



Financial Statements
December 31, 2016 and 2015

McKenzie County

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2016

Richard Cayko
Douglas Nordby
Kathy Skarda
Vawnita Best
Ronald Anderson

Commissioner-Chairman
Commissioner-Vice-Chairman
Commissioner
Commissioner
Commissioner

Linda Svihovec
Gary Schwartzenberger
Ann Johnsrud
Jacob Rodenbiker

Auditor/Treasurer
Sheriff
Recorder
State's Attorney

2015

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Doug Nordby
Kathy Skarda
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Commissioner-Vice-Chairman
Commissioner
Commissioner
Commissioner

Linda Svihovec
Gary Schwartzenberger
Ann Johnsrud
Jacob Rodenbiker

Auditor/Treasurer
Sheriff
Recorder
State's Attorney



Independent Auditor's Report

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota as of and for the years ended December 31, 2016 and 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

McKenzie County has not included the financial statements of the McKenzie County Water Resource District, a component unit of McKenzie County, in the County's financial statements. The modified cash basis of accounting requires the McKenzie County Water Resource District to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of McKenzie County has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of McKenzie County, as of December 31, 2016 and 2015, or the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McKenzie County, North Dakota, as of December 31, 2016 and 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise McKenzie County, North Dakota's, basic financial statements. The county officials listing and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018 on our consideration of McKenzie County, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota

May 2, 2018

McKenzie County
Statement of Net Position – Modified Cash Basis
December 31, 2016

	Primary Governmental Activities	Component Units
Assets		
Cash and investments	\$ 83,644,282	\$ 223,897
Note receivable	3,955,906	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	72,482,888	-
Capital assets net of accumulated depreciation		
Buildings	26,142,745	-
Furniture and equipment	2,150,450	-
Infrastructure	130,430,901	-
Vehicles and equipment	12,378,360	-
Total capital assets	248,396,856	-
Total assets	\$ 335,997,044	\$ 223,897
Liabilities		
Long-term liabilities		
Due after one year		
Loan payable	\$ 40,688,588	\$ -
Total liabilities	\$ 40,688,588	\$ -
Net Position		
Net investment in capital assets	\$ 207,708,268	\$ -
Restricted for		
Public safety	262,632	-
Highways	372,403	-
Culture and recreation	-	162,508
Conservation of natural resources	-	59,018
Economic development	-	2,371
Unrestricted	86,965,153	-
Total Net Position	\$ 295,308,456	\$ 223,897

McKenzie County
Statement of Net Position – Modified Cash Basis
December 31, 2015

	Primary Governmental Activities	Component Units
Assets		
Cash and investments	\$ 111,703,212	\$ 283,179
Note receivable	4,200,848	-
Capital assets not being depreciated		
Land	4,811,512	-
Construction in progress	46,701,601	-
Capital assets net of accumulated depreciation		
Buildings	28,341,941	-
Furniture and equipment	1,581,824	-
Infrastructure	78,484,313	-
Vehicles and equipment	8,242,966	-
Total capital assets	168,164,157	-
Total assets	\$ 284,068,217	\$ 283,179
Liabilities		
Long-term liabilities		
Due after one year		
Loan payable	\$ 11,392,719	\$ -
Total liabilities	\$ 11,392,719	\$ -
Net Position		
Net investment in capital assets	\$ 156,771,438	\$ -
Restricted for		
Public safety	224,295	-
Highways	1,157,637	-
Culture and recreation	-	223,870
Conservation of natural resources	-	59,309
Economic development	-	-
Unrestricted	114,522,128	-
Total Net Position	\$ 272,675,498	\$ 283,179

McKenzie County
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 10,381,672	\$ 6,581,487	\$ 1,541,554	\$ -	\$ (2,258,631)	\$ -
Public safety	9,562,622	-	198	-	(9,562,424)	-
Highways	24,878,277	1,027,497	-	9,932,739	(13,918,041)	-
Health and welfare	1,773,795	14,654	370,260	-	(1,388,881)	-
Culture and recreation	417,683	-	36	-	(417,647)	-
Conservation of natural resources	603,580	104,894	106,155	-	(392,531)	-
Economic development	159,080	-	-	-	(159,080)	-
Other	657,454	-	-	-	(657,454)	-
Total primary government	<u>\$ 48,434,163</u>	<u>\$ 7,728,532</u>	<u>\$ 2,018,203</u>	<u>\$ 9,932,739</u>	<u>(28,754,689)</u>	<u>-</u>
Component units	<u>\$ 430,704</u>	<u>\$ 9,964</u>	<u>\$ 83,489</u>	<u>\$ -</u>	<u>-</u>	<u>(337,251)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					4,362,457	277,242
Other taxes					423,457	-
Oil and gas production					39,935,252	-
State aid not restricted to specific program					726,773	-
Royalties					4,974,907	-
Earnings on investments					181,211	-
Miscellaneous revenue					1,109,305	727
Total general revenues					<u>51,713,362</u>	<u>277,969</u>
Loss on disposal of assets					<u>(325,715)</u>	<u>-</u>
Change in net position					<u>22,632,958</u>	<u>(59,282)</u>
Net position - January 1					<u>272,675,498</u>	<u>283,179</u>
Net position - December 31					<u>\$ 295,308,456</u>	<u>\$ 223,897</u>

McKenzie County
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 15,255,389	\$ 7,648,961	\$ 1,918,615	\$ -	\$ (5,687,813)	\$ -
Public safety	8,221,325	-	172	-	(8,221,153)	-
Highways	39,282,761	1,191,053	-	12,365,454	(25,726,254)	-
Health and welfare	1,681,495	9,559	487,549	-	(1,184,387)	-
Culture and recreation	284,089	-	9	-	(284,080)	-
Conservation of natural resources	1,045,664	97,172	56,105	-	(892,387)	-
Economic development	173,933	-	-	-	(173,933)	-
Other	525,232	-	-	-	(525,232)	-
Total primary government	<u>\$ 66,469,888</u>	<u>\$ 8,946,745</u>	<u>\$ 2,462,450</u>	<u>\$ 12,365,454</u>	<u>(42,695,239)</u>	<u>-</u>
Component units	<u>\$ 552,331</u>	<u>\$ 10,540</u>	<u>\$ 151,069</u>	<u>\$ -</u>	<u>-</u>	<u>(390,722)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					2,592,308	505,488
Other taxes					690,890	-
Oil and gas production					94,124,662	-
State aid not restricted to specific program					760,423	-
Royalties					7,536,585	-
Earnings on investments					159,093	-
Miscellaneous revenue					2,173,598	2,699
Total general revenues					<u>108,037,559</u>	<u>508,187</u>
Loss on disposal of assets					<u>(90,949)</u>	<u>-</u>
Change in net position					<u>65,251,371</u>	<u>117,465</u>
Net position - January 1					<u>207,424,127</u>	<u>165,714</u>
Net position - December 31					<u>\$ 272,675,498</u>	<u>\$ 283,179</u>

