



Financial Statements  
December 31, 2014 and 2013

# McKenzie County

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2014

Richard Cayko  
Douglas Nordby  
Ronald Anderson  
Vawnita Best  
Kathy Skarda

Commissioner-Chairman  
Commissioner-Vice-Chairman  
Commissioner  
Commissioner  
Commissioner

Linda Svihovec  
John Fulwider  
Ann Johnsrud  
Jacob Rodenbiker  
Jodee Lawlar

Auditor/Treasurer  
Sheriff  
Recorder  
State's Attorney  
Clerk of Court (Appointed)

2013

Ronald Anderson  
Richard Cayko  
Roger Chinn  
Rick Lawlar  
Douglas Nordby

Commissioner-Chairman  
Commissioner-Vice-Chairman  
Commissioner  
Commissioner  
Commissioner

Linda Svihovec  
Cheryl Grantier  
John Fulwider  
Ann Johnsrud  
Taylor Olson  
Lanae Roos

Auditor  
Treasurer  
Sheriff  
Recorder  
State's Attorney  
Clerk of Court (Appointed)



## Independent Auditor's Report

Board of County Commissioners  
McKenzie County  
Watford City, ND

### 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, ND, as of and for the years ended December 31, 2014 and 2013, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2014 and 2013, 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, ND, as of December 31, 2014 and 2013, 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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. Because of the significance of the matter described above in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

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 November 29, 2016 on our consideration of McKenzie County, ND's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie County's internal control over financial reporting and compliance.

*Eide Sallee LLP*

Bismarck, North Dakota  
November 29, 2016

McKenzie County  
Statement of Net Position – Modified Cash Basis  
December 31, 2014

	Primary Government Governmental Activities	Component Units
<b>Assets</b>		
Cash and investments	\$ 93,004,509	\$ 166,338
Note receivable	4,323,798	-
Capital assets not being depreciated		
Land	1,550,145	-
Construction in progress	13,676,972	-
Capital assets net of accumulated depreciation		
Buildings	14,218,976	-
Furniture and equipment	1,576,767	-
Infrastructure	71,242,995	-
Vehicles and equipment	7,829,965	-
Total capital assets	110,095,820	-
Total assets	\$ 207,424,127	\$ 166,338
<b>Net Position</b>		
Net investment in capital assets	\$ 110,095,820	\$ -
Restricted for		
Public safety	219,500	-
Highways	993,749	-
Culture and recreation	-	102,558
Conservation of natural resources	-	59,824
Economic development	-	3,956
Unrestricted	96,115,058	-
Total Net Position	\$ 207,424,127	\$ 166,338

McKenzie County  
Statement of Net Position – Modified Cash Basis  
December 31, 2013

	Primary Government Governmental Activities	Component Units
Assets		
Cash and investments	\$ 60,313,525	\$ 206,377
Note receivable	3,000,000	-
Capital assets not being depreciated		
Land	564,346	-
Construction in progress	1,997,305	-
Capital assets net of accumulated depreciation		
Buildings	7,168,544	-
Furniture and equipment	1,193,223	-
Infrastructure	50,881,227	-
Vehicles and equipment	8,001,249	-
Total capital assets	69,805,894	-
Total assets	\$ 133,119,419	\$ 206,377
Net Position		
Net investment in capital assets	\$ 69,805,894	\$ -
Restricted for		
Public safety	163,467	-
Highways	3,935,760	-
Culture and recreation	-	108,120
Conservation of natural resources	-	86,499
Economic development	-	11,758
Unrestricted	59,214,298	-
Total Net Position	\$ 133,119,419	\$ 206,377



McKenzie County  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2014

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	\$12,940,807	\$ 8,611,958	\$ 1,282,169	\$ -	\$ (3,046,680)	\$ -
Public safety	5,398,207	-	13	-	(5,398,194)	-
Highways	27,605,110	2,806,121	-	14,548,994	(10,249,995)	-
Health and welfare	1,226,493	5,854	336,182	-	(884,457)	-
Culture and recreation	143,033	-	9	-	(143,024)	-
Conservation of natural resources	435,954	88,548	85,343	-	(262,063)	-
Economic development	165,191	-	-	-	(165,191)	-
Other	237,600	-	-	-	(237,600)	-
Total primary government	<u>\$ 48,152,395</u>	<u>\$ 11,512,481</u>	<u>\$ 1,703,716</u>	<u>\$ 14,548,994</u>	<u>(20,387,204)</u>	<u>-</u>
Component units	<u>\$ 355,461</u>	<u>\$ 10,222</u>	<u>\$ 85,898</u>	<u>\$ -</u>	<u>-</u>	<u>(259,341)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					1,721,044	215,920
Other taxes					230,568	-
Oil and gas production					80,003,663	-
State aid not restricted to specific program					670,375	-
Royalties					11,206,757	-
Earnings on investments					130,359	382
Miscellaneous revenue					729,146	3,000
Total general revenues					<u>94,691,912</u>	<u>219,302</u>
Change in net position					<u>74,304,708</u>	<u>(40,039)</u>
Net position - January 1					<u>133,119,419</u>	<u>206,377</u>
Net position - December 31					<u>\$ 207,424,127</u>	<u>\$ 166,338</u>

