY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2015**

Description	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 64,123
Total Assets	\$ 64,123
 LIABILITIES	
Due to other governments	\$ 64,123
Total Liabilities	\$ 64,123

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

**BILLINGS COUNTY
MEDORA, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

The financial statements of Billings County (County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The County's significant accounting policies are described below.

Reporting Entity

The County is governed by an elected three-member Board of County Commissioners and is considered a legally independent separate governmental organization able to sue or be sued, buy, sell, or lease property, approve or modify their budget, set its own taxes or rates, and issue bonded debt.

The primary government (County) is financially accountable for a component unit if it appoints a voting majority of the unit's governing body and if it has the ability to impose its' will on the component unit or if there is an affirmative potential financial benefit or burden.

Basic Financial Statements

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The Government-wide financial statements (Statement of Net Position and Statement of Activities) report on the County as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in the financial statements. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the County as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Government-wide Statement of Net Position reports all financial and capital resources of the County, excluding fiduciary funds. It is displayed in a format of assets less liabilities equal net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by any 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 is those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position, not otherwise classified as restricted, is shown as unrestricted. Generally, the County would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the County are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income, and other revenues, not identifiable with particular functions or programs, are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

The County reports the following major governmental funds:

General – This fund is the primary fund of the County. This fund is used to account for all financial resources not reported in other funds.

1. **Summary of Significant Accounting Policies – cont.**
Basic Financial Statements – cont.

Road & Bridge – This fund is used to build and maintain the County's roads. Revenue is from oil and gas royalties.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits, and penalties and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current position and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the County's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of more than \$5,000 with a useful life of one year or more.

1. **Summary of Significant Accounting Policies – cont.**
Capital Assets – cont.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 50
Vehicles	3 - 10
Equipment other than vehicles	10 - 20
Office equipment	5

No provision is being made to capitalize interest on debt to finance construction of assets.

Infrastructure is not being depreciated as the County has a plan to maintain the road.

Taxes and Assessments

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The County applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Compensated Absences

The County's policy on vacation days is that an employee earns vacation days during each 12 month period beginning with the anniversary date of employment. The vacation days vest at the end of each 12 month period and must be taken during the next 12 month period.

Sick leave is also accrued with a maximum of 120 days.

1. **Summary of Significant Accounting Policies – cont.**
Compensated Absences – cont.

As of December 31, 2015, accrued vacation approximated \$592,292. The amount applicable to the General Fund was \$201,427 and to the Special Revenue Funds was \$390,865.

<u>Compensated Absences</u>			
<u>12/31/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
\$ <u>561,863</u>	\$ <u>62,346</u>	\$ <u>31,917</u>	\$ <u>592,292</u>

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Encumbrances

Encumbrance accounting is used for the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as reserved fund balance until liquidated. The County had encumbrances of \$0 for the year ended December 31, 2015.

Estimates

Management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Fund Balances – Governmental Funds

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the County Commission. The County Commission is the highest level of decision making authority for the County. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the County Commission.

1. **Summary of Significant Accounting Policies – cont.**
Fund Balances – Governmental Funds – cont.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the County’s adopted policy, only the County Commission may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the County Commission has provided otherwise in its commitment or assignment actions.

	<u>General</u>	<u>Road & Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable	\$ -	\$ 4,104,813	\$ -	\$ 4,104,813
Restricted for:				
General Government	-	-	27,945	27,945
Public Safety	-	-	32,525	32,525
Public Works	-	-	407,135	407,135
Social & Economic	-	-	320,620	320,620
Conservation	-	-	52,621	52,621
Committed to:				
General Government	-	-	37,563	37,563
Social & Economic	-	-	56,010	56,010
Conservation	-	-	102,572	102,572
Assigned for:				
Public Works	-	14,151,989	1,486,473	15,638,462
Public Safety	-	-	1,505,181	1,505,181
Unassigned:	<u>16,379,397</u>	<u>-</u>	<u>-</u>	<u>16,379,397</u>
Total Fund Balance:	<u>\$ 16,379,397</u>	<u>\$ 18,256,802</u>	<u>\$ 4,028,645</u>	<u>\$ 38,664,844</u>

Reported with the General Fund unassigned fund balance is \$4,475,505 from the Operating & Maintenance Reserve Fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County does not have any of this type of item.