McKenzie County
Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2016

	Major Funds			Total Governmental Funds
	General	County Road and Bridge	Other Governmental Funds	
Assets				
Cash and investments	\$ 33,810,973	\$ 46,509,464	\$ 2,273,351	\$ 82,593,788
Note receivable	3,955,906	-	-	3,955,906
Total assets	\$ 37,766,879	\$ 46,509,464	\$ 2,273,351	\$ 86,549,694
Fund Balances				
Nonspendable	\$ 3,955,906	\$ -	\$ -	\$ 3,955,906
Restricted				
Public safety	-	-	262,632	262,632
Highways	-	-	372,403	372,403
Committed				
Subsequent year's budget:		-	-	-
Appropriation of fund balance	455,000	-	-	455,000
Assigned				
General government	801,032	-	-	801,032
Public safety	189,532	-	-	189,532
Highways	-	46,509,464	907,064	47,416,528
Health and welfare	-	-	700,614	700,614
Culture and recreation	17,997	-	74	18,071
Conservation of				
Natural resources	-	-	30,564	30,564
Economic development	20,209	-	-	20,209
Unassigned	32,327,203	-	-	32,327,203
Total fund balances	\$ 37,766,879	\$ 46,509,464	\$ 2,273,351	\$ 86,549,694

McKenzie County
Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2015

	Major Funds			Total Governmental Funds
	General	County Road and Bridge	Other Governmental Funds	
Assets				
Cash and investments	\$ 36,502,260	\$ 71,148,495	\$ 3,104,873	\$ 110,755,628
Note receivable	4,200,848	-	-	4,200,848
Total assets	<u>\$40,703,108</u>	<u>\$71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>
Fund Balances				
Nonspendable	\$ 4,200,848	\$ -	\$ -	\$ 4,200,848
Restricted				
Public safety	-	-	224,295	224,295
Highways	-	-	1,157,637	1,157,637
Committed				
Subsequent year's budget:		-	-	-
Appropriation of fund balance	125,000	-	-	125,000
Assigned				
General government	755,711	-	-	755,711
Public safety	165,881	-	-	165,881
Highways	424,096	71,148,495	854,347	72,426,938
Health and welfare	-	-	671,449	671,449
Culture and recreation	40,661	-	1,000	41,661
Conservation of				
Natural resources	-	-	196,145	196,145
Economic development	17,765	-	-	17,765
Unassigned	34,973,146	-	-	34,973,146
Total fund balances	<u>\$40,703,108</u>	<u>\$71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>

\$ 86,549,694

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

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

Cost of capital assets	\$ 296,021,100	
Less accumulated depreciation	<u>(47,624,244)</u>	<u>248,396,856</u>
Net capital assets		

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

1,050,494

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

	<u>(40,688,588)</u>	<u>(40,688,588)</u>
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Total net position of governmental activities

\$ 295,308,456

		\$ 114,956,476
Total net position reported for government activities in the statement of net position is different because		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 205,915,770	
Less accumulated depreciation	<u>(37,751,613)</u>	<u>168,164,157</u>
Net capital assets		
Internal service fund is used by the County to charge the cost of medical insurance claims to individual functions. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Internal service fund net position are		
		<u>947,584</u>
Long-term liabilities applicable to county governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.		
	<u>(11,392,719)</u>	<u>(11,392,719)</u>
Total net position of governmental activities		<u><u>\$ 272,675,498</u></u>

McKenzie County
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –
Modified Cash Basis
Year Ended December 31, 2016

	Major Funds			Total Governmental Funds
	General	County Road and Bridge	Other Governmental Funds	
Revenues				
Taxes	\$ 860,378	\$ 1,569,361	\$ 1,924,555	\$ 4,354,294
Special assessments	-	8,163	-	8,163
Licenses, permits and fees	3,543,477	-	-	3,543,477
Intergovernmental	39,522,044	7,635,369	4,548,409	51,705,822
Charges for services	3,038,010	1,027,497	119,548	4,185,055
Royalties	4,974,907	-	-	4,974,907
Interest income	122,879	55,179	3,153	181,211
Miscellaneous	909,146	181,531	18,628	1,109,305
Total revenues	<u>52,970,841</u>	<u>10,477,100</u>	<u>6,614,293</u>	<u>70,062,234</u>
Expenditures				
Current				
General government	9,025,786	-	-	9,025,786
Public safety	9,165,797	-	107,540	9,273,337
Highways	-	15,383,274	-	15,383,274
Health and welfare	121,544	-	1,608,681	1,730,225
Culture and recreation	340,677	-	30,321	370,998
Conservation of				
Natural resources	168,058	-	367,097	535,155
Economic development	159,080	-	-	159,080
Other	427,000	-	230,454	657,454
Capital outlay	32,085,343	58,601,774	98,569	90,785,686
Total expenditures	<u>51,493,285</u>	<u>73,985,048</u>	<u>2,442,662</u>	<u>127,920,995</u>
Excess (deficiency) of Revenues over Expenditures	<u>1,477,556</u>	<u>(63,507,948)</u>	<u>4,171,631</u>	<u>(57,858,761)</u>
Other Financing Sources (Uses)				
Sale of assets	156,110	-	-	156,110
Loan proceeds	29,295,869	-	-	29,295,869
Transfers in	128,517	38,924,096	-	39,052,613
Transfers out	(33,994,281)	(55,179)	(5,003,153)	(39,052,613)
Total other financing sources and uses	<u>(4,413,785)</u>	<u>38,868,917</u>	<u>(5,003,153)</u>	<u>29,451,979</u>
Net Change in Fund Balances	(2,936,229)	(24,639,031)	(831,522)	(28,406,782)
Fund Balance - January 1	<u>40,703,108</u>	<u>71,148,495</u>	<u>3,104,873</u>	<u>114,956,476</u>
Fund Balance - December 31	<u>\$ 37,766,879</u>	<u>\$ 46,509,464</u>	<u>\$ 2,273,351</u>	<u>\$ 86,549,694</u>