McKenzie County  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2013

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	\$ 8,318,212	\$ 7,373,675	\$ 275,659	\$ -	\$ (668,878)	\$ -
Public safety	3,549,550	-	51	-	(3,549,499)	-
Highways	21,700,993	3,249,520	-	14,326,789	(4,124,684)	-
Health and welfare	1,033,092	3,644	327,170	-	(702,278)	-
Culture and recreation	129,406	-	13	-	(129,393)	-
Conservation of natural resources	433,235	31,653	59,358	-	(342,224)	-
Economic development	149,545	-	-	-	(149,545)	-
Other	225,000	-	-	-	(225,000)	-
Total primary government	<u>\$ 35,539,033</u>	<u>\$ 10,658,492</u>	<u>\$ 662,251</u>	<u>\$ 14,326,789</u>	<u>(9,891,501)</u>	<u>-</u>
Component units	<u>\$ 317,700</u>	<u>\$ 20,849</u>	<u>\$ 82,673</u>	<u>\$ -</u>	<u>-</u>	<u>(214,178)</u>
General revenues						
Taxes						
Property taxes, levied for special purposes					1,305,723	164,871
Other taxes					837,350	-
Oil and gas production					54,174,233	-
State aid not restricted to specific program					631,147	-
Royalties					7,449,954	-
Earnings on investments					91,826	7,393
Miscellaneous revenue					507,863	3,000
Total general revenues					<u>64,998,096</u>	<u>175,264</u>
Loss on disposal of assets					<u>(187,467)</u>	<u>-</u>
Change in net position					<u>54,919,128</u>	<u>(38,914)</u>
Net position - January 1					<u>78,200,291</u>	<u>245,291</u>
Net position - December 31					<u>\$ 133,119,419</u>	<u>\$ 206,377</u>

McKenzie County  
Balance Sheet – Governmental Funds – Modified Cash Basis  
December 31, 2014

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Infrastructure		
<b>Assets</b>					
Cash and investments	\$ 50,598,324	\$ 37,332,964	\$ -	\$ 4,351,810	\$ 92,283,098
Note receivable	4,323,798	-	-	-	4,323,798
<b>Total assets</b>	<b>\$ 54,922,122</b>	<b>\$ 37,332,964</b>	<b>\$ -</b>	<b>\$ 4,351,810</b>	<b>\$ 96,606,896</b>
<b>Fund Balances</b>					
Nonspendable	\$ 4,323,798	\$ -	\$ -	\$ -	\$ 4,323,798
Restricted					
Public safety	-	-	-	219,500	219,500
Highways	-	-	-	993,749	993,749
Committed					
Subsequent year's budget:		-	-	-	-
Appropriation of fund balance	520,000	-	-	-	520,000
Assigned					
General government	1,254,859	-	-	-	1,254,859
Public safety	72,165	-	-	-	72,165
Highways	424,096	37,332,964	-	2,509,594	40,266,654
Health and welfare	-	-	-	370,825	370,825
Culture and recreation	34,835	-	-	20	34,855
Conservation of					
Natural resources	-	-	-	258,122	258,122
Economic development	21,794	-	-	-	21,794
Unassigned	48,270,575	-	-	-	48,270,575
<b>Total fund balances</b>	<b>\$ 54,922,122</b>	<b>\$ 37,332,964</b>	<b>\$ -</b>	<b>\$ 4,351,810</b>	<b>\$ 96,606,896</b>

McKenzie County  
Balance Sheet – Governmental Funds – Modified Cash Basis  
December 31, 2013

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Infrastructure		
<b>Assets</b>					
Cash and investments	\$ 40,249,175	\$ 12,589,094	\$ 3,255,616	\$ 3,615,114	\$ 59,708,999
Note receivable	3,000,000	-	-	-	3,000,000
Total assets	<u>\$ 43,249,175</u>	<u>\$ 12,589,094</u>	<u>\$ 3,255,616</u>	<u>\$ 3,615,114</u>	<u>\$ 62,708,999</u>
<b>Fund Balances</b>					
Nonspendable	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 3,000,000
Restricted					
Public safety	-	-	-	163,467	163,467
Highways	-	-	3,255,616	680,144	3,935,760
Committed					
Subsequent year's budget:		-	-	-	-
Appropriation of fund balance	740,000	-	-	-	740,000
Assigned					
General government	1,530,662	-	-	-	1,530,662
Public safety	71,775	-	-	-	71,775
Highways	424,096	12,589,094	-	2,340,044	15,353,234
Health and welfare	-	-	-	340,267	340,267
Culture and recreation	14,076	-	-	976	15,052
Conservation of					
Natural resources	-	-	-	90,216	90,216
Economic development	38,517	-	-	-	38,517
Unassigned	37,430,049	-	-	-	37,430,049
Total fund balances	<u>\$ 43,249,175</u>	<u>\$ 12,589,094</u>	<u>\$ 3,255,616</u>	<u>\$ 3,615,114</u>	<u>\$ 62,708,999</u>

McKenzie County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis  
December 31, 2014

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	\$ 96,606,896
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	\$ 137,278,865
Less accumulated depreciation	<u>(27,183,045)</u>
Net capital assets	110,095,820
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>721,411</u>
Total net position of governmental activities	<u><u>\$ 207,424,127</u></u>

McKenzie County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis  
December 31, 2013

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\$ 62,708,999

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	\$ 88,269,337	
Less accumulated depreciation	<u>(18,463,443)</u>	69,805,894
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

604,526

Total net position of governmental activities

\$ 133,119,419

McKenzie County  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –  
Modified Cash Basis  
Year Ended December 31, 2014

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Infrastructure		
Revenues					
Taxes	\$ 61,503	\$ 858,519	\$ -	\$ 801,022	\$ 1,721,044
Licenses, permits and fees	4,246,411	-	-	-	4,246,411
Intergovernmental	62,649,822	24,844,608	-	5,795,835	93,290,265
Charges for services	4,365,547	2,806,121	-	94,402	7,266,070
Royalties	11,206,757	-	-	-	11,206,757
Interest income	88,397	39,694	-	2,268	130,359
Contributions	-	1,700,000	-	-	1,700,000
Miscellaneous	597,527	124,030	-	7,589	729,146
Total revenues	<u>83,215,964</u>	<u>30,372,972</u>	<u>-</u>	<u>6,701,116</u>	<u>120,290,052</u>
Expenditures					
Current					
General government	8,665,127	-	3,255,616	-	11,920,743
Public safety	5,102,772	-	-	69,974	5,172,746
Highways	-	20,204,944	-	-	20,204,944
Health and welfare	41,703	-	-	1,150,833	1,192,536
Culture and recreation	97,778	-	-	8,870	106,648
Conservation of					
Natural resources	130,551	-	-	252,074	382,625
Economic development	165,191	-	-	-	165,191
Other	237,600	-	-	-	237,600
Capital outlay	18,544,257	28,384,464	-	80,401	47,009,122
Total expenditures	<u>32,984,979</u>	<u>48,589,408</u>	<u>3,255,616</u>	<u>1,562,152</u>	<u>86,392,155</u>
Excess of Revenues over Expenditures	<u>50,230,985</u>	<u>(18,216,436)</u>	<u>(3,255,616)</u>	<u>5,138,964</u>	<u>33,897,897</u>
Other Financing Sources (Uses)					
Transfers in	41,962	43,000,000	-	600,000	43,641,962
Transfers out	(38,600,000)	(39,694)	-	(5,002,268)	(43,641,962)
Total other financing sources and uses	<u>(38,558,038)</u>	<u>42,960,306</u>	<u>-</u>	<u>(4,402,268)</u>	<u>-</u>
Net Change in Fund Balances	11,672,947	24,743,870	(3,255,616)	736,696	33,897,897
Fund Balance - January 1	<u>43,249,175</u>	<u>12,589,094</u>	<u>3,255,616</u>	<u>3,615,114</u>	<u>62,708,999</u>
Fund Balance - December 31	<u>\$ 54,922,122</u>	<u>\$ 37,332,964</u>	<u>\$ -</u>	<u>\$ 4,351,810</u>	<u>\$ 96,606,896</u>