1. **Summary of Significant Accounting Policies – cont.**
Deferred Outflows/Inflows of Resources – cont.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Implementation of GASB Pronouncements

In June 2012, GASB issued revised pension accounting and reporting guidance for governmental employers, *Accounting and Financial Reporting for Pensions*. This revised guidance is effective for periods beginning after June 15, 2014, and will require cost-sharing employers like the County to recognize their proportionate share of the collective pension expense, deferred inflows and outflows of resources, and the net pension liabilities related to the County's participation in the Public Employees Retirement System.

2. **Restatement**

The County adopted GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. This Statement establishes standards of financial reporting and specifies the required approach to measuring pension liability of employers for benefits provided through the pension plan. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This financial report has been updated in accordance with GASB Statement No. 67.

Related to its implementation of GASB Statement No. 67, the County elected to implement the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, for the Employees' Pension Plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures that will be presented by the pension plans that are within its scope.

The implementation of GASB Statement No. 68 had the following effect:

	Governmental <u>Activities</u>
Net position, December 31, 2014	\$ 43,403,148
Recognition of net pension liabilities	<u>(1,820,175)</u>
Restated net position, December 31, 2014	<u>\$ 41,582,973</u>

3. **Cash and Cash Equivalents**

Certificates of Deposit bearing interest at .10% - .30% are included as cash. State statues authorize local governments to invest in: a) Bonds, treasury bills and notes or other securities that are a direct obligation of, or an 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 of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) Obligations of the state, e) Certificates of deposit, savings deposits, or other deposits fully insured or guaranteed by the federal deposit insurance corporation and placed for the benefit of the public depositor by a public depository through an appropriate deposit placement service as determined by the commissioner of financial institutions, f) State and local securities, and f) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

Cash and investments are consolidated for balance sheet presentation because a portion of the investments are purchased from the checking account and are not designated to any particular fund.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the County's deposits may not be returned or the County will not be able to recover collateral securities in the possession of an outside party.

At December 31, 2015, the carrying amount of the County's deposits was \$34,267,650 and the bank balance was \$34,580,144. Of the bank balance, \$1,250,000 was covered by Federal Depository Insurance and \$33,330,144 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. As of December 31, 2015, \$0 was unsecured.

Interest rate risk is the risk that changes in interest rates will adversely affect the value of investments. The County has no interest rate risk, since the Government Securities are held to maturity.

4. **Taxes Receivable**

Taxes receivable consist of delinquent uncollected taxes at December 31. Property tax revenue is recognized in compliance with National Council on Government Accounting (NCGA) Interpretation 3 "Revenue Recognition-Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means then due, or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within the time period, taxes receivable are recorded as deferred inflows of resources.

4. **Taxes Receivable – cont.**

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid.

5. **Unearned Revenues**

Unearned revenue consists of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available.

6. **Pension Plan**

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven 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; and one member elected by the retired public employees.

6. Pension Plan – cont.

Pension Benefits

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

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

Death and Disability Benefits

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

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the

6. **Pension Plan – cont.**

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.

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

- 1 to 12 months of service – Greater of 1% of monthly salary or \$25
- 13 to 25 months of service – Greater of 2% of monthly salary or \$25
- 25 to 36 months of service – Greater of 3% of monthly salary or \$25
- Longer than 36 months of service – Greater of 4% of monthly salary or \$25

Member and Employer Contributions

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

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

At December 31, 2015, the Employer reported a liability of \$1,656,293 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2014, the Employer's proportion was 0.260948%.