McKenzie County
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –
Modified Cash Basis
Year Ended December 31, 2015

	Major Funds			Total Governmental Funds
	General	County Road and Bridge	Other Governmental Funds	
Revenues				
Taxes	\$ 306,928	\$ 1,066,440	\$ 1,218,940	\$ 2,592,308
Licenses, permits and fees	3,754,243	-	-	3,754,243
Intergovernmental	46,019,543	58,618,182	5,034,048	109,671,773
Charges for services	3,894,718	1,191,053	106,731	5,192,502
Royalties	7,536,585	-	-	7,536,585
Interest income	107,881	48,444	2,768	159,093
Miscellaneous	1,024,476	1,125,499	23,623	2,173,598
Total revenues	<u>62,644,374</u>	<u>62,049,618</u>	<u>6,386,110</u>	<u>131,080,102</u>
Expenditures				
Current				
General government	13,879,918	-	-	13,879,918
Public safety	7,850,582	-	139,214	7,989,796
Highways	-	30,147,886	-	30,147,886
Health and welfare	86,813	-	1,540,828	1,627,641
Culture and recreation	219,930	-	10,288	230,218
Conservation of				
Natural resources	666,610	-	326,036	992,646
Economic development	173,933	-	-	173,933
Other	500,100	-	25,132	525,232
Capital outlay	19,183,436	49,237,757	138,781	68,559,974
Total expenditures	<u>42,561,322</u>	<u>79,385,643</u>	<u>2,180,279</u>	<u>124,127,244</u>
Excess (deficiency) of Revenues over Expenditures	<u>20,083,052</u>	<u>(17,336,025)</u>	<u>4,205,831</u>	<u>6,952,858</u>
Other Financing Sources (Uses)				
Sale of assets	4,003	-	-	4,003
Loan proceeds	11,392,719	-	-	11,392,719
Transfers in	120,128	51,200,000	750,000	52,070,128
Transfers out	(45,818,916)	(48,444)	(6,202,768)	(52,070,128)
Total other financing sources and uses	<u>(34,302,066)</u>	<u>51,151,556</u>	<u>(5,452,768)</u>	<u>11,396,722</u>
Net Change in Fund Balances	(14,219,014)	33,815,531	(1,246,937)	18,349,580
Fund Balance - January 1	<u>54,922,122</u>	<u>37,332,964</u>	<u>4,351,810</u>	<u>96,606,896</u>
Fund Balance - December 31	<u>\$ 40,703,108</u>	<u>\$ 71,148,495</u>	<u>\$ 3,104,873</u>	<u>\$ 114,956,476</u>

McKenzie County

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to
the Statement of Activities – Modified Cash Basis
Year Ended December 31, 2016

Net change in fund balance - total governmental funds \$ (28,406,782)

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

Governmental funds report capital outlays as expenditures.

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

Current year capital outlay	\$ 90,785,686	
Contributed capital	1,330,602	
Current year depreciation expense	(11,401,764)	
Loss on disposal of assets	<u>(325,715)</u>	80,388,809

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

102,910

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position

(156,110)

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the statement of net position.

(29,295,869)

Change in net position of governmental activities

\$ 22,632,958

McKenzie County

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to
the Statement of Activities – Modified Cash Basis
Year Ended December 31, 2015

Net change in fund balance - total governmental funds		\$ 18,349,580
The change in net position reported for governmental activities in the statement of activities is different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the effect of depreciation expense and other capital asset transactions in the current period:		
Current year capital outlay	\$ 68,559,974	
Contributed capital	732,106	
Current year depreciation expense	(11,128,791)	
Loss on disposal of assets	<u>(90,949)</u>	58,072,340
An internal service fund is used by the County to charge the cost of medical claims to individual functions. The net income of the internal service fund is reported with governmental activities		
		<u>226,173</u>
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position		
		<u>(4,003)</u>
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the statement of net position.		
		<u>(11,392,719)</u>
Change in net position of governmental activities		<u><u>\$ 65,251,371</u></u>

McKenzie County
 Statements of Net Position – Proprietary Fund – Modified Cash Basis
 December 31, 2016 and 2015

	Internal Service	
	2016	2015
Assets		
Current assets		
Cash	\$ 1,050,494	\$ 947,584
Net Position		
Unrestricted	\$ 1,050,494	\$ 947,584

McKenzie County

Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis
Years Ended December 31, 2016 and 2015

	Internal Service	
	2016	2015
Operating Revenues		
Contributions	\$ 2,689,256	\$ 2,351,156
Operating Expenses		
Premiums	998,584	901,310
Claims	1,465,174	1,126,444
Miscellaneous	132,325	104,281
Total operating expenses	2,596,083	2,132,035
Operating Gain	93,173	219,121
Non-Operating Revenues		
Interest income	8,719	7,052
Miscellaneous	1,018	-
Total nonoperating revenue	9,737	7,052
Net Income	102,910	226,173
Net Position - January 1	947,584	721,411
Net Position - December 31	\$ 1,050,494	\$ 947,584

McKenzie County
 Statements of Cash Flows – Proprietary Fund – Modified Cash Basis
 Years Ended December 31, 2016 and 2015

	Internal Service	
	2016	2015
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 2,690,274	\$ 2,351,156
Cash paid for health claims	(1,465,174)	(1,126,444)
Cash paid for services	(1,130,909)	(1,005,591)
Net Cash from Operating Activities	94,191	219,121
Cash Flows from Investing Activities		
Interest received	8,719	7,052
Net Change in Cash and Cash Equivalents	102,910	226,173
Cash and Cash Equivalents - January 1	947,584	721,411
Cash and Cash Equivalents - December 31	\$ 1,050,494	\$ 947,584

McKenzie County
 Statements of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis
 December 31, 2016 and 2015

	Agency Funds	
	2016	2015
Assets		
Cash and investments	\$ 1,693,640	\$ 1,671,563
Liabilities		
Due to other governments	\$ 1,693,640	\$ 1,671,563

