

EDDY COUNTY
NEW ROCKFORD, NORTH DAKOTA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Eddy County
New Rockford, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Eddy County 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 of 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Discretely Presented Component Unit	Unmodified
General Fund	Unmodified
Human Services Fund	Unmodified
Highway Tax fund	Unmodified
Road Surfacing Fund	Unmodified
County Road and Bridge Fund	Unmodified
2011 Disaster Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

Prior to December 31, 2003, the County did not maintain capital asset records. Therefore, we were not able to obtain sufficient, appropriate audit evidence about the amounts at which capital assets are recorded for the governmental activities in the accompanying statement of net position at December 31, 2015.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities of Eddy County, as of December 31, 2015, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, the discretely presented component unit and the aggregate remaining fund information of Eddy County, North Dakota as of December 31, 2015, and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As discussed in Note 17 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 17 to the financial statements, the County has restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2016 on our consideration of the County's internal control over financial reporting and 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 the 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 Eddy County's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

August 27, 2016

EDDY COUNTY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Water Resource District</u>
ASSETS		
Cash and cash equivalents	\$ 2,609,248	\$ 27,702
Accounts receivable	59,355	-
Taxes receivable	22,288	-
Loans receivable	15,732	-
Capital assets:		
Construction in progress	1,080,508	-
Infrastructure	5,514,508	-
Building	158,507	-
Equipment	635,038	-
Less: Accumulated depreciation	(1,023,710)	-
Total capital assets	<u>6,364,851</u>	<u>-</u>
Total assets	<u>9,071,474</u>	<u>27,702</u>
DEFERRED OUTFLOWS OF RESOURCES		
Cost sharing defined benefit pension plan - NDPERS	<u>75,585</u>	<u>-</u>
Total deferred outflows of resources	<u>75,585</u>	<u>-</u>
LIABILITIES		
Accounts payable and accrued expenses	71,968	-
Unearned revenue	113,426	-
Long-term liabilities:		
Due within one year:		
Compensated absences	11,000	-
Due in more than one year:		
Net Pension Liability	565,630	-
Compensated absences	<u>18,398</u>	<u>-</u>
Total liabilities	<u>780,422</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes collected - subs. years	399,689	-
Cost sharing defined benefit pension plan - NDPERS	<u>98,119</u>	<u>-</u>
Total deferred inflows of resources	<u>497,808</u>	<u>-</u>
NET POSITION		
Net invested in capital assets	6,364,851	-
Restricted for:		
Debt service	1,617	-
Health and welfare	77,439	-
Highways	1,220,940	-
Culture and recreation	16,814	-
Economic development	17,197	-
Special purposes	149,503	27,702
Unrestricted	<u>20,468</u>	<u>-</u>
Total net position	<u>\$ 7,868,829</u>	<u>\$ 27,702</u>

See Notes to the Financial Statements

EDDY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Water Resource District
<u>Governmental Activities:</u>						
General government	\$ 919,061	\$ 19,311	\$ -	\$ -	\$ (899,750)	
Public safety	396,701	142,225	85,357	-	(169,119)	
Highways	915,689	124,922	447,085	1,152,263	808,581	
Health and welfare	370,176	3,024	29,320	-	(337,832)	
Culture and recreation	27,047	11,497	-	-	(15,550)	
Conservation of natural resources	74,851	-	-	-	(74,851)	
Economic Development	3,705	-	-	-	(3,705)	
Interest and other charges	914	-	-	-	(914)	
Other	86,324	-	-	-	(86,324)	
Total governmental activities	<u>\$ 2,794,468</u>	<u>\$ 300,979</u>	<u>\$ 561,762</u>	<u>\$ 1,152,263</u>	<u>(779,464)</u>	
<u>Component Unit:</u>						
Water Resource District	<u>\$ 133,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (133,568)</u>
<u>General revenues:</u>						
Taxes:						
Property taxes; levied for general purposes					312,815	37,102
Property taxes; other					929,159	-
State aid distribution not retracted to specific programs					506,822	-
Investment earnings					7,057	13
Miscellaneous					73,705	596
Total general revenues					<u>1,829,558</u>	<u>37,711</u>
Change in net position					1,050,094	(95,857)
Net position - January 1					<u>8,585,706</u>	<u>123,559</u>
Prior Period Adjustment - See Note 17					(1,261,915)	-
GASB 68 & 71 Adjustment - See Note 17					(505,056)	-
Net Position - January 1 restated					<u>6,818,735</u>	<u>123,559</u>
Net position - December 31					<u>\$ 7,868,829</u>	<u>\$ 27,702</u>