For the year ended December 31, 2015, the Employer recognized pension expense of \$163,882. At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

6. Pension Plan – cont.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 53,699	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(323,315)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>420,883</u>	<u>-</u>
Total	<u>\$ 474,582</u>	<u>\$(323,315)</u>

\$420,883 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

Year ended June 30:

2016	\$(69,403)
2017	(69,403)
2018	(69,403)
2019	(69,403)
2020	7,998
Thereafter	-

6. **Pension Plan – cont.**

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current

6. **Pension Plan – cont.**

plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$2,554,493	\$1,656,293	\$905,274

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

Schedules of Required Supplementary Information

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

	2015
Employer's proportion of the net pension liability (asset)	0.260948%
Employer's proportionate share of the net pension liability (asset)	\$1,656,293
Employer's covered-employee payroll	\$156,510
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.58%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

*Complete data for this schedule is not available prior to 2015.

6. **Pension Plan – cont.**

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

	2015
Statutorily required contribution	\$156,510
Contributions in relation to the statutorily required contribution	(\$156,510)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	\$2,198,175
Contributions as a percentage of covered-employee payroll	7.12%

*Complete data for this schedule is not available prior to 2015.

7. **Inventory**

Inventories consist of gravel and scoria on hand at year end and are stated at cost, including crushing and royalties. The inventory is expensed as used.

8. **Risk Management**

The County participates in the North Dakota Insurance Reserve Fund, North Dakota Fire and Tornado Fund, and the North Dakota Worker's Compensation Bureau to control their risk of loss. There have been no settled claims that exceeded the insurance coverage in any of the past three fiscal years.

9. Capital Assets

Capital assets activity for the fiscal year ended December 31, 2015.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 58,670	\$ -	\$ -	\$ 58,670
Infrastructure	570,525	-	-	570,525
Total capital assets not being depreciated	<u>629,195</u>	<u>-</u>	<u>-</u>	<u>629,195</u>
Capital assets being depreciated				
Buildings	4,878,381	62,985	-	4,941,366
Improvements	134,911	-	-	134,911
Machinery and equipment	10,226,496	617,867	(219,009)	10,625,354
Total capital assets being depreciated	<u>15,239,788</u>	<u>680,852</u>	<u>(219,009)</u>	<u>15,701,631</u>
Less accumulated depreciation for:				
Buildings	(1,621,103)	(115,947)	-	(1,737,050)
Improvements	(42,352)	(8,993)	-	(51,345)
Machinery and equipment	(4,808,153)	(1,034,421)	174,999	(5,667,575)
Total accumulated depreciation	<u>(6,471,608)</u>	<u>(1,159,361)</u>	<u>174,999</u>	<u>(7,455,970)</u>
Net capital assets being depreciated	<u>8,768,180</u>			<u>8,245,661</u>
Governmental activities capital assets net	<u>\$ 9,397,375</u>			<u>\$ 8,874,856</u>
Depreciation expense:				
General Government	\$ 84,490			
Public Safety	239,059			
Public Works	798,610			
Conservation	37,202			
	<u>\$ 1,159,361</u>			

10. Transfers

Interfund operating transfers for 2015 were as follows:

	Transfer In	Transfer Out
General	\$ 242,000	\$ -
Road and Bridge	1,126,000	-
Unorganized	-	1,000,000
Highway Distribution	-	126,000
Weed	57,000	-
Emergency 911	10,000	-
Operating and Maintenance Reserve	-	58,900
Grant	-	242,000
Extension Services	1,900	-
911 Wireless	-	10,000
	<u>\$ 1,436,900</u>	<u>\$ 1,436,900</u>

11. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund are recorded as disbursements in the reimbursing.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

12. Commitment

During 2008, the County committed \$40,000 to the Theodore Roosevelt Expressway and \$8,000 has been paid for five years. In 2011, the County extended the commitment for an additional five years for the same amount. The County will pay \$8,000 each year for the next two years.

During January 2010, the County committed \$150,000 to the State Historical Society for the Chateau Interpretative Center. The County will pay \$15,000 per year for four more years. The first payment was made in 2010.

The County has committed \$79,000 to the Dickinson Airport to be paid in five annual installments of \$15,800. The first payment was made in 2012.