McKenzie County
Combining Statement of Net Position – Component Units – Modified Cash Basis
December 31, 2016

	<u>Public Library</u>	<u>Atmospheric Resource Board</u>	<u>JDA Development Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 162,508	\$ 59,018	\$ 2,371	\$ 223,897
Total assets	<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>
Net Position				
Restricted for				
Culture and recreation	\$ 162,508	\$ -	\$ -	\$ 162,508
Conservation of natural resources	-	59,018	-	59,018
Economic development	-	-	2,371	2,371
Total net position	<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>

McKenzie County
Combining Statement of Net Position – Component Units – Modified Cash Basis
December 31, 2015

	<u>Public Library</u>	<u>Atmospheric Resource Board</u>	<u>JDA Development Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 223,870	\$ 59,309	\$ -	\$ 283,179
Total assets	<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>
Net Position				
Restricted for				
Culture and recreation	\$ 223,870	\$ -	\$ -	\$ 223,870
Conservation of natural resources	-	59,309	-	59,309
Economic development	-	-	-	-
Total net position	<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>

McKenzie County
Combining Statement of Activities – Component Units – Modified Cash Basis
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions		Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	\$ 271,261	\$ 9,964	\$ 57,693	\$ -	\$ (203,604)	\$ -	\$ -	\$ (203,604)
Atmospheric Resource Board	291	-	-	-	-	(291)	-	(291)
Job Development Authority	159,152	-	25,796	-	-	-	(133,356)	(133,356)
Total component units	<u>\$ 430,704</u>	<u>\$ 9,964</u>	<u>\$ 83,489</u>	<u>\$ -</u>	<u>(203,604)</u>	<u>(291)</u>	<u>(133,356)</u>	<u>(337,251)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					141,563	-	135,679	277,242
Interest					-	-	-	-
Miscellaneous revenue					679	-	48	727
Total general revenues					<u>142,242</u>	<u>-</u>	<u>135,727</u>	<u>277,969</u>
Change in net position					(61,362)	(291)	2,371	(59,282)
Net position - January 1					<u>223,870</u>	<u>59,309</u>	<u>-</u>	<u>283,179</u>
Net position - December 31					<u>\$ 162,508</u>	<u>\$ 59,018</u>	<u>\$ 2,371</u>	<u>\$ 223,897</u>

McKenzie County
Combining Statement of Activities – Component Units – Modified Cash Basis
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Public Library	Atmospheric Resource Board	JDA Development Funds	Totals
Component units								
Public Library	\$ 282,062	\$ 10,540	\$ 68,608	\$ -	\$ (202,914)	\$ -	\$ -	\$ (202,914)
Atmospheric Resource Board	96,409	-	47,264	-	-	(49,145)	-	(49,145)
Job Development Authority	173,860	-	35,197	-	-	-	(138,663)	(138,663)
Total component units	<u>\$ 552,331</u>	<u>\$ 10,540</u>	<u>\$ 151,069</u>	<u>\$ -</u>	<u>(202,914)</u>	<u>(49,145)</u>	<u>(138,663)</u>	<u>(390,722)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					321,557	49,254	134,677	505,488
Interest					-	-	-	-
Miscellaneous revenue					2,669	-	30	2,699
Total general revenues					<u>324,226</u>	<u>49,254</u>	<u>134,707</u>	<u>508,187</u>
Change in net position					121,312	109	(3,956)	117,465
Net position - January 1					<u>102,558</u>	<u>59,200</u>	<u>3,956</u>	<u>165,714</u>
Net position - December 31					<u>\$ 223,870</u>	<u>\$ 59,309</u>	<u>\$ -</u>	<u>\$ 283,179</u>

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Component Units

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

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

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

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

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

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

The McKenzie County Water Resource District is also a component unit of the County. For the years ended December 31, 2016 and 2015 the County has excluded the McKenzie County Water Resource District from the County’s basic financial statements.

Government-wide and Fund Financial Statements

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

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

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

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

Fund Balance Classification Policies and Procedures

The County classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The same formal action of the highest level of decision making authority is required to rescind a commitment.

- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by management.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

Equity Classifications

Government-wide Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The County reports the following major governmental funds:

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

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

Additionally, the County reports the following fund types:

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

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

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

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

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

Restricted and Unrestricted Resources

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

Cash and Investments

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

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

Capital Assets

Primary Government

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential.

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

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

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

Assets	Years
Buildings	10-40
Furniture and equipment	5-25
Infrastructure	20-50
Vehicles and equipment	5-10

Long-Term Obligations

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

Tax Revenues

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

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

Interfund Transactions

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

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

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

Note 2 - Legal Compliance – Budget

Budget

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

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

Expenditures over Appropriations

Expenditures over Appropriations - exceeded budget in the General fund by \$820,088 in 2016 and by \$29,866,142 in 2015. No remedial action is required.

Note 3 - Deposits and Investments

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

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

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

At the year ended December 31, 2016 and 2015, the pooled bank balances for all County and fiduciary funds was \$88,311,239 and \$116,048,310. The carrying amount of the pooled deposits for the County and fiduciary funds was \$85,337,922, with \$83,664,922 in County funds and \$1,693,640 in fiduciary funds for 2016 and \$113,374,775, with \$111,703,212 in County funds and \$1,671,563 in fiduciary funds for 2015. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. Balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

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

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

Credit Risk

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

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

As of December 31, 2016 and 2015, the County held certificates of deposit in the amount of \$1,692,710 and \$1,679,590, which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2016 and 2015, the County held certificates of Deposit with the following maturity dates:

<u>2016</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,692,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,692,710</u>
<u>2015</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,079,590</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 1,679,590</u>

Concentration of Credit Risk

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

Note 4 - Note Receivable

On March 6, 2013, the County entered into an agreement to loan the McKenzie County Water Resource District \$4,500,000. The loan was provided in two advances with a first advance of \$3,000,000 and a second advance of \$1,500,000. The note is unsecured and bears interest at 2.5% through February 2018 at which time the interest rate becomes variable equal to the prime rate for loans originated by the Bank of North Dakota less 0.75% not to be less than 0%. The note matures in February 2033 and is due in annual principal payments ranging from approximately \$175,000 to \$275,000 plus accrued interest. The note receivable balance as of December 31, 2016 and 2015 was \$3,955,906 and \$4,200,848, respectively. As noted in Note 1, the McKenzie County Water Resource District, a component unit of the County, has been excluded from the County's basic financial statements.