McKenzie County  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –  
Modified Cash Basis  
Year Ended December 31, 2013

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road and Bridge	Infrastructure		
<b>Revenues</b>					
Taxes	\$ 56,681	\$ 542,596	\$ -	\$ 706,446	\$ 1,305,723
Licenses, permits and fees	2,795,448	-	-	-	2,795,448
Intergovernmental	27,170,449	39,139,631	282,116	4,039,574	70,631,770
Charges for services	4,578,227	3,249,520	-	35,297	7,863,044
Royalties	7,449,954	-	-	-	7,449,954
Interest income	62,267	27,961	-	1,598	91,826
Miscellaneous	339,520	104,893	-	63,450	507,863
Total revenues	<u>42,452,546</u>	<u>43,064,601</u>	<u>282,116</u>	<u>4,846,365</u>	<u>90,645,628</u>
<b>Expenditures</b>					
<b>Current</b>					
General government	7,301,764	-	-	-	7,301,764
Public safety	3,322,327	-	-	70,845	3,393,172
Highways	-	15,531,178	-	-	15,531,178
Health and welfare	38,274	-	-	958,444	996,718
Culture and recreation	84,676	-	-	8,345	93,021
Conservation of					
Natural resources	124,752	-	-	272,674	397,426
Economic development	149,545	-	-	-	149,545
Other	225,000	-	-	-	225,000
Capital outlay	5,710,908	30,061,820	-	72,593	35,845,321
Total expenditures	<u>16,957,246</u>	<u>45,592,998</u>	<u>-</u>	<u>1,382,901</u>	<u>63,933,145</u>
Excess of Revenues over Expenditures	<u>25,495,300</u>	<u>(2,528,397)</u>	<u>282,116</u>	<u>3,463,464</u>	<u>26,712,483</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	32,559	10,000,000	-	281,500	10,314,059
Transfers out	<u>(8,781,500)</u>	<u>(27,961)</u>	<u>-</u>	<u>(1,504,598)</u>	<u>(10,314,059)</u>
Total other financing sources and uses	<u>(8,748,941)</u>	<u>9,972,039</u>	<u>-</u>	<u>(1,223,098)</u>	<u>-</u>
Net Change in Fund Balances	16,746,359	7,443,642	282,116	2,240,366	26,712,483
Fund Balance - January 1	<u>26,502,816</u>	<u>5,145,452</u>	<u>2,973,500</u>	<u>1,374,748</u>	<u>35,996,516</u>
Fund Balance - December 31	<u>\$ 43,249,175</u>	<u>\$ 12,589,094</u>	<u>\$ 3,255,616</u>	<u>\$ 3,615,114</u>	<u>\$ 62,708,999</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, 2014

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Net change in fund balance - total governmental funds		\$ 33,897,897
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	\$ 47,009,122	
Contributed capital	2,167,051	
Current year depreciation expense	<u>(8,886,247)</u>	40,289,926
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>116,885</u>
Change in net position of governmental activities		<u><u>\$ 74,304,708</u></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, 2013

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Net change in fund balance - total governmental funds		\$ 26,712,483
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	\$ 35,845,321	
Current year depreciation expense	(7,516,532)	
Loss on disposal of assets	<u>(187,467)</u>	28,141,322
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>65,323</u>
Change in net position of governmental activities		<u><u>\$ 54,919,128</u></u>

McKenzie County  
 Statements of Net Position – Proprietary Fund – Modified Cash Basis  
 December 31, 2014 and 2013

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	Internal Service	
	2014	2013
Assets		
Current assets		
Cash	\$ 721,411	\$ 604,526
Net Position		
Unrestricted	\$ 721,411	\$ 604,526

McKenzie County

Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund – Modified Cash Basis  
Years Ended December 31, 2014 and 2013

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	Internal Service	
	2014	2013
Operating Revenues		
Contributions	\$ 1,769,016	\$ 1,611,272
Operating Expenses		
Premiums	736,977	641,740
Claims	832,575	822,425
Miscellaneous	87,617	85,609
Total operating expenses	1,657,169	1,549,774
Operating Gain	111,847	61,498
Non-Operating Revenues		
Interest income	5,038	3,825
Total nonoperating revenue	5,038	3,825
Net Income	116,885	65,323
Net Position - January 1	604,526	539,203
Net Position - December 31	\$ 721,411	\$ 604,526

McKenzie County  
 Statements of Cash Flows – Proprietary Fund – Modified Cash Basis  
 Years Ended December 31, 2014 and 2013

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	Internal Service	
	2014	2013
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 1,769,016	\$ 1,611,272
Cash paid for health claims	(832,575)	(822,425)
Cash paid for services	(824,594)	(727,349)
	111,847	61,498
Cash Flows from Investing Activities		
Interest received	5,038	3,825
	116,885	65,323
Net Change in Cash and Cash Equivalents		
Cash and Cash Equivalents - January 1	604,526	539,203
Cash and Cash Equivalents - December 31	\$ 721,411	\$ 604,526