See Notes to the Financial Statements

EDDY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	General Fund	Human Services	Highway Tax	Road Surfacing	County Road and Bridge	2011 Disaster Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 868,482	\$ 93,827	\$ 459,833	\$ 520,383	\$ 253,953	\$ 110,373	\$ 302,397	\$ 2,609,248
Accounts receivable	2,168	1,370	-	-	55,817	-	-	59,355
Taxes receivable	5,612	4,020	-	2,225	1,005	-	9,426	22,288
Loans receivable	-	-	-	-	15,732	-	-	15,732
Total assets	<u>\$ 876,262</u>	<u>\$ 99,217</u>	<u>\$ 459,833</u>	<u>\$ 522,608</u>	<u>\$ 326,507</u>	<u>\$ 110,373</u>	<u>\$ 311,823</u>	<u>\$ 2,706,623</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
<u>Liabilities:</u>								
Accounts payable and accrued expenses	\$ 5,477	\$ 6,935	\$ -	\$ -	\$ 42,909	\$ -	\$ 16,647	\$ 71,968
Unearned revenue	-	-	-	-	-	110,373	3,053	113,426
Total liabilities	<u>5,477</u>	<u>6,935</u>	<u>-</u>	<u>-</u>	<u>42,909</u>	<u>110,373</u>	<u>19,700</u>	<u>185,394</u>
<u>Deferred Inflows of Resources</u>								
Property taxes collected - subs. years	248,372	70,217	-	-	35,108	-	45,992	399,689
Property taxes collected - delinquent	5,612	4,020	-	2,225	1,005	-	9,426	22,288
Total deferred inflows of resources	<u>253,984</u>	<u>74,237</u>	<u>-</u>	<u>2,225</u>	<u>36,113</u>	<u>-</u>	<u>55,418</u>	<u>421,977</u>
<u>Fund Balances:</u>								
Nonspendable - loan receivable	-	-	-	-	15,732	-	-	15,732
Restricted for:								
Debt service	-	-	-	-	-	-	1,014	1,014
Health and welfare	-	18,045	-	-	-	-	64,040	82,085
Highways	-	-	459,833	520,383	231,753	-	-	1,211,969
Culture and recreation	-	-	-	-	-	-	16,650	16,650
Economic development	-	-	-	-	-	-	17,197	17,197
Special purposes	-	-	-	-	-	-	143,237	143,237
Unassigned	616,801	-	-	-	-	-	(5,433)	611,368
Total fund balances	<u>616,801</u>	<u>18,045</u>	<u>459,833</u>	<u>520,383</u>	<u>247,485</u>	<u>-</u>	<u>236,705</u>	<u>2,099,252</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 876,262</u>	<u>\$ 99,217</u>	<u>\$ 459,833</u>	<u>\$ 522,608</u>	<u>\$ 326,507</u>	<u>\$ 110,373</u>	<u>\$ 311,823</u>	<u>\$ 2,706,623</u>

See Notes to the Financial Statements

EDDY COUNTY
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

Total *Fund Balances* for Governmental Funds \$ 2,099,252

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.

Costs of Capital Assets	\$ 7,388,561	
Less Accumulated Depreciation	<u>(1,023,710)</u>	
Net Capital Assets		6,364,851

Property taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the funds. 22,288

Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

Deferred Inflows of Resources	(98,119)
Deferred Outflows of Resources	75,585

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

Net Pension Liability	(565,630)	
Compensated Absences	<u>(29,398)</u>	
Total Long-Term Liabilities		<u>(595,028)</u>