The County had a road construction contract for \$597,969 as of December 31, 2015. As of the date of this report, this project has been completed, but \$0 had been paid. The County's obligation on this project is \$114,631; the balance will be paid by the state with federal monies.

13. Subsequent Events

Subsequent events have been evaluated through the date of these financial statements.

14. Long-term Debt

The County entered into six capital lease agreements in October of 2014 for trucks and trailers. The total cost of the equipment was \$904,208, with \$194,720 paid down. The balance of the debt is \$709,488. The payment of \$194,720 is due in October of each year starting in 2015, for four years. The interest rate on the leases is 3.84%. The payments are to be paid by the Road and Bridge Fund. Interest paid in 2015 was \$27,244.

Long-term debt activity for 2015:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Paid</u>	<u>Ending Balance</u>
\$ <u>709,488</u>	\$ <u>-</u>	\$ <u>167,476</u>	\$ <u>542,012</u>

14. **Long-term Debt – cont.**

The following is a schedule of the debt service requirements as of December 31, 2015:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service Required</u>
2016	\$ 173,907	\$ 20,813	\$ 194,720
2017	180,585	14,135	194,720
2018	187,520	7,200	194,720
	<u>\$ 542,012</u>	<u>\$ 42,148</u>	<u>\$ 584,160</u>

REQUIRED
SUPPLEMENTARY INFORMATION

BILLINGS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 153,300	\$ 153,300	\$ 227,963	\$ 74,663
Licenses, Permits, Fees	9,500	9,500	28,315	18,815
Intergovernmental Revenue	3,103,100	3,103,100	2,726,885	(376,215)
Charges for Services	275,600	275,600	88,280	(187,320)
Miscellaneous Revenue	9,600	9,600	542,702	533,102
TOTAL REVENUES	<u>3,551,100</u>	<u>3,551,100</u>	<u>3,614,145</u>	<u>63,045</u>
EXPENDITURES:				
Current:				
General Government	2,583,196	2,583,196	1,816,267	766,929
Public Safety	2,465,904	2,465,904	1,761,363	704,541
Conservation and Economic Development	9,000	9,000	9,000	-
TOTAL EXPENDITURES	<u>5,058,100</u>	<u>5,058,100</u>	<u>3,586,630</u>	<u>1,471,470</u>
Excess of Revenues Over/ (Under) Expenditures	<u>(1,507,000)</u>	<u>(1,507,000)</u>	<u>27,515</u>	<u>1,534,515</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers - In	-	-	242,000	242,000
Operating Transfers - Out	-	-	-	-
TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>242,000</u>	<u>242,000</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Uses	<u>\$ (1,507,000)</u>	<u>\$ (1,507,000)</u>	<u>\$ 269,515</u>	<u>\$ 1,776,515</u>
Fund balance - January 1, 2015			<u>11,634,377</u>	
Fund balance - December 31, 2015			<u>\$ 11,903,892</u>	

BILLINGS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
ROAD AND BRIDGE
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 168,450	\$ 168,450	\$ 172,912	\$ 4,462
Licenses, Permits, Fees	100,000	100,000	114,702	14,702
Intergovernmental Revenue	10,565,700	10,565,700	10,520,703	(44,997)
Charges for Services	6,000	6,000	404,658	398,658
Miscellaneous Revenue	<u>53,952</u>	<u>53,952</u>	<u>44,757</u>	<u>(9,195)</u>
TOTAL REVENUES	<u>10,894,102</u>	<u>10,894,102</u>	<u>11,257,732</u>	<u>363,630</u>
EXPENDITURES:				
Current:				
Public Works	<u>17,875,102</u>	<u>17,875,102</u>	<u>9,272,491</u>	<u>8,602,611</u>
TOTAL EXPENDITURES	<u>17,875,102</u>	<u>17,875,102</u>	<u>9,272,491</u>	<u>8,602,611</u>
Excess of Revenues Over/ (Under) Expenditures	<u>(6,981,000)</u>	<u>(6,981,000)</u>	<u>1,985,241</u>	<u>8,966,241</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers - In	1,126,000	1,126,000	1,126,000	-
Operating Transfers - Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>1,126,000</u>	<u>1,126,000</u>	<u>1,126,000</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Uses	<u>\$ (5,855,000)</u>	<u>\$ (5,855,000)</u>	<u>3,111,241</u>	<u>\$ 8,966,241</u>
Fund balance - January 1, 2015			<u>15,145,561</u>	
Fund balance - December 31, 2015			<u>\$ 18,256,802</u>	