Note 5 - Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2016:

<u>Governmental Activities</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 4,811,512	\$ -	\$ -	\$ 4,811,512
Construction in progress	46,701,601	61,663,344	35,882,057	72,482,888
Total capital assets, not being depreciated	<u>51,513,113</u>	<u>61,663,344</u>	<u>35,882,057</u>	<u>77,294,400</u>
Capital assets being depreciated				
Buildings	34,987,498	186,295	601,864	34,571,929
Furniture and equipment	2,661,078	940,562	-	3,601,640
Infrastructure	101,725,235	59,189,071	-	160,914,306
Vehicles and equipment	15,028,846	8,140,111	3,530,132	19,638,825
Total capital assets, being depreciated	<u>154,402,657</u>	<u>68,456,039</u>	<u>4,131,996</u>	<u>218,726,700</u>
Less accumulated depreciation for				
Buildings	6,645,557	2,024,614	240,987	8,429,184
Furniture and equipment	1,079,254	371,936	-	1,451,190
Infrastructure	23,240,922	7,242,483	-	30,483,405
Vehicles and equipment	6,785,880	1,762,731	1,288,146	7,260,465
Total accumulated depreciation	<u>37,751,613</u>	<u>11,401,764</u>	<u>1,529,133</u>	<u>47,624,244</u>
Total capital assets being depreciated, net	<u>116,651,044</u>	<u>57,054,275</u>	<u>2,602,863</u>	<u>171,102,456</u>
Governmental activities - capital assets, net	<u>\$ 168,164,157</u>	<u>\$ 118,717,619</u>	<u>\$ 38,484,920</u>	<u>\$ 248,396,856</u>

The County had commitments of approximately \$29,371,527 outstanding at December 31, 2016 related to construction in progress.

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

Governmental Activities

General government	\$ 1,458,796
Public safety	289,285
Highways	9,495,003
Health and welfare	43,570
Culture and recreation	46,685
Conservation of natural resources	68,425
Total depreciation expense - governmental activities	<u>\$ 11,401,764</u>

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

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 1,550,145	\$ 3,261,367	\$ -	\$ 4,811,512
Construction in progress	13,676,972	46,701,601	13,676,972	46,701,601
Total capital assets, not being depreciated	15,227,117	49,962,968	13,676,972	51,513,113
Capital assets being depreciated				
Buildings	18,362,090	16,634,470	9,062	34,987,498
Furniture and equipment	2,480,310	317,263	136,495	2,661,078
Infrastructure	87,509,159	14,216,076	-	101,725,235
Vehicles and equipment	13,700,189	2,051,266	722,609	15,028,846
Total capital assets, being depreciated	122,051,748	33,219,075	868,166	154,402,657
Less accumulated depreciation for				
Buildings	4,682,360	1,966,636	3,439	6,645,557
Furniture and equipment	900,534	297,430	118,710	1,079,254
Infrastructure	15,868,188	7,372,734	-	23,240,922
Vehicles and equipment	5,731,966	1,491,991	438,077	6,785,880
Total accumulated depreciation	27,183,048	11,128,791	560,226	37,751,613
Total capital assets being depreciated, net	94,868,700	22,090,284	307,940	116,651,044
Governmental activities - capital assets, net	<u>\$ 110,095,817</u>	<u>\$ 72,053,252</u>	<u>\$ 13,984,912</u>	<u>\$ 168,164,157</u>

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

Governmental Activities

General government	\$ 1,601,644
Public safety	231,529
Highways	9,134,875
Health and welfare	53,854
Culture and recreation	53,871
Conservation of natural resources	53,018
Total depreciation expense - governmental activities	\$ 11,128,791

Note 6 - Long-Term Liabilities

Changes in long-term liabilities – During the year ended December 31, 2016, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of indebtedness	\$ 11,392,719	\$ 29,295,869	\$ -	\$ 40,688,588	\$ -
Total	\$ 11,392,719	\$ 29,295,869	\$ -	\$ 40,688,588	\$ -

Outstanding debt at December 31, 2016 consists of the following issues:

Certificate of Indebtedness

\$40,688,588 Certificate of Indebtedness Series 2015 - due in semi-annual installments of \$2,312,450 through August 18, 2027; interest payments only through February 8, 2018, variable interest rate (1.75% at December 31, 2015), liquidated out of the Debt Service Fund	\$ 40,688,588
	\$ 40,688,588

Debt service requirements on long-term debt at December 31, 2016 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2017	\$ -	\$ 209,793
2018	4,006,858	618,042
2019	3,647,618	977,283
2020	3,747,939	876,961
2021	3,851,020	773,881
2022-2026	20,903,309	2,221,195
2027-2031	4,531,844	93,056
	<u>\$ 40,688,588</u>	<u>\$ 5,770,211</u>

Changes in long-term liabilities – During the year ended December 31, 2015, the following changes occurred in liabilities reported as long-term debt:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of indebtedness	\$ -	\$ 11,392,719	\$ -	\$ 11,392,719	\$ -
Total	<u>\$ -</u>	<u>\$ 11,392,719</u>	<u>\$ -</u>	<u>\$ 11,392,719</u>	<u>\$ -</u>

Outstanding debt at December 31, 2015 consists of the following issues:

Certificate of Indebtedness

\$11,392,719 Certificate of Indebtedness Series 2015 - due in semi-annual installments of \$647,481 through August 18, 2027; interest payments only through February 8, 2018, variable interest rate (1.75% at December 31, 2015), liquidated out of the Debt Service Fund	<u>\$ 11,392,719</u>
	<u>\$ 11,392,719</u>

Debt service requirements on long-term debt at December 31, 2015 are as follows:

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2016	\$ -	\$ 230,453
2017	-	103,687
2018	1,121,912	173,051
2019	1,021,325	273,637
2020	1,049,415	245,547
2021-2025	5,696,218	778,594
2026-2030	2,503,849	86,076
	<u>\$ 11,392,719</u>	<u>\$ 1,891,045</u>

The County had not drawn the full available amount of \$12,200,000 on the certificates as of December 31, 2016. The certificate of indebtedness is payable through 2025. The total principal and interest remaining to be paid on the certificate is \$11,360,303. Principal payments were not made during the year and interest payments of \$223,076 were made during the year.