Total Net Position of Governmental Activities \$ 7,868,829

EDDY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Human Services	Highway Tax	Road Surfacing	County Road and Bridge	2011 Disaster Fund	Other Governmental Funds	Total Governmental Funds
Revenues:								
Property taxes	\$ 312,823	\$ 226,289	\$ -	\$ 113,434	\$ 56,572	\$ -	\$ 529,867	\$ 1,238,985
Licenses and permits	1,656	-	-	-	-	-	-	1,656
Intergovernmental	589,796	30,621	314,861	1,152,264	-	34,310	98,995	2,220,847
Charges for services	159,880	3,024	-	-	124,922	-	11,497	299,323
Investment earnings	7,057	-	-	-	-	-	-	7,057
Miscellaneous	4,603	18,889	-	-	22,647	-	27,566	73,705
Total revenues	1,075,815	278,823	314,861	1,265,698	204,141	34,310	667,925	3,841,573
Expenditures:								
Current:								
General government	562,319	-	-	-	-	-	262,508	824,827
Public safety	271,550	-	-	-	-	-	112,382	383,932
Highways	-	-	344,597	26,034	50,987	34,310	97,914	553,842
Health and welfare	-	334,490	-	-	-	-	38,105	372,595
Culture and recreation	-	-	-	-	-	-	27,047	27,047
Conservation of Natural Resources	-	-	-	-	-	-	74,761	74,761
Economic development	-	-	-	-	-	-	3,705	3,705
Other	-	-	-	-	-	-	86,324	86,324
Debt Service:								
Principal	-	-	-	-	9,018	-	33,210	42,228
Interest and other charges	-	-	-	-	251	-	924	1,175
Capital outlay	142,270	-	167,808	972,579	140,278	-	-	1,422,935
Total expenditures	976,139	334,490	512,405	998,613	200,534	34,310	736,880	3,793,371
Excess (deficiency) of revenues over expenditures	99,676	(55,667)	(197,544)	267,085	3,607	-	(68,955)	48,202
Other Financing Sources (uses)								
Transfers in	-	-	-	-	-	-	107,091	107,091
Transfers out	(61,530)	-	-	-	-	-	(45,561)	(107,091)
Total other financing sources (uses)	(61,530)	-	-	-	-	-	61,530	-
Net change in fund balances	38,146	(55,667)	(197,544)	267,085	3,607	-	(7,425)	48,202
Fund balances - beginning	578,655	73,712	657,377	253,298	243,878	-	244,129	2,051,049
Fund balances - ending	\$ 616,801	\$ 18,045	\$ 459,833	\$ 520,383	\$ 247,485	\$ -	\$ 236,705	\$ 2,099,251

See Notes to the Financial Statements

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

Net change in *Fund Balances* - Total Governmental Funds \$ 48,202

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 amount by which capital outlays exceeded depreciation in the current year.

Current Year Capital Outlay	\$ 1,422,935	
Current Year Depreciation Expense	<u>(386,719)</u>	
		1,036,216

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

2,989

Change in Net Pension Liability

(696)

Changes in deferred outflows and inflows of resources related to the net pension liability

(82,412)

The proceeds of debt issuance are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded debt repayment.

Repayment of Debt		42,228
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:

Net Decrease in Compensated Absences	3,306	
Net Decrease in Interest Payable	<u>261</u>	
		<u>3,567</u>

Change in Net Position of Governmental Activities		<u>\$ 1,050,094</u>
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EDDY COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2015

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash and cash equivalents	\$ 550,849
	<u><u>550,849</u></u>
<u>Liabilities:</u>	
Due to other governments	\$ 550,849
	<u><u>550,849</u></u>

See Notes to the Financial Statements

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Eddy County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government 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 Eddy 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. The County is financially accountable for an organization if the County appoints a voting majority of an organization's governing body and (1) the County is able to significantly influence the programs or services performed or provided by the organization or (2) the County is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the County. Fiscal dependence can include the County's approval of the budget, issuance of debt, and/or levy of taxes for the organization.

Based on these criteria, the component unit discussed below is included within the County's reporting entity because of the significance of its operational or financial relationships with the county.

Component Unit

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

Discretely Presented Component Units: The component unit column in the government-wide financial statements includes the financial data of the county's one component unit. The unit is reported in separate columns to emphasize that it is legally separate from the County.

Eddy County Water Resource District - The Eddy County Water Resource District governing board is appointed by the County's governing body. The County's governing body has the authority to disapprove, amend, or approve the Water Resource District budget.

Complete financial statements of the Eddy County Water Resource District are included in these financial statements. Additional information may be obtained from the Eddy County Auditor, 524 Central Ave, New Rockford, ND 58356.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Basis of Presentation

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

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

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

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.

Human Services Fund. This is the County's fund used for the costs of providing human services to the residents of the county.

Highway Tax Fund. This is the County's fund used for the highway tax distribution from the State to be used for the maintenance and repair of roads within the County.

Road Surfacing Fund. This is the County's fund used for the costs of paving County roads.