McKenzie County  
 Statements of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis  
 December 31, 2014 and 2013

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	Agency Funds	
	2014	2013
Assets		
Cash and investments	\$ 1,792,631	\$ 1,392,763
Liabilities		
Due to other governments	\$ 1,792,631	\$ 1,392,763

McKenzie County  
Combining Statement of Net Position – Component Units – Modified Cash Basis  
December 31, 2014

	<u>Public Library</u>	<u>Atmospheric Resource Board</u>	<u>Weather Modification</u>	<u>JDA Development Funds</u>	<u>Total</u>
Assets					
Cash and investments	\$ 102,558	\$ 59,200	\$ 624	\$ 3,956	\$ 166,338
Total assets	<u>\$ 102,558</u>	<u>\$ 59,200</u>	<u>\$ 624</u>	<u>\$ 3,956</u>	<u>\$ 166,338</u>
Net Position					
Restricted for					
Culture and recreation	\$ 102,558	\$ -	\$ -	\$ -	\$ 102,558
Conservation of natural resources	-	59,200	624	-	59,824
Economic development	-	-	-	3,956	3,956
Total net position	<u>\$ 102,558</u>	<u>\$ 59,200</u>	<u>\$ 624</u>	<u>\$ 3,956</u>	<u>\$ 166,338</u>

McKenzie County  
Combining Statement of Net Position – Component Units – Modified Cash Basis  
December 31, 2013

	<u>Public Library</u>	<u>Atmospheric Resource Board</u>	<u>Weather Modification</u>	<u>JDA Development Funds</u>	<u>Total</u>
Assets					
Cash and investments	\$ 108,120	\$ 77,492	\$ 9,007	\$ 11,758	\$ 206,377
Total assets	<u>\$ 108,120</u>	<u>\$ 77,492</u>	<u>\$ 9,007</u>	<u>\$ 11,758</u>	<u>\$ 206,377</u>
Net Position					
Restricted for					
Culture and recreation	\$ 108,120	\$ -	\$ -	\$ -	\$ 108,120
Conservation of natural resources	-	77,492	9,007	-	86,499
Economic development	-	-	-	11,758	11,758
Total net position	<u>\$ 108,120</u>	<u>\$ 77,492</u>	<u>\$ 9,007</u>	<u>\$ 11,758</u>	<u>\$ 206,377</u>



McKenzie County  
Combining Statement of Activities – Component Units – Modified Cash Basis  
Year Ended December 31, 2014

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	Weather Modification	JDA Development Funds	Totals
Component units									
Public Library	\$ 217,614	\$ 10,222	\$ 65,898	\$ -	\$ (141,494)	\$ -	\$ -	\$ -	\$ (141,494)
Atmospheric Resource Board	101,646	-	-	-	-	(101,646)	-	-	(101,646)
Weather Modification	8,383	-	-	-	-	-	(8,383)	-	(8,383)
Job Development Authority	27,818	-	20,000	-	-	-	-	(7,818)	(7,818)
Total component units	<u>\$ 355,461</u>	<u>\$ 10,222</u>	<u>\$ 85,898</u>	<u>\$ -</u>	<u>(141,494)</u>	<u>(101,646)</u>	<u>(8,383)</u>	<u>(7,818)</u>	<u>(259,341)</u>
General revenues									
Taxes									
Property taxes, levied for general purposes					132,741	83,179	-	-	215,920
Interest					191	175	-	16	382
Miscellaneous revenue					3,000	-	-	-	3,000
Total general revenues					<u>135,932</u>	<u>83,354</u>	<u>-</u>	<u>16</u>	<u>219,302</u>
Change in net position					(5,562)	(18,292)	(8,383)	(7,802)	(40,039)
Net position - January 1					<u>108,120</u>	<u>77,492</u>	<u>9,007</u>	<u>11,758</u>	<u>206,377</u>
Net position - December 31					<u>\$ 102,558</u>	<u>\$ 59,200</u>	<u>\$ 624</u>	<u>\$ 3,956</u>	<u>\$ 166,338</u>

McKenzie County  
Combining Statement of Activities – Component Units – Modified Cash Basis  
Year Ended December 31, 2013

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	Weather Modification	JDA Development Funds	Totals
Component units									
Public Library	\$ 190,311	\$ 14,267	\$ 62,673	\$ -	\$ (113,371)	\$ -	\$ -	\$ -	\$ (113,371)
Atmospheric Resource Board	115,545	-	-	-	-	(115,545)	-	-	(115,545)
Weather Modification	300	6,582	-	-	-	-	6,282	-	6,282
Job Development Authority	11,544	-	20,000	-	-	-	-	8,456	8,456
Total component units	<u>\$ 317,700</u>	<u>\$ 20,849</u>	<u>\$ 82,673</u>	<u>\$ -</u>	<u>(113,371)</u>	<u>(115,545)</u>	<u>6,282</u>	<u>8,456</u>	<u>(214,178)</u>
General revenues									
Taxes									
Property taxes, levied for general purposes					83,383	81,488	-	-	164,871
Interest					7,104	270	-	19	7,393
Miscellaneous revenue					3,000	-	-	-	3,000
Total general revenues					<u>93,487</u>	<u>81,758</u>	<u>-</u>	<u>19</u>	<u>175,264</u>
Change in net position					(19,884)	(33,787)	6,282	8,475	(38,914)
Net position - January 1					<u>128,004</u>	<u>111,279</u>	<u>2,725</u>	<u>3,283</u>	<u>245,291</u>
Net position - December 31					<u>\$ 108,120</u>	<u>\$ 77,492</u>	<u>\$ 9,007</u>	<u>\$ 11,758</u>	<u>\$ 206,377</u>

## **Note 1 - Summary of Significant Accounting Policies**

The financial statements of McKenzie County, Watford City, ND, 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.

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

**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 5<sup>th</sup> Street NW, PO Box 543, Watford City, ND 58854-0543.