Note 7 - Transfers

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 128,517	\$ 33,994,281
County Road and Bridge	38,924,096	55,179
Other Governmental Funds	-	5,003,153
	<u> </u>	<u> </u>
Total transfers	<u>\$ 39,052,613</u>	<u>\$ 39,052,613</u>

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2015:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 120,128	\$ 45,818,916
County Road and Bridge	51,200,000	48,444
Other Governmental Funds	750,000	6,202,768
	<u> </u>	<u> </u>
Total transfers	<u>\$ 52,070,128</u>	<u>\$ 52,070,128</u>

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

Note 8 - Related Organization

McKenzie County is also responsible for levying a property tax for the Historical Society but the County's accountability for this entity does not extend beyond levying the tax. In 2016 and 2015, the County remitted \$26,257 and \$5,472 to the Historical Society.

Note 9 - Risk Management

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. McKenzie County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$9,587,851 and \$7,716,700 for inland marine coverage as of December 31, 2016 and 2015.

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

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

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

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

Note 10 - Joint Venture

Upper Missouri District Health Unit

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

Audited summary financial information for the year ended December 31, 2015, the last year audited, is as follows:

Cash and investments	\$ 2,203,202
Total assets and deferred outflows of resources	2,873,588
Total liabilities and deferred inflows of resources	2,410,194
Total equity	463,394
Total revenues	2,579,880
Total expenditures	<u>2,643,966</u>
Net decrease in equity	<u><u>\$ (64,086)</u></u>

Note 11 - Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2016, 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. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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.

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

Net Pension Liability

At December 31, 2016, the Employer's proportionate share of the net pension liability was \$7,955,415. The net pension liability was measured as of July 1, 2016, 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 July 1, 2016, the Employer's proportion was 0.816277 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases (Payroll Growth)	4.50% per annum for Main System
Investment Rate of Return	8.00%, net of investment expenses, including inflation

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 2016. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2016 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2016. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic Equity	31%	6.60%
International Equity	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.24%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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 in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
County's proportionate share of the NDPERS net pension liability	\$ 11,284,603	\$ 7,955,415	\$ 5,150,402

Pension Plan Fiduciary Net Position

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

Note 12 - Landfill Post Closure Costs

State and federal laws and regulations require the County to place a final cover on its County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County does not report the closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date under the modified cash basis of accounting. The operating expenses that would have been reported in 2016 and 2015 if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were \$174,273 and \$188,491, respectively. The estimated landfill closure and post closure care liability at December 31, 2016 and 2015 that would have been reported if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America was \$1,301,912 and \$1,127,639, respectively, which is based on the use of approximately 41 percent of the estimated capacity of the landfill and total estimated closure and post closure costs of \$2,458,345. Under the modified cash basis of accounting used, the County will recognize these costs when payments occur. These amounts are based on what it would cost to perform all closure and post closure care in 2016 and 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to determine the method they would choose to finance the closure and post closure costs. Beginning in 2013, the County began utilizing the financial test to demonstrate financial assurance for closure and/or post-closure costs for the landfill, as specified in section 33-20-14-02 through 33-20-14-07 of the NDCC. The County expects that future inflation costs will be paid from operating revenue. However, if the funds are inadequate or additional post closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered from future tax revenue.

Note 13 - Subsequent Events

The County entered into construction contracts totaling \$18,422,241 subsequent to year end for road maintenance and improvements. In February of 2018, the County entered into the Crestwood Road Agreement for improvements of three miles of CR37 East with Crestwood providing \$3,000,000 in assistance.



Supplementary Information
December 31, 2016

McKenzie County

McKenzie County
 Budgetary Comparison Schedule – General Fund – Modified Cash Basis
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 510,000	\$ 510,000	\$ 860,378	\$ 350,378
Licenses, permits and fees	1,755,750	1,755,750	3,543,477	1,787,727
Intergovernmental	40,000,000	40,000,000	39,522,044	(477,956)
Charges for services	6,527,941	6,527,941	3,038,010	(3,489,931)
Royalties	650,000	650,000	4,974,907	4,324,907
Interest income	100,000	100,000	122,879	22,879
Miscellaneous	27,250,000	27,250,000	909,146	(26,340,854)
Total revenues	<u>76,793,691</u>	<u>76,793,691</u>	<u>52,970,841</u>	<u>(23,822,850)</u>
Expenditures				
Current				
General government	41,575,455	41,575,455	9,025,786	32,549,669
Public safety	9,097,742	9,097,742	9,165,797	(68,055)
Health and welfare	-	-	121,544	(121,544)
Culture and recreation	-	-	340,677	(340,677)
Conservation of natural resources	-	-	168,058	(168,058)
Economic development	-	-	159,080	(159,080)
Other	-	-	427,000	(427,000)
Capital outlay	-	-	32,085,343	(32,085,343)
Total expenditures	<u>50,673,197</u>	<u>50,673,197</u>	<u>51,493,285</u>	<u>(820,088)</u>
Excess of Revenues over Expenditures	<u>26,120,494</u>	<u>26,120,494</u>	<u>1,477,556</u>	<u>(24,642,938)</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	156,110	156,110
Loan proceeds	-	-	29,295,869	29,295,869
Transfers in	-	-	128,517	128,517
Transfers out	(33,625,000)	(33,625,000)	(33,994,281)	(369,281)
Total other financing sources and uses	<u>(33,625,000)</u>	<u>(33,625,000)</u>	<u>(4,413,785)</u>	<u>29,211,215</u>
Net Change in Fund Balances	(7,504,506)	(7,504,506)	(2,936,229)	4,568,277
Fund Balance - January 1	<u>40,703,108</u>	<u>40,703,108</u>	<u>40,703,108</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 33,198,602</u>	<u>\$ 33,198,602</u>	<u>\$ 37,766,879</u>	<u>\$ 4,568,277</u>