County Road and Bridge Fund. This is the County's fund used for the costs of maintaining roads and bridges.

2011 Disaster Fund. This is the County's fund used to account for repairs and improvements of highways and bridges that are damaged due to natural disasters and paid for primarily by FEMA public assistance monies.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Additionally, the County reports the following fund types:

Agency Funds. These funds account for assets held by the County in a custodial capacity as an agent on behalf of others. The County's agency fund is used to account for various deposits of other governments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Budgets

Annually, the Board of County Commissioners provides each office a departmental budget. The departments complete their budget and file it with the County Auditor. Based upon the departmental budget requests and other financial information, the County Auditor prepares the preliminary County budget. The budget is prepared for the general and special revenue funds on the modified accrual basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

No expenditure shall be made or liability incurred in excess of the total appropriation by fund except for transfers as authorized by the North Dakota Century Code Section 11-23-07. However, the Board of County Commissioners may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the Board and the approval must be noted in the proceedings of the Board.

A formal budget is also prepared by Eddy County Water Resource District, a component unit of Eddy County.

Cash and Cash Equivalents

Cash includes amounts in demand deposits and money market accounts.

Capital Assets

Capital assets include equipment and infrastructure. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at cost or 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 asset 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.

Infrastructure	5-50 years
Equipment	5-7 years
Building	5-40 years

Compensated Absences

Full time employees are granted vacation benefits from 12 to 24 days per year depending on tenure with the County. Regular part time and seasonal employees accrue vacation on a pro-rated basis. An employee is not allowed to use vacation until after six months of service to the County. Employees may carry over no more than 120 or 240 hours of vacation into a new fiscal year, depending on department. Upon termination of employment, employees will be paid for vacation benefits that have accrued. Sick leave benefits accrue at eight hours per month with no maximum accumulation. Part time and seasonal employees accrue sick leave on a pro-rated basis based on the amount of hours worked. Upon termination of employment, unused sick leave will not be paid except in case of re-employment within a year of termination in good standing.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Unearned Revenue

Unavailable revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, receivables that will not be collected during the availability period have been reported as unearned revenue.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the government activities Statement of Net Position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Public Employees Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

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.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items, and loans receivable.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

Committed – consists of internally imposed constraints. These constraints are established by the Board of County Commissioners.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the County's intended use. These constraints are established by the Board of County Commissioners and/or management.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the County's policy to first use restricted resources, and then use unrestricted resources as they are needed. The County does not have a minimum fund balance policy.

The County considers the spendable fund balance to have been spent when expenditures are incurred.

When committed, assigned, or unassigned resources are available for use, it is the County's policy to use resources in the following order; 1) committed, 2) assigned, and 3) unassigned.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the County's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

EDDY COUNTY
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 AS OF DECEMBER 31, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 resource (expense/expenditure) until then. The County has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the NDPERS pension plan as well as contributions to the plans made after the measurement date.

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. The County has two types of items which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the items, *property taxes – delinquent*, and *property taxes levied – subs. years* are reported only in the governmental funds balance sheet. The County also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS pension plan.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 EXPENDITURES IN EXCESS OF APPROPRIATIONS

The County's following funds had expenditures that exceeded budget appropriations for the year ended December 31, 2015.

Fund	
<i>Major Funds:</i>	
Road Surfacing	\$ 26,180
2011 Disaster Fund	34,310
County Road & Bridges	38,534
	\$ 99,024

No remedial action is anticipated or required by the County regarding the above excess expenditures.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 3 CASH AND CASH EQUIVALENTS

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 in 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 bonds.

The County does have a deposit policy. All deposits of the County are insured by using the pooling method, a collateral pool. Under this method, all uninsured deposits are collateralized with securities held by the County's agent under a pledge pool agreement between the County and local financial institutions through the Bank of North Dakota, as allowed by state law. Depositories using the pooling method report the adequacy of their pooled collateral covering uninsured deposits to the Bank of North Dakota. The financial institutions confirm the adequacy of the pledge for the pool. However, they do not confirm the County's deposits included in the pool. Because of the inability to measure the exact deposits included for the County in the pool, the potential exists for under-collateralization.

At December 31, 2015, the county's bank balance totaled approximately \$3,180,000. Of the bank balance, approximately \$540,000 was covered by federal depository insurance. The County's remaining deposits were covered by pledged collateral under the pooling method. State statute requires the market value of collateral pledged to equal 110% of the deposits not covered by federal depository insurance.