**BILLINGS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
OPERATING AND MAINTENANCE RESERVE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses, Permits, Fees	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Investment Earnings	40,000	40,000	47,691	7,691
Miscellaneous Revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	40,000	40,000	47,691	7,691
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Highways	-	-	-	-
Health and Sanitation	-	-	-	-
Culture and Recreation	-	-	-	-
Conservation and Economic Development	-	-	-	-
Miscellaneous	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues Over/ (Under) Expenditures	<u>40,000</u>	<u>40,000</u>	<u>47,691</u>	<u>7,691</u>
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):				
Operating Transfers - In	-	-	-	-
Operating Transfers - Out	<u>(58,900)</u>	<u>(58,900)</u>	<u>(58,900)</u>	<u>-</u>
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING USES	(58,900)	(58,900)	(58,900)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Uses	<u>\$ (18,900)</u>	<u>\$ (18,900)</u>	(11,209)	<u>\$ 7,691</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance - January 1, 2015			<u>4,486,714</u>	
Fund balance - December 31, 2015			<u>\$ 4,475,505</u>	

BILLINGS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015

Budgets/Variances

The County adopted an annual budget for the General and Special Revenue funds.

Each officer must prepare a departmental budget. The County Auditor then prepares an annual budget. The final budget must be adopted on or before October 1. The budget may be amended during the year, except no amendment changing the taxes levied can be made after October 10. A notice of meeting to act on the County budget must be published in at least one issue of the official county newspaper.

On or before the October meeting, the Board of County Commissioners shall determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts.

The budgets are prepared on a cash basis, which is not materially different from the modified accrual basis. All annual appropriations lapse at year end.

The following authorized budget amendments were approved to increase expenditures:

		<u>Original Budget</u>		<u>Change</u>		<u>Final Budget</u>
Human Services	\$	155,636	\$	10,000	\$	165,636

Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances, on page 8, combines the General and Operating & Maintenance Reserve Funds.

	<u>General</u>	<u>Operating & Maintenance Reserve</u>	<u>Total</u>
Fund balance, beginning	\$ 11,634,377	\$ 4,486,714	\$ 16,121,091
Revenues	3,856,145	47,691	3,903,836
Expenditures	3,586,630	58,900	3,645,530
Fund balance, ending	<u>\$ 11,903,892</u>	<u>\$ 4,475,505</u>	<u>\$ 16,379,397</u>

SUPPLEMENTARY INFORMATION

BILLINGS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
NON - MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 655,484	\$ 655,484	\$ 670,871	\$ 15,387
Intergovernmental Revenue	1,387,825	1,387,825	1,338,059	(49,766)
Charges for Services	121,000	121,000	179,592	58,592
Miscellaneous Revenue	19,999	19,999	31,202	
Investment Earnings	-	-	15,094	15,094
TOTAL REVENUES	<u>2,184,308</u>	<u>2,184,308</u>	<u>2,234,818</u>	<u>50,510</u>
EXPENDITURES:				
Current:				
General Government	764,000	764,000	336,511	427,489
Public Safety	553,500	553,500	13,032	540,468
Public Works	-	-	-	-
Health and Sanitation	155,636	165,636	119,634	46,002
Social and Economic	12,000	12,000	12,000	8,318
Culture and Recreation	52,502	52,502	52,502	-
Conservation and Economic Development	444,570	444,570	363,597	80,973
TOTAL EXPENDITURES	<u>1,982,208</u>	<u>1,992,208</u>	<u>897,276</u>	<u>1,103,250</u>
Excess of Revenues Over/(Under) Expenditures	<u>202,100</u>	<u>192,100</u>	<u>1,337,542</u>	<u>1,145,442</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers - In	68,900	68,900	68,900	-
Operating Transfers - Out	(1,136,000)	(1,136,000)	(1,378,000)	(242,000)
TOTAL OTHER FINANCING USES	<u>(1,067,100)</u>	<u>(1,067,100)</u>	<u>(1,309,100)</u>	<u>(242,000)</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Uses	<u>\$ (865,000)</u>	<u>\$ (875,000)</u>	28,442	<u>\$ 903,442</u>
Fund balance - January 1, 2015			<u>4,000,203</u>	
Fund balance - December 31, 2015			<u>\$ 4,028,645</u>	