McKenzie County
 Budgetary Comparison Schedule – General Fund – Modified Cash Basis
 Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 5,000	\$ 5,000	\$ 306,928	\$ 301,928
Licenses, permits and fees	1,505,050	1,505,050	3,754,243	2,249,193
Intergovernmental	40,000,000	40,000,000	46,019,543	6,019,543
Charges for services	7,214,100	7,214,100	3,894,718	(3,319,382)
Royalties	700,000	700,000	7,536,585	6,836,585
Interest income	50,000	50,000	107,881	57,881
Miscellaneous	200,000	200,000	1,024,476	824,476
Total revenues	<u>49,674,150</u>	<u>49,674,150</u>	<u>62,644,374</u>	<u>12,970,224</u>
Expenditures				
Current				
General government	12,345,986	9,402,719	13,879,918	(4,477,199)
Public safety	2,894,586	2,865,080	7,850,582	(4,985,502)
Health and welfare	37,746	39,232	86,813	(47,581)
Culture and recreation	124,731	126,945	219,930	(92,985)
Conservation of natural resources	94,345	94,345	666,610	(572,265)
Economic development	150,859	150,859	173,933	(23,074)
Other	12,500	12,500	500,100	(487,600)
Capital outlay	3,500	3,500	19,183,436	(19,179,936)
Total expenditures	<u>15,664,253</u>	<u>12,695,180</u>	<u>42,561,322</u>	<u>(29,866,142)</u>
Excess of Revenues over Expenditures	<u>34,009,897</u>	<u>36,978,970</u>	<u>20,083,052</u>	<u>(16,895,918)</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	4,003	4,003
Loan proceeds	-	-	11,392,719	11,392,719
Transfers in	-	-	120,128	120,128
Transfers out	(9,295,000)	(9,265,000)	(45,818,916)	(36,553,916)
Total other financing sources and uses	<u>(9,295,000)</u>	<u>(9,265,000)</u>	<u>(34,302,066)</u>	<u>(25,037,066)</u>
Net Change in Fund Balances	24,714,897	27,713,970	(14,219,014)	(41,932,984)
Fund Balance - January 1	<u>54,922,122</u>	<u>54,922,122</u>	<u>54,922,122</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 79,637,019</u>	<u>\$ 82,636,092</u>	<u>\$ 40,703,108</u>	<u>\$ (41,932,984)</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,400,000	\$ 1,400,000	\$ 1,569,361	\$ 169,361
Special assessments	8,200	8,200	8,163	(37)
Intergovernmental	5,568,034	5,568,034	7,635,369	2,067,335
Charges for services	1,000,000	1,000,000	1,027,497	27,497
Interest income	-	-	55,179	55,179
Miscellaneous	-	-	181,531	181,531
Total revenues	<u>7,976,234</u>	<u>7,976,234</u>	<u>10,477,100</u>	<u>2,500,866</u>
Expenditures				
Current				
Highways	100,983,119	100,983,119	15,383,274	85,599,845
Capital outlay	-	-	58,601,774	(58,601,774)
Total expenditures	<u>100,983,119</u>	<u>100,983,119</u>	<u>73,985,048</u>	<u>26,998,071</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(93,006,885)</u>	<u>(93,006,885)</u>	<u>(63,507,948)</u>	<u>29,498,937</u>
Other Financing Sources (Uses)				
Transfers in	38,500,000	38,500,000	38,924,096	424,096
Transfers out	-	-	(55,179)	(55,179)
Total other financing sources and uses	<u>38,500,000</u>	<u>38,500,000</u>	<u>38,868,917</u>	<u>368,917</u>
Net Change in Fund Balances	(54,506,885)	(54,506,885)	(24,639,031)	29,867,854
Fund Balance - January 1	<u>71,148,495</u>	<u>71,148,495</u>	<u>71,148,495</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 16,641,610</u>	<u>\$ 16,641,610</u>	<u>\$ 46,509,464</u>	<u>\$ 29,867,854</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 1,066,440	\$ 15,440
Special assessments	11,270	11,270	-	(11,270)
Intergovernmental	58,355,034	58,355,034	58,618,182	263,148
Charges for services	1,750,000	1,750,000	1,191,053	(558,947)
Interest income	-	-	48,444	48,444
Miscellaneous	20,000	20,000	1,125,499	1,105,499
Total revenues	<u>61,187,304</u>	<u>61,187,304</u>	<u>62,049,618</u>	<u>862,314</u>
Expenditures				
Current				
Highways	97,160,359	97,160,359	30,147,886	67,012,473
Capital outlay	-	-	49,237,757	(49,237,757)
Total expenditures	<u>97,160,359</u>	<u>97,160,359</u>	<u>79,385,643</u>	<u>17,774,716</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(35,973,055)</u>	<u>(35,973,055)</u>	<u>(17,336,025)</u>	<u>18,637,030</u>
Other Financing Sources (Uses)				
Transfers in	55,700,000	55,700,000	51,200,000	(4,500,000)
Transfers out	-	-	(48,444)	(48,444)
Total other financing sources and uses	<u>55,700,000</u>	<u>55,700,000</u>	<u>51,151,556</u>	<u>(4,548,444)</u>
Net Change in Fund Balances	19,726,945	19,726,945	33,815,531	14,088,586
Fund Balance - January 1	<u>37,332,964</u>	<u>37,332,964</u>	<u>37,332,964</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 57,059,909</u>	<u>\$ 57,059,909</u>	<u>\$ 71,148,495</u>	<u>\$ 14,088,586</u>

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

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered- Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
NDPERS	6/30/2015	0.061231%	\$ 416,360	\$ 545,497	76.33%	77.15%
NDPERS	6/30/2016	<u>0.055219%</u>	<u>\$ 538,163</u>	<u>\$ 556,479</u>	<u>96.71%</u>	<u>70.46%</u>

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

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Employer's Covered- Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered- Employee Payroll (a/d)</u>
NDPERS	12/31/2015	\$ 117,276	117,276	\$ -	\$ 1,647,135	7.12%
NDPERS	12/31/2016	<u>\$ 103,369</u>	<u>103,369</u>	<u>\$ -</u>	<u>\$ 1,451,812</u>	<u>7.12%</u>

Note 1 - Schedule of Employer Pension Liability and Contributions

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

Note 2 - Changes of Assumptions

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

McKenzie County
Schedule of Expenditures of Federal Awards
Years Ended December 31, 2016 and 2015