At December 31, 2015, the Eddy County Water Resource District's (a discretely presented component unit of Eddy County) bank balance totaled approximately \$28,000. The bank balance at December 31, 2015 was fully covered by Federal Depository Insurance.

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 of 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, 2015, the County held certificates of deposit in the amount of approximately \$42,000, which are all considered deposits.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consists of money due from the highway department for roadwork performed for townships, cities, etc, fees collected by other offices and interest added to bank accounts by banks. No allowance has been established for estimated uncollectible amounts receivable.

NOTE 5 TAXES RECEIVABLE

Taxes receivable represent the past four years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable because any defaults will be covered by enforcement of the liens.

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Any material collections are distributed after the end of each month. Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments.

The first installment includes one-half of the real estate taxes 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 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 in a single payment on or before February 15 and receive the 5 % discount on property taxes.

NOTE 6 LOANS RECEIVABLE

Loan receivables represent the amounts the County loaned to the following entities:

Receivable Fund	Loaned to	Balance at 12/31/15
County Road & Bridge	Hillsdale Township	\$ 15,732

This loan will be repaid in annual installments of \$2,000.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2015:

	Balance 1/1/2015 (As Restated)	Additions	Deletions	Transfers	Balance 12/31/2015
Governmental Activities:					
Capital assets not being depreciated					
Construction in Progress	\$ 2,061,181	\$ 1,080,510	\$ -	\$ (2,061,182)	\$ 1,080,509
Capital assets being depreciated					
Infrastructure	3,253,168	200,158	-	2,061,182	5,514,508
Buildings	50,488	108,019	-	-	158,507
Equipment	600,790	34,248	-	-	635,038
Total capital assets being depreciated	<u>3,904,446</u>	<u>342,425</u>	<u>-</u>	<u>2,061,182</u>	<u>6,308,053</u>
Less accumulated depreciation					
Infrastructure	207,621	291,165	-	-	498,786
Buildings	6,310	6,437	-	-	12,747
Equipment	423,060	89,117	-	-	512,177
Total accumulated depreciation	<u>636,991</u>	<u>386,719</u>	<u>-</u>	<u>-</u>	<u>1,023,710</u>
Net capital assets being depreciated	<u>3,267,455</u>	<u>(44,294)</u>	<u>-</u>	<u>2,061,182</u>	<u>5,284,343</u>
Net capital assets for governmental activities	<u>\$ 5,328,636</u>	<u>\$ 1,036,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,364,852</u>

The County leases three motor graders on a long-term lease. The leased assets have a cost of \$365,045 and accumulated depreciation of \$365,045.

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

Governmental Activities:	
Public safety	\$ 10,778
Highway	361,045
General	12,052
Health and welfare	2,844
Total	<u>\$ 386,719</u>

NOTE 8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of amounts on open account for goods and services received prior to December 31, 2015 and wages for services provided in 2015 that are chargeable to the appropriations for the year ended December 31, 2015, but paid for subsequent to that date.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 9 LONG-TERM DEBT

During the year ended December 31, 2015, the following changes occurred in long-term debt:

	Balance 1/1/15	Additions	Retired	Balance 12/31/15	Due Within One Year
Capital leases	\$ 42,228	\$ -	\$ 42,228	\$ -	\$ -

NOTE 10 PENSION PLAN

Eddy County participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

North Dakota Public Employees' Retirement System:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified 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 investments 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. 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 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.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

At December 31, 2015, the County reported a liability of \$565,630 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the County's proportion was 0.08318 percent.

For the year ended December 31, 2015, the County recognized pension expense of \$83,108. At December 31, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,410	\$ -
Changes of assumptions	-	50,395
Net difference between projected and actual earnings on pension plan investments	-	11,940
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,859	35,784
Employer contributions subsequent to the measurement date	<u>56,316</u>	<u>-</u>
Total	<u>\$ 75,585</u>	<u>\$ 98,119</u>

\$56,316 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 ending December 31, 2016.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 ending December 31:		
2016	\$	(21,926)
2017		(21,926)
2018		(21,926)
2019		2,748
2020		(15,820)

Actuarial assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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:

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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%	1.52%
International Fixed Income	5%	0.45%
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, 2015. 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, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current 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, 2015. 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, 2015.