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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
Billings County
Medora, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Billings County, Medora, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Billings County, Medora, North Dakota's basic financial statements, and have issued our report thereon dated August 18, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Billings County, Medora, North Dakota'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*.

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.

James J. Wosepka, PC

By  CPA

August 18, 2016
Beach, North Dakota

**BILLINGS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Federal Assistance</u>	<u>Description</u>	<u>Expenditures</u>	
DIRECT ASSISTANCE			
US Dept. of Agriculture			
10.666	(Major Program) Schools and Road - Grants to Counties	\$ 6,344,400	
TOTAL DIRECT ASSISTANCE		<u>\$ 6,344,400</u>	\$ 6,344,400
 State Administered Assistance			
North Dakota Division of Emergency Management			
Federal Department of Homeland Security			
97.042	Emergency Management Performance Grant	\$ 4,015	
97.036	Disaster Grant - Public Assistance	<u>11,204</u>	15,219
 North Dakota State Treasurer			
US Department of the Interior			
15.437	Mineral Leasing Act	<u>574,399</u>	574,399
 North Dakota Department of Transportation			
Federal Department of Transportation			
20.616	Other	<u>3,158</u>	<u>3,158</u>
	Total State Administered Assistance	<u>\$ 592,776</u>	
	Total Federal Assistance		<u>\$ 6,937,176</u>

BILLINGS COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2015

1. Purpose of the schedule

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. Summary of significant accounting policies

A. Basis of presentation

Federal financial assistance

Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Billings County received no nonmonetary federal assistance during 2015. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of federal domestic assistance

OMB Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Federal financial assistance programs which have not been assigned a CFDA number are indicated with an "N/A".

B. Major programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

BILLINGS COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
DECEMBER 31, 2015

C. Reporting entity

The schedule includes all federal financial assistance programs administered by the County.

D. Basis of accounting

Federal financial assistance expenditures included in the schedule is reported using the same basis of accounting as disclosed in Note 1 of the basic financial statements.

E. Matching costs

The schedule does not include matching expenditures.

F. Indirect Cost Rule

Billings County has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

3. Funds to sub-recipient

There County passed through \$700,000 to the school from the School and Road – Grant to Counties – CFDA 10.666.

**BILLINGS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

A. SUMMARY OF AUDIT RESULTS

1. The Auditor's Report expresses an unmodified opinion on the financial statements for Billings County.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Billings County were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. The Auditor's Report on compliance for the major federal award programs for Billings County expresses an unmodified opinion on all major federal programs.
6. Our audit showed no findings relative to the major federal award program required to be reported under the Uniform Guidance for Billings County.
7. The program tested as a major program included: The Schools and Roads-Grants to Counties from the US Department of Agriculture 10.666.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Billings County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. COUNTY'S RESPONSE

N/A



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE

To the County Commissioners
Billings County
Medora, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Billings County, Medora, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Billings County, Medora, North Dakota's major federal programs for the year ended December 31, 2015. Billings County, Medora, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Billings County, Medora, North Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Billings County, Medora, North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Billings County, Medora, North Dakota's compliance.

Opinion on Each Major Federal Program

In our opinion, Billings County, Medora, North Dakota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of Billings County, Medora, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Billings County, Medora, North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Billings County, Medora, North Dakota's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

James J. Wosepka, PC

By James J. Wosepka, CPA

August 18, 2016
Beach, North Dakota