The McKenzie County Water Resource District is also a component unit of the County. For the years ended December 31, 2014 and 2013 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.

**Infrastructure** – This fund accounts for oil and gas payments received from the state and provided to the County and other governmental entities.

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 estimated fair market value at the date of donation.

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.

**Fund Balance**

In the government wide financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by enabling legislation. Designations of fund balance represent tentative management plans that are subject to change.

### **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 \$13,691,743 in 2014 and by \$4,262,066 in 2013. 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, 2014 and 2013, the pooled bank balances for all County and fiduciary funds was \$96,523,674 and \$65,905,622. The carrying amount of the pooled deposits for the County and fiduciary funds was \$94,797,140, with \$93,004,509 in County funds and \$1,792,631 in fiduciary funds for 2014 and \$61,706,288, with \$60,313,525 in County funds and \$1,392,763 in fiduciary funds for 2013. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. With the exception of the County being under-collateralized by \$76,760 at Cornerstone Bank as of December 31, 2014, the remaining 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, 2014 and 2013, the County held certificates of deposit in the amount of \$1,676,476 and \$2,111,861, which are all considered deposits and included in the above amount of total deposits.

As of December 31, 2014 and 2013, the County held certificates of Deposit with the following maturity dates:

<u>2014</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,676,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,676,476</u>
<u>2013</u>	<u>Less Than Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of Deposit	<u>\$ 1,511,861</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 2,111,861</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, 2014 and 2013 was \$4,323,798 and \$3,000,000, 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, 2014:

<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	\$ 564,346	\$ 985,799	\$ -	\$ 1,550,145
Construction in progress	1,997,305	12,828,253	1,148,586	13,676,972
Total capital assets, not being depreciated	<u>2,561,651</u>	<u>13,814,052</u>	<u>1,148,586</u>	<u>15,227,117</u>
Capital assets being depreciated				
Buildings	10,347,749	8,014,341	-	18,362,090
Furniture and equipment	1,952,464	744,696	216,850	2,480,310
Infrastructure	60,919,927	26,589,232	-	87,509,159
Vehicles and equipment	12,487,546	1,267,505	54,862	13,700,189
Total capital assets, being depreciated	<u>85,707,686</u>	<u>36,615,774</u>	<u>271,712</u>	<u>122,051,748</u>
Less accumulated depreciation for				
Buildings	3,179,205	963,909	-	4,143,114
Furniture and equipment	759,241	262,031	117,729	903,543
Infrastructure	10,038,700	6,227,464	-	16,266,164
Vehicles and equipment	4,486,297	1,432,843	48,916	5,870,224
Total accumulated depreciation	<u>18,463,443</u>	<u>8,886,247</u>	<u>166,645</u>	<u>27,183,045</u>
Total capital assets being depreciated, net	<u>67,244,243</u>	<u>27,729,527</u>	<u>105,067</u>	<u>94,868,703</u>
Governmental activities - capital assets, net	<u>\$ 69,805,894</u>	<u>\$ 41,543,579</u>	<u>\$ 1,253,653</u>	<u>\$ 110,095,820</u>

The County had commitments of approximately \$19,056,000 outstanding at December 31, 2014 related to construction in progress.

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

<u>Governmental Activities</u>	
General government	\$ 1,136,949
Public safety	225,461
Highways	7,400,166
Health and welfare	33,957
Culture and recreation	36,385
Conservation of natural resources	53,329
Total depreciation expense - governmental activities	<u>\$ 8,886,247</u>

The following is a summary of changes in capital assets for the year ended December 31, 2013:

<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	\$ 409,831	\$ 154,515	\$ -	\$ 564,346
Construction in progress	-	1,997,305	-	1,997,305
Total capital assets, not being depreciated	<u>409,831</u>	<u>2,151,820</u>	<u>-</u>	<u>2,561,651</u>
Capital assets being depreciated				
Buildings	6,866,812	3,740,845	259,908	10,347,749
Furniture and equipment	1,516,780	455,687	20,003	1,952,464
Infrastructure	33,729,405	27,190,522	-	60,919,927
Vehicles and equipment	10,992,841	4,873,192	3,378,487	12,487,546
Total capital assets, being depreciated	<u>53,105,838</u>	<u>36,260,246</u>	<u>3,658,398</u>	<u>85,707,686</u>
Less accumulated depreciation for				
Buildings	2,372,925	936,234	129,954	3,179,205
Furniture and equipment	579,381	192,283	12,423	759,241
Infrastructure	4,854,927	5,183,773	-	10,038,700
Vehicles and equipment	4,043,864	1,204,242	761,809	4,486,297
Total accumulated depreciation	<u>11,851,097</u>	<u>7,516,532</u>	<u>904,186</u>	<u>18,463,443</u>
Total capital assets being depreciated, net	<u>41,254,741</u>	<u>28,743,714</u>	<u>2,754,212</u>	<u>67,244,243</u>
Governmental activities - capital assets, net	<u>\$ 41,664,572</u>	<u>\$ 30,895,534</u>	<u>\$ 2,754,212</u>	<u>\$ 69,805,894</u>

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

Governmental Activities

General government	\$ 1,081,771
Public safety	156,378
Highways	6,169,815
Health and welfare	36,374
Culture and recreation	36,385
Conservation of natural resources	35,809
Total depreciation expense - governmental activities	\$ 7,516,532

**Note 6 - 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, 2014:

Funds	Transfers In	Transfers Out
General Fund	\$ 41,962	\$ 38,600,000
County Road and Bridge	43,000,000	39,694
Other Governmental Funds	600,000	5,002,268
Total transfers	\$ 43,641,962	\$ 43,641,962

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2013:

Funds	Transfers In	Transfers Out
General Fund	\$ 32,559	\$ 8,781,500
County Road and Bridge	10,000,000	27,961
Other Governmental Funds	281,500	1,504,598
Total transfers	\$ 10,314,059	\$ 10,314,059

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 7 - 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 2014 and 2013, the County remitted \$4,380 and \$4,151 to the Historical Society.