Federal Grantor, Pass-through Grantor and Program Title	Federal CFDA Number	Grant Number	Expenditures	
			2016	2015
U.S. Department of Agriculture				
<u>Direct Program</u>				
Forest Service Schools and Roads Cluster				
School and Roads - Grants to Counties (Bankhead-Jones)	10.666		\$ 8,007,844	\$ 10,945,527
U.S. Department of Interior				
<u>Direct Program</u>				
Late Disbursement Interest	15.436		-	331
Taylor Grazing	15.227		29	23
<u>Passed-Through State Treasurer</u>				
Flood Control Act	15.433		858,950	1,737,339
Mineral Leasing Act (Public Domain Royalties)	15.437		4,691,778	6,902,390
Total U.S. Department of Interior			<u>5,550,757</u>	<u>8,640,083</u>
U.S. Department of Health and Human Services				
<u>Passed-Through State Department of Human Services</u>				
Family Preservation and Support Services	93.556		915	3,319
Temporary Assistance for Needy Families Cluster				
Temporary Assistance for Needy Families	93.558	S114	99,477	111,138
Child Care Development Fund Cluster				
Child Care Mandatory and Matching Funds of the Child				
Care and Development Fund	93.596	S115	3,616	4,017
Child Welfare Services - State Grants	93.645	S073	2,085	1,065
Foster Care Title IV-E	93.658	S067	99,025	81,042
Adoption Assistance	93.659	S070	1,744	916
Medicaid Cluster				
Medical Assistance Program	93.778		1,395	-
Maternal and Child Health Services Block Grant to the States	93.994	S023	1,340	1,130
Total U.S. Department of Health and Human Services			<u>209,597</u>	<u>202,627</u>
U.S. Department of Homeland Security				
<u>Passed-Through State Department of Emergency Services</u>				
Hazardous Mitigation Grant Program	97.039		-	41,290
Emergency Management Performance	97.042	P03214	-	41,653
Emergency Management Performance	97.042	P03215	24,583	-
Emergency Management Performance	97.042	P03216	6,576	-
			<u>31,159</u>	<u>41,653</u>
Homeland Security Grant Program	97.067	P28613	-	13,500
Total U.S. Department of Homeland Security			<u>31,159</u>	<u>96,443</u>
<u>Passed-Through State Department of Emergency Services</u>				
FEMA	97.036		74,356	-
Total Reporting Entity Expenditures of Federal Awards			<u>\$ 13,873,713</u>	<u>\$ 19,884,680</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McKenzie County and is presented using the same basis of accounting as disclosed in Note 1 of the basic financial statements. Therefore, some amounts presented in the schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. McKenzie County received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient. The County had no subrecipients during the years ended December 31, 2016 and 2015.

Note B – Significant Accounting Policies

Federal reimbursements and interest income are recognized when received and federal expenditures are recognized when paid.

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



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

Board of County Commissioners
McKenzie County
Watford City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McKenzie County, Watford City, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise McKenzie County’s basic financial statements, and have issued our report thereon dated May 2, 2018. Our report included an adverse opinion on the aggregate discretely presented component units.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as items 2016-A, 2016-B, and 2016-C, to be material weaknesses.

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.

Compliance and Other Matters

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

McKenzie County's Responses to Findings

McKenzie County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. McKenzie 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.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Bismarck, North Dakota
May 2, 2018



Independent Auditor’s Report on Compliance for Each Major Federal Program: and Report on Internal Control over Compliance Required by the Uniform Guidance

Board of County Commissioners
McKenzie County
Watford City, North Dakota

Report on Compliance for Each Major Federal Program

We have audited McKenzie County, Watford City, North Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of McKenzie County’s major federal programs for the years ended December 31, 2016 and 2015. McKenzie County’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of McKenzie County’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McKenzie County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, McKenzie County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the years ended December 31, 2016 and 2015.

Report on Internal Control over Compliance

Management of McKenzie County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered McKenzie County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McKenzie County's internal control over compliance.

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

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

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



Bismarck, North Dakota
May 2, 2018

Section I – Summary of Auditor’s Results

	2016	2015
<u>Financial Statements</u>		
Type of auditors' report issued	Adverse	Adverse
Internal control over financial reporting:		
Material weaknesses identified	Yes	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Noncompliance material to financial statements noted	No	No
<u>Federal Awards</u>		
Internal control over major programs:		
Material weaknesses identified	No	No
Significant deficiencies identified not considered to be material weaknesses	None reported	None reported
Type of auditors' report issued on compliance for major programs	Unmodified	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No	No
Identification of major programs:		
<u>Name of Federal Program</u>	<u>CFDA number</u>	<u>CFDA number</u>
School and Roads - Grants to Counties (Bankhead Jones)	10.666	
Flood Control Act		15.433
Mineral Leasing Act		15.437
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000	\$ 750,000
Auditee qualified as low-risk auditee	No	No

Section II – Financial Statement Findings

2016-A Segregation of Duties, Fiscal Year 2016 and 2015

Criteria - A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition - The County has a lack of segregation of duties in certain areas due to a limited staff.

Cause – The County has limited staff to adequately segregate duties.

Effect - Inadequate segregation of duties could adversely affect the County’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the County.

Response – The Treasurer’s Office was vacated by resignation of the elected Treasurer in December 2014, leaving no employees in that department. Since that time, the Commissioners have combined the Treasurer’s office with the Auditor’s office, effective May 2015. Duties are segregated by rotating the person responsible for the daily work so that the one conducting the daily balancing and producing the month-end reports and/or general ledger work are not always the same people. The Treasurer’s office staff work closely with the Auditor’s office staff to provide daily receipt and disbursement reports and compare general ledger records on a monthly basis.

2016-B Recording of Transactions, Fiscal Year 2016 and 2015

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

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

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

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

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

Response – Since it is not cost-effective for an organization of our size to have staff prepare all adjustments needed for an audit-ready trial balance, we have chosen to hire Eide Bailly, a public accounting firm, to assist us in preparing these transactions.

**2016-C Preparation of Financial Statements related Footnotes and Schedule of Federal Expenditures,
Fiscal Year 2016 and 2015**

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

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements and schedule of federal expenditures being audited. As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

Recommendation - While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of McKenzie County and changes in reporting requirements.

Response - Since it is not cost-effective for an organization of our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of McKenzie County.

Section III – Federal Award Findings and Questioned Costs

None reported