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%)
County's proportionate share of the net pension liability	<u>\$ 867,366</u>	<u>\$ 565,630</u>	<u>\$ 318,756</u>

Pension plan fiduciary net position

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

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 11 RISK MANAGEMENT

Eddy 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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. All members joined to help capitalize the NDRIF. Eddy County pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence.

Eddy County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$1,314,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Eddy County has workers compensation coverage with the North Dakota Workforce Safety and Insurance. The County provides health coverage for employees who work 20 hours a week or more.

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

NOTE 12 JOINT VENTURES

Lake Region Law Enforcement Center

Under authorization of state statutes, Eddy County joined Ramsey County, Benson County, Towner County, Nelson County, and the City of Devils Lake to establish and operate the Lake Region Law Enforcement Center. The operating and capital expenses are funded by contributions from each government.

Complete financial information can be obtained from Lake Region Enforcement Center, 222 Walnut Street West, Devils Lake, ND 58301.

Lake Region District Health Unit

Under authorization of state statutes, Eddy County joined Ramsey County, Benson County, and Pierce County to establish and operate the Lake Region District Health Unit. Two members of the directors for the joint venture are appointed by each government. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity is 25%.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Complete financial information can be obtained from Lake Region District Health Unit, Courthouse, Devils Lake, ND 58301.

Public Library

Under authorization of state statutes, Eddy County joined the City of New Rockford to operate the public library. The public library will be governed by a Joint Library Board, which is comprised of two members appointed by the City of New Rockford, and two members are appointed from Eddy County. A fifth member at-large is appointed by the Joint Library Board. The operating and capital expenses are funded by a one mill contribution from Eddy County. The City of New Rockford shall cover all additional expenses not covered by Eddy County's share of funds.

Complete financial information can be obtained from the City of New Rockford, 117 1st Street South, New Rockford, ND 58356.

NOTE 13 TRANSFERS

Transfers are used to (1) move revenues from the fund that statute or budget requires them to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) use unrestricted revenues collected in the human services fund that are used to finance programs accounted for in the social services fund.

	General Fund	Other Governmental Funds	Total
Transfer In	\$ -	\$ 107,091	\$ 107,091
Transfer Out	(61,530)	(45,561)	(107,091)
	<u>\$ (61,530)</u>	<u>\$ 61,530</u>	<u>\$ -</u>

NOTE 14 DEFICIT FUND EQUITY

The County's Senior Citizens fund reported a deficit fund position at December 31, 2015 of \$5,126.

NOTE 15 RECLASSIFICATION

Management has made the decision to merge the Human Service Fund, Social Service Fund and Emergency Poor Fund and record them as one fund in the current year. This reclassification does not affect current or prior year operations.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 16 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the County's financial statements.

NOTE 17 CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

The County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

The prior period adjustment relates to an overstatement of capital assets in 2014. This was additional costs related to a County road project which had been recorded as construction in progress as of December 31, 2014 in the Statement of Net Position.

EDDY COUNTY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

As a result, beginning net position has been restated to reflect the related net pension liability, deferred outflows of resources and capital assets as of December 31, 2014 as follows:

Net Position January 1, 2015, as previously reported	\$ 8,585,706
Restatement for pension accounting:	
Net Pension Liability	(564,934)
Pension related Deferred Outflows of Resources	59,878
Prior Period Adjustment	<u>(1,261,915)</u>
Net Position January 1, 2015, as restated	<u><u>\$ 6,818,735</u></u>

NOTE 18 SUBSEQUENT EVENTS

No significant events occurred subsequent to the County's year end. Subsequent events have been evaluated through August 27, 2016, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 325,898	\$ 312,823	\$ (13,075)
Licenses and permits	460	1,656	1,196
Intergovernmental	602,436	589,796	(12,640)
Charges for services	156,560	159,880	3,320
Investment earnings	7,000	7,057	57
Miscellaneous	5,000	4,603	(397)
Total revenues	<u>1,097,354</u>	<u>1,075,815</u>	<u>(21,539)</u>
EXPENDITURES			
Current:			
General government	719,385	562,319	157,066
Public safety	327,009	271,550	55,459
Debt Service:			
Capital outlay	-	142,270	(142,270)
Total expenditures	<u>1,046,394</u>	<u>976,139</u>	<u>70,255</u>
Excess (deficiency) of revenues over expenditures	<u>50,960</u>	<u>99,676</u>	<u>48,716</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(61,530)	(61,530)
Total other financing sources and uses	<u>-</u>	<u>(61,530)</u>	<u>(61,530)</u>
Net change in fund balances	50,960	38,146	(12,814)
Fund balances - beginning	578,655	578,655	-
Fund balances - ending	<u>\$ 629,615</u>	<u>\$ 616,801</u>	<u>\$ (12,814)</u>