**Note 8 - 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, 2014 and 2013.

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 9 - 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, 2013, the last year audited, is as follows:

Cash and investments	\$ 1,183,509
Total assets	1,746,352
Total liabilities	558,104
Total equity	1,188,248
Total revenues	1,931,602
Total expenditures	<u>2,038,310</u>
Net decrease in equity	<u>\$ (106,708)</u>

Complete financial statements may be obtained from the Upper Missouri District Health Unit; 512 4<sup>th</sup> Avenue East, Williston, ND 58801-5522.

**Note 10 - Pension Plan**

McKenzie County contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 5% of their annual covered salary. The County is required to contribute 6.12% of the employee's salary, which consists of 5.12% for employee retirement and 1% for the retiree health benefits fund as of December 31, 2013. Plan members are required to contribute 7.26% of their annual covered salary. The County is required to contribute 8.26% of the employee's salary, which consists of 7.26% for employee retirement and 1% for the retiree health benefits fund as of December 31, 2014. The contribution requirements of plan members and the County are established and may be amended by the State legislature. The County's contributions to NDPERS for the years ending December 31, 2014, 2013, and 2012 were \$566,120, \$414,980, and \$238,023, respectively, equal to the required contributions for the year.

#### **Note 11 - 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 2014 and 2013 if the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America were \$715,896 and \$71,742, respectively. The estimated landfill closure and post closure care liability at December 31, 2014 and 2013 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 \$939,148 and \$223,253, 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 \$2,309,858. 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 2014 and 2013. 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 12 - Subsequent Events**

On August 1, 2015 the County entered into a certificate of indebtedness with the Bank of North Dakota to finance the new Law Enforcement Center. The State Aid Certificate of Indebtedness, Series 2015 is in the amount of \$57,200,000, dated August 18, 2015 bearing interest at a rate equal to the 30 day LIBOR plus 1.50%. The Certificate shall have semi-annual principal and interest payments commencing on February 18, 2018 and maturing on August 18, 2027.





Supplementary Information  
December 31, 2014

## McKenzie County

McKenzie County  
 Budgetary Comparison Schedule – General Fund – Modified Cash Basis  
 Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 20,483	\$ 20,483	\$ 61,503	\$ 41,020
Licenses, permits and fees	1,101,550	1,101,550	4,246,411	3,144,861
Intergovernmental	43,794,500	43,794,500	62,649,822	18,855,322
Charges for services	6,329,325	6,329,325	4,365,547	(1,963,778)
Royalties	1,300,000	1,300,000	11,206,757	9,906,757
Interest income	50,000	50,000	88,397	38,397
Miscellaneous	572,125	572,125	597,527	25,402
Total revenues	<u>53,167,983</u>	<u>53,167,983</u>	<u>83,215,964</u>	<u>30,047,981</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	14,189,250	13,990,136	8,665,127	5,325,009
Public safety	5,025,888	4,845,619	5,102,772	(257,153)
Health and welfare	40,055	40,717	41,703	(986)
Culture and recreation	132,744	133,766	97,778	35,988
Conservation of natural resources	100,345	100,345	130,551	(30,206)
Economic development	159,340	164,173	165,191	(1,018)
Other	18,480	18,480	237,600	(219,120)
Capital outlay	-	-	18,544,257	(18,544,257)
Total expenditures	<u>19,666,102</u>	<u>19,293,236</u>	<u>32,984,979</u>	<u>(13,691,743)</u>
Excess of Revenues over Expenditures	<u>33,501,881</u>	<u>33,874,747</u>	<u>50,230,985</u>	<u>16,356,238</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	41,962	41,962
Transfers out	(41,340,000)	(39,340,000)	(38,600,000)	740,000
Total other financing sources and uses	<u>(41,340,000)</u>	<u>(39,340,000)</u>	<u>(38,558,038)</u>	<u>781,962</u>
Net Change in Fund Balances	(7,838,119)	(5,465,253)	11,672,947	17,138,200
Fund Balance - January 1	<u>43,249,175</u>	<u>43,249,175</u>	<u>43,249,175</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 35,411,056</u>	<u>\$ 37,783,922</u>	<u>\$ 54,922,122</u>	<u>\$ 17,138,200</u>

McKenzie County  
 Budgetary Comparison Schedule – General Fund – Modified Cash Basis  
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 13,859	\$ 13,859	\$ 56,681	\$ 42,822
Licenses, permits and fees	854,250	854,250	2,795,448	1,941,198
Intergovernmental	11,577,125	11,577,125	27,170,449	15,593,324
Charges for services	3,012,580	3,012,580	4,578,227	1,565,647
Royalties	1,300,000	1,300,000	7,449,954	6,149,954
Interest income	50,000	50,000	62,267	12,267
Miscellaneous	227,832	227,832	339,520	111,688
Total revenues	<u>17,035,646</u>	<u>17,035,646</u>	<u>42,452,546</u>	<u>25,416,900</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	12,345,986	9,402,719	7,301,764	2,100,955
Public safety	2,894,586	2,865,080	3,322,327	(457,247)
Health and welfare	37,746	39,232	38,274	958
Culture and recreation	124,731	126,945	84,676	42,269
Conservation of natural resources	94,345	94,345	124,752	(30,407)
Economic development	150,859	150,859	149,545	1,314
Other	12,500	12,500	225,000	(212,500)
Capital outlay	3,500	3,500	5,710,908	(5,707,408)
Total expenditures	<u>15,664,253</u>	<u>12,695,180</u>	<u>16,957,246</u>	<u>(4,262,066)</u>
Excess of Revenues over Expenditures	<u>1,371,393</u>	<u>4,340,466</u>	<u>25,495,300</u>	<u>21,154,834</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	32,559	32,559
Transfers out	(9,295,000)	(9,265,000)	(8,781,500)	483,500
Total other financing sources and uses	<u>(9,295,000)</u>	<u>(9,265,000)</u>	<u>(8,748,941)</u>	<u>516,059</u>
Net Change in Fund Balances	(7,923,607)	(4,924,534)	16,746,359	21,670,893
Fund Balance - January 1	<u>26,502,816</u>	<u>26,502,816</u>	<u>26,502,816</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 18,579,209</u>	<u>\$ 21,578,282</u>	<u>\$ 43,249,175</u>	<u>\$ 21,670,893</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis  
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ -	\$ -	\$ 858,519	\$ 858,519
Intergovernmental	19,837,129	19,837,129	24,844,608	5,007,479
Charges for services	1,250,000	1,250,000	2,806,121	1,556,121
Interest income	-	-	39,694	39,694
Contributions	-	2,700,000	1,700,000	(1,000,000)
Miscellaneous	15,000	15,000	124,030	109,030
Total revenues	<u>21,102,129</u>	<u>23,802,129</u>	<u>30,372,972</u>	<u>6,570,843</u>
Expenditures				
Current				
Highways	69,050,198	67,131,005	20,204,944	46,926,061
Capital outlay	-	-	28,384,464	(28,384,464)
Total expenditures	<u>69,050,198</u>	<u>67,131,005</u>	<u>48,589,408</u>	<u>18,541,597</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(47,948,069)</u>	<u>(43,328,876)</u>	<u>(18,216,436)</u>	<u>25,112,440</u>
Other Financing Sources (Uses)				
Transfers in	45,000,000	43,000,000	43,000,000	-
Transfers out	-	-	(39,694)	(39,694)
Total other financing sources and uses	<u>45,000,000</u>	<u>43,000,000</u>	<u>42,960,306</u>	<u>(39,694)</u>
Net Change in Fund Balances	(2,948,069)	(328,876)	24,743,870	25,072,746
Fund Balance - January 1	<u>12,589,094</u>	<u>12,589,094</u>	<u>12,589,094</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 9,641,025</u>	<u>\$ 12,260,218</u>	<u>\$ 37,332,964</u>	<u>\$ 25,072,746</u>

McKenzie County

Budgetary Comparison Schedule – County Road and Bridge Fund – Modified Cash Basis  
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ -	\$ -	\$ 542,596	\$ 542,596
Intergovernmental	56,206,934	56,206,934	39,139,631	(17,067,303)
Charges for services	2,000,000	2,000,000	3,249,520	1,249,520
Interest income	-	-	27,961	27,961
Miscellaneous	20,000	20,000	104,893	84,893
Total revenues	<u>58,226,934</u>	<u>58,226,934</u>	<u>43,064,601</u>	<u>(15,162,333)</u>
Expenditures				
Current				
Highways	71,363,641	71,536,954	15,531,178	56,005,776
Capital outlay	-	-	30,061,820	(30,061,820)
Total expenditures	<u>71,363,641</u>	<u>71,536,954</u>	<u>45,592,998</u>	<u>25,943,956</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(13,136,707)</u>	<u>(13,310,020)</u>	<u>(2,528,397)</u>	<u>10,781,623</u>
Other Financing Sources (Uses)				
Transfers in	10,000,000	10,000,000	10,000,000	-
Transfers out	-	-	(27,961)	(27,961)
Total other financing sources and uses	<u>10,000,000</u>	<u>10,000,000</u>	<u>9,972,039</u>	<u>(27,961)</u>
Net Change in Fund Balances	(3,136,707)	(3,310,020)	7,443,642	10,753,662
Fund Balance - January 1	<u>5,145,452</u>	<u>5,145,452</u>	<u>5,145,452</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,008,745</u>	<u>\$ 1,835,432</u>	<u>\$ 12,589,094</u>	<u>\$ 10,753,662</u>

McKenzie County  
Schedule of Expenditures of Federal Awards – Modified Cash Basis  
Years Ended December 31, 2014 and 2013

Federal Grantor, Pass-through Grantor and Program Title	Federal CFDA Number	Grant Number	Expenditures	
			2014	2013
U.S. Department of Agriculture				
<u>Direct Program</u>				
School and Roads - Grants to Counties (Bankhead-Jones)	10.666		\$ 8,229,715	\$ 9,803,229
U.S. Department of Transportation				
<u>Passed-Through North Dakota Department of Transportation</u>				
Highway Safety Cluster				
State & Community Highway Safety	20.600		-	2,711
Alcohol Impaired Driving Countermeasure Incentives	20.601		1,137	2,092
Total Highway Safety Cluster			<u>1,137</u>	<u>4,803</u>
Highway Planning and Construction - Project	20.205	FHC-SC-2714	-	709,780
Total U.S. Department of Transportation			<u>1,137</u>	<u>714,583</u>
U.S. Environmental Protection Agency				
U.S. Department of Health and Human Services				
<u>Passed-Through State Department of Human Services</u>				
Family Preservation and Support Services	93.556		592	2,229
Temporary Assistance for Needy Families	93.558	S114	58,551	53,114
Child Care Development Fund Cluster				
Child Care & Development Block Grant	93.575		-	345
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	S115	6,031	2,777
Total Child Care Development Fund Cluster			<u>6,031</u>	<u>3,122</u>
Child Welfare Services - State Grants	93.645	S073	2,166	1,184
Foster Care Title IV-E	93.658	S067	52,621	50,496
Adoption Assistance	93.659	S070	840	727
State Children's Insurance Program	93.767	S058	358	783
Medical Assistance Program	93.778		-	328
Maternal and Child Health Services Block Grant to the States	93.994	S023	1,561	1,470
Total U.S. Department of Health and Human Services			<u>122,720</u>	<u>113,453</u>
U.S. Department of Homeland Security				
<u>Passed-Through State Department of Emergency Services</u>				
FEMA	97.036	DR-4128-ND	-	309,117
Emergency Management Performance Grants	97.042	P0322, P0323, P0324	35,732	17,460
Homeland Security Grant Program	97.067	P2861	6,650	49,551
Total U.S. Department of Homeland Security			<u>42,382</u>	<u>376,128</u>
Total Reporting Entity Expenditures of Federal Awards			<u>\$ 8,395,954</u>	<u>\$ 11,007,393</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. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of State and Local Governments and Nonprofit Organizations*. McKenzie County received federal awards both directly from federal agencies and indirectly through pass-through entities. Therefore, some amounts presented in the schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**Note B – Significant Accounting Policies**

Federal reimbursements and interest income are recognized when received and federal expenditures are recognized when paid. For certain programs shown on the schedule of expenditures of federal awards federal reimbursements are not based upon specific expenditures, the amounts reported here represent cash received rather than federal expenditures.