See Note to the Required Supplementary Information

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 233,589	\$ 226,289	\$ (7,300)
Intergovernmental	74,000	30,621	(43,379)
Charges for services	1,200	3,024	1,824
Miscellaneous	33,200	18,889	(14,311)
Total revenues	<u>341,989</u>	<u>278,823</u>	<u>(63,166)</u>
EXPENDITURES			
Current:			
Health and sanitation	462,505	334,490	128,015
Debt Service:			
Capital outlay	2,500	-	2,500
Total expenditures	<u>465,005</u>	<u>334,490</u>	<u>130,515</u>
Excess (deficiency) of revenues over expenditures	<u>(123,016)</u>	<u>(55,667)</u>	<u>67,349</u>
Net change in fund balances	(123,016)	(55,667)	67,349
Fund balances - beginning	73,712	73,712	-
Fund balances - ending	<u>\$ (49,304)</u>	<u>\$ 18,045</u>	<u>\$ 67,349</u>

See Note to the Required Supplementary Information

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental	\$ 336,937	\$ 314,861	\$ (22,076)
Total revenues	<u>336,937</u>	<u>314,861</u>	<u>(22,076)</u>
EXPENDITURES			
Current:			
Highways and roads	771,500	344,597	426,903
Capital outlay	-	167,808	(167,808)
Total expenditures	<u>771,500</u>	<u>512,405</u>	<u>259,095</u>
Excess (deficiency) of revenues over expenditures	<u>(434,563)</u>	<u>(197,544)</u>	<u>237,019</u>
Net change in fund balances	(434,563)	(197,544)	237,019
Fund balances - beginning	657,377	657,377	-
Fund balances - ending	<u>\$ 222,814</u>	<u>\$ 459,833</u>	<u>\$ 237,019</u>

See Note to the Required Supplementary Information

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
ROAD SURFACING FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 117,853	\$ 113,434	\$ (4,419)
Intergovernmental	-	1,152,264	1,152,264
Total revenues	<u>117,853</u>	<u>1,265,698</u>	<u>1,147,845</u>
EXPENDITURES			
Current:			
Highways and roads	972,433	26,034	946,399
Capital outlay	-	972,579	(972,579)
Total expenditures	<u>972,433</u>	<u>998,613</u>	<u>(26,180)</u>
Excess (deficiency) of revenues over expenditures	<u>(854,580)</u>	<u>267,085</u>	<u>1,121,665</u>
Net change in fund balances	(854,580)	267,085	1,121,665
Fund balances - beginning	253,298	253,298	-
Fund balances - ending	<u>\$ (601,282)</u>	<u>\$ 520,383</u>	<u>\$ 1,121,665</u>

See Note to the Required Supplementary Information

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
COUNTY ROAD AND BRIDGES FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 58,428	\$ 56,572	\$ (1,856)
Intergovernmental	-	-	-
Charges for services	120,000	124,922	4,922
Miscellaneous	35,000	22,647	(12,353)
Total revenues	<u>213,428</u>	<u>204,141</u>	<u>(9,287)</u>
EXPENDITURES			
Current:			
Highways and roads	162,000	50,987	111,013
Debt service:			
Principal	-	9,018	(9,018)
Interest and other charges	-	251	(251)
Capital outlay	-	140,278	(140,278)
Total expenditures	<u>162,000</u>	<u>200,534</u>	<u>(38,534)</u>
Excess (deficiency) of revenues over expenditures	51,428	3,607	(47,821)
Net change in fund balances	51,428	3,607	(47,821)
Fund balances - beginning	243,878	243,878	-
Fund balances - ending	<u>\$ 295,306</u>	<u>\$ 247,485</u>	<u>\$ (47,821)</u>

See Note to the Required Supplementary Information

EDDY COUNTY
BUDGETARY COMPARISON SCHEDULE
2011 DISASTER FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original /Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental	\$ -	\$ 34,310	\$ 34,310
Total revenues	<u>-</u>	<u>34,310</u>	<u>34,310</u>
EXPENDITURES			
Current:			
General government	-	-	-
Total expenditures	<u>-</u>	<u>34,310</u>	<u>(34,310)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-
Fund balances - beginning	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Note to the Required Supplementary Information

EDDY COUNTY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE PERS RETIREMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	\$ 114,876	\$ (114,876)	\$ -	\$ 813,574	14.12%

The amounts presented for each fiscal year were determined as of the County's year end which is December 31.