**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, ND

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, ND, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise McKenzie County's basic financial statements, and have issued our report thereon dated November 29, 2016. 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 and significant deficiencies.

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 2014-B, 2014-C, 2014-D, 2014-E, and 2014-F, 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs listed as item 2014-A to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether McKenzie County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2014-F.

### **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.

The image shows a handwritten signature in black ink that reads "Eide Saelly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota  
November 29, 2016



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by OMB Circular A-133**

Board of County Commissioners  
McKenzie County  
Watford City, ND

### **Report on Compliance for Each Major Federal Program**

We have audited McKenzie County, Watford City, ND's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014 and 2013. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014 and 2013.

### **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bismarck, North Dakota  
November 29, 2016

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**Section I – Summary of Auditor’s Results**

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	2014	2013
<b><u>Financial Statements</u></b>		
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	Yes	Yes
Noncompliance material to financial statements noted	No	No
<b><u>Federal Awards</u></b>		
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:		
<b><u>Name of Federal Program</u></b>	<b><u>CFDA number</u></b>	<b><u>CFDA number</u></b>
School and Roads - Grants to Counties (Bankhead Jones)	10.666	10.666
Highway Planning and Construction		20.205
FEMA		97.036
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000	\$330,222
Auditee qualified as low-risk auditee	No	No

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**Section II – Financial Statement Findings**

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**2014-A Segregation of Duties, Fiscal Year 2013 and 2014**

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.

**2014-B Recording of Transactions, Fiscal Year 2013 and 2014**

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

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

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

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

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 an accrual 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.

#### **2014-C Preparation of Financial Statements, Fiscal Year 2013 and 2014**

Criteria - Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition - McKenzie County does not have an internal control system designed to provide for the preparation of the financial statements 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 does not have staff trained in GASB reporting standards.

Effect - Inadequate control over financial reporting of McKenzie County could result in more than a remote likelihood that the financial statements and accompanying notes to the financial statements 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.

#### **2014-D Department Controls over Cash, Fiscal Year 2013 and 2014**

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. It also requires proper recording and documentation of activity to ensure everything is properly reported in the financial statements.

Condition - The County has a lack of effective internal controls related to the receipting process in various departments of the County that collect funds and remit them to the Treasurer's office. Specifically, it was noted that there have been significant increases in the activity and funds handled directly by departments such as the Highway Department, the Recorder's Office and the Building Department. These departments have limited staff to handle the transactions and do not maintain detailed records of all transactions to support the activity.

Cause - The County did not have staff trained in these areas to have proper accounting records available for auditing.

Effect - Inadequate controls over cash receipts could affect the County's ability to detect errors or fraud.

Recommendation - We recommend the County eliminate as many manual procedures related to receipting cash as possible and maintain detailed records of all transactions handled in the departments. We also recommend the duties of entering and adjusting charges in the system, taking customer payments, receipting payments, and preparing the deposits be segregated. The County should also determine if there are additional controls that can be implemented to mitigate the risks due to limited staff in the departments.

Response - The Treasurer's office requires written verification of money from each department. The Treasurer's office staff then verifies the amount of cash/checks received prior to receipting of the funds. If the amounts are incorrect (based on the amount reported by that department) the money and reports are returned to the department for correction. A minimum of once a week the cash amounts are verified by the Auditor's office staff. If a large sum of cash is brought from a department for deposit, it will be confirmed by the Auditor's office staff prior to receipt.

#### **2014-E Reconciliation of Cash, Fiscal Year 2013 and 2014**

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 - The Clerk of Court does not complete accurate reconciliations of their bank statements to the general ledger to ensure all activity is properly reflected. The Treasurer's department does not perform timely reconciliations of their bank statement to the general ledger to ensure all activity is properly reflected.

Cause - The County does not have adequate staff and oversight to make sure that the reconciliations were being performed appropriately and in a timely manner.

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

Recommendation - We recommend the County implement policies and procedures to ensure that the Clerk of Court bank reconciliations are being performed accurately and the Treasurer's Department reconciliations are being performed in a timely manner where the reconciliations are balanced from the bank statements to the County's general ledger to ensure all activity is properly recorded and reflected.

Response - The Clerk of Court became a State Agency office in 2015 and is no longer a function of county government.

#### **2014-F Under-collateralized Deposits, Fiscal Year 2014**

Criteria - State statutes 21-04-09 and 21-06-07 require that deposits must be fully insured or bonded. If the deposits are not covered by insurance or bonded they are required to have securities pledged as collateral equal to 110 percent of the deposits.

Condition - As of December 31, 2014, the County needed an additional \$76,760 pledged as collateral to ensure they met the Federal Depository Insurance limit of 110 percent of their deposits at McKenzie County Bank, now Cornerstone Bank.

Cause - The County did not obtain additional collateral for deposits that exceeded their pledged collateral and the Federal Depository Insurance limits to ensure 110 percent of their deposits were collateralized as of December 31, 2014.

Effect - Under-collateralized deposits expose the County to custodial credit risk where in the event of a depository failure, the County's deposits may not be returned to them.

Recommendation - We recommend the County monitor the collateral pledged for deposits and acquire additional collateral as necessary to ensure that at least 110 percent of the County's deposits which exceed Federal Depository insurance are collateralized.

Response -The Treasurer's office has written a policy stating that assets will be reviewed/verified monthly for 110% pledge of assets collateral, with is being done a minimum of quarterly. Assets will also be reviewed upon receipt of a single \$1.0 million deposit. On a quarterly basis, the Board of County Commissioners will be updated on the county's pledge of assets.



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**Section III – Federal Award Findings and Questioned Costs**

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None reported

No findings reported in prior years