The County implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

EDDY COUNTY
SCHEDULE OF EMPLOYER AND NON-EMPLOYER PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2015

For the Fiscal Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered- Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.083183%	\$ 565,630	\$ 741,056	76.33%	77.15%

The amounts presented for each fiscal year were determined as of the measurement date of the County's net pension liability which is June 30, of the previous year for PERS.

The County implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

EDDY COUNTY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- The county commission adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- The county auditor prepares an annual budget for the general fund and each special revenue fund of the county. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them.
- The county commission holds a public hearing where any taxpayer may appear and shall be heard in favor of or against any proposed disbursements or tax levies. When the hearing shall have been concluded, the board shall adopt such estimate as finally is determined upon. All taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04
- The board of county commissioners, on or before the October meeting shall determine the amount of taxes that shall be levied for county purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the county auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: NDPERS

- **Changes of assumptions**
Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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**

To the Board of County Commissioners
Eddy County
New Rockford, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Eddy County, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Eddy County's basic financial statements and have issued our report thereon dated August 27, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2015-001, 2015-002, 2015-003, and 2015-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eddy 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*.

Eddy County's Response to Findings

Eddy County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Eddy County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

August 27, 2016

EDDY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-001 *Preparation of Financial Statements*

- Criteria: An appropriate system of internal controls requires the County to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.
- Condition: The County personnel prepare periodic financial information for internal use that meets the needs of management and the County Commissioners. The County does not have internal resources to prepare full-disclosure financial statements for external reporting.
- Cause: The County does not have the internal expertise to handle all aspects of external financial reporting.
- Effect: An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.
- Recommendation: We recommend the County determine if it is cost effective to obtain the internal knowledge for preparation of full disclosure external financial reporting. The County could also address this by completing a disclosure checklist prior to the finalization of the County's year-end or consider outsourcing of the financial statement preparation and review functions.

Views of responsible officials and planned corrective action:

Due to the small size of the County, it is currently not cost effective for the County personnel to obtain the level of training necessary to completely eliminate this internal control finding. The County will review training options and determine what level of training can be obtained on a cost effective basis.

2015-002 *Adjusting Journal Entries*

- Criteria: The County is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.
- Condition: During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with accounting principles generally accepted in the United States of America.

EDDY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Cause: The County's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: The County does not maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the County review its current training system for its accounting personnel and determine if it is cost effective for the County to obtain this knowledge internally.

Views of responsible officials and planned corrective action:

Due to the small size of the County, it is currently not cost effective for the County personnel to obtain the level of training necessary to completely eliminate this internal control finding. The County will review training options and determine what level of training can be obtained on a cost effective basis.

2014-003 Segregation of Duties

Criteria: An appropriate system of internal controls provides for an adequate segregation of duties.

Condition: All of the accounting functions of the County and Water Resource Board (a component unit of the County) are performed by a limited number of personnel.

Cause: Cost constraints limit the number of accounting personnel that can be economically justified to perform these accounting functions.

Effect: The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: We recommend that the County and its component unit review their internal controls over the accounting functions to determine if additional procedures can be implemented on a cost effective basis. Procedures to consider include separating the custody of assets from the accounting function, as well as implementing and or expanding monitoring controls.

EDDY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Views of responsible officials and planned corrective action:

The County and the component units will review their current internal controls and determine what monitoring and segregation controls each can implement on a cost effective basis.

2014-004 *Capital Asset Records*

Criteria: The County is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Condition: The capital asset records do not provide sufficient information for the determination that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Cause: Internal controls have not been effectively designed or implemented to ensure that all required information related to the acquisition, capitalization, depreciation, and disposition of capital assets is captured and reflected in the appropriate accounting records.

Effect: An appropriate system of internal controls is not present to make a determination whether capital assets are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the entire accounting for capital assets be reviewed and a process to obtain a current capital asset recorded be developed. We also recommend that internal controls relating to capital additions, depreciation determination, disposal reporting, and physical inventory inspections be developed and implemented.

Views of responsible officials and planned corrective action:

The County will review its current accounting records and determine how to obtain the required information on a cost effective basis.