



Financial Statements
December 31, 2016
Mountrail County

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Arlo Borud
Greg Boschee
Trudy Ruland
Colleen Reese
Garry Jacobson

Stephanie Pappa
Shena Wold
Kenneth Halvorson
Melissa Vachal
Wade G. Enget
Traci Hysjulien

Commissioner-Chairman
Commissioner-Vice-Chairman
Commissioner
Commissioner
Commissioner

Auditor
Treasurer
Sheriff
County Recorder
State's Attorney
Clerk of Court



Independent Auditor's Report

Board of County Commissioners
Mountrail County
Stanley, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mountrail County, Stanley, North Dakota, as of and for the year ended December 31, 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information – modified cash basis of Mountrail County, Stanley, North Dakota, as of December 31, 2016, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mountrail County's financial statements. The budgetary comparison schedules, schedule of employer's share of net pension liability, and schedule of employer's contributions are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The list of county officials 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 August 22, 2018 on our consideration of Mountrail County, Stanley, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountrail County's internal control over financial reporting and compliance.



Bismarck, North Dakota
August 22, 2018

Mountrail County
Statement of Net Position-Modified Cash Basis
December 31, 2016

	Primary Government	Component Unit
	Governmental Activities	Water Resource Board
Assets		
Cash and cash equivalents	\$ 111,258,549	\$ 128,597
Investments	6,274,606	16,578
Capital assets not being depreciated		
Land	1,726,157	6,648
Construction in progress	75,435,622	-
Capital assets (net of accumulated depreciation)		
Infrastructure	97,019,903	-
Buildings	9,790,486	-
Machinery and equipment	7,818,046	91,302
Total capital assets	191,790,214	97,950
Total assets	\$ 309,323,369	\$ 243,125
Liabilities		
Long-term liabilities		
Due within one year		
Loan payable	\$ 1,467,769	\$ -
Due after one year		
Loan payable	16,196,284	-
Total liabilities	17,664,053	-
Net Position		
Net investment in capital assets	174,126,161	97,950
Restricted for		
Public safety	1,238,468	-
Unrestricted	116,294,687	145,175
Total net position	\$ 291,659,316	\$ 243,125

Mountrail County
Statement of Activities-Modified Cash Basis
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Water Resource Board
Primary government						
Governmental activities						
General government	\$ 5,055,354	\$ 2,498,365	\$ 819,913	\$ -	\$ (1,737,076)	\$ -
Public safety	3,126,284	77,075	34,787	-	(3,014,422)	-
Highways	10,037,912	766,261	-	12,270,304	2,998,653	-
Health and welfare	870,153	-	963,333	-	93,180	-
Culture and recreation	647,478	-	100,266	-	(547,212)	-
Conservation of natural resources	225,985	-	-	-	(225,985)	-
Economic development	162,943	-	-	-	(162,943)	-
Other	20,314	-	-	-	(20,314)	-
Total primary government	<u>\$ 20,146,423</u>	<u>\$ 3,341,701</u>	<u>\$ 1,918,299</u>	<u>\$ 12,270,304</u>	<u>(2,616,119)</u>	<u>-</u>
Component unit						
Water Resource Board	<u>\$ 35,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(35,153)</u>
General revenues						
Taxes						
Property taxes					4,637,185	70,311
Nonrestricted grants and contributions					21,935,875	-
Flood control revenue					996,235	-
Interest income					376,448	88
Rent income					85,559	-
Miscellaneous revenue					837,133	-
Total general revenues					28,868,435	70,399
Change in net position					26,252,316	35,246
Net position - January 1					265,407,000	207,879
Net position - December 31					<u>\$ 291,659,316</u>	<u>\$ 243,125</u>

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

	<u>General</u>	<u>County Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 37,800,866	\$ 68,394,497	\$ 5,063,186	\$ 111,258,549
Investments	1,274,606	5,000,000	-	6,274,606
Total assets	<u>\$ 39,075,472</u>	<u>\$ 73,394,497</u>	<u>\$ 5,063,186</u>	<u>\$ 117,533,155</u>
Fund Balances				
Restricted for				
Public safety	\$ 248,735	\$ -	\$ 989,733	\$ 1,238,468
Committed for				
Highways	10,905,788	8,107,163	121,609	19,134,560
Assigned for				
Public safety	61,264	-	246,996	308,260
Highways	53	65,287,334	2,308,354	67,595,741
Health and welfare	-	-	1,321,718	1,321,718
Culture and recreation	277,175	-	455	277,630
Conservation of natural resources	-	-	72,790	72,790
Special purposes	253	-	1,531	1,784
Unassigned	27,582,204	-	-	27,582,204
Total fund balances	<u>\$ 39,075,472</u>	<u>\$ 73,394,497</u>	<u>\$ 5,063,186</u>	<u>\$ 117,533,155</u>

Mountrail County

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis

December 31, 2016

Total fund balances for governmental funds		\$ 117,533,155
Total net position reported for government activities in the statement of net position is different because		
<p style="margin-left: 40px;">Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of capital assets	\$ 205,576,925	
Less accumulated depreciation	<u>(13,786,711)</u>	
Net capital assets		<u>191,790,214</u>
<p style="margin-left: 40px;">Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All Liabilities - both current and long-term are reported in the statement of net position. Balances at December 31, 2016 are</p>		
Loan payable		<u>(17,664,053)</u>
Total net position of governmental activities		<u><u>\$ 291,659,316</u></u>

Mountrail County

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

	General	County Road and Bridge	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,904,558	\$ 31,099	\$ 2,701,528	\$ 4,637,185
Licenses, permits and fees	1,640,152	-	68,733	1,708,885
Intergovernmental	22,495,592	13,483,290	1,124,091	37,102,973
Charges for services	789,480	766,261	-	1,555,741
Fines and forfeits	77,075	-	-	77,075
Interest income	376,448	-	-	376,448
Rent Income	85,559	-	-	85,559
Miscellaneous	218,950	553,700	64,483	837,133
Total revenues	<u>27,587,814</u>	<u>14,834,350</u>	<u>3,958,835</u>	<u>46,380,999</u>
Expenditures				
Current				
General government	4,613,890	-	177,946	4,791,836
Public safety	2,857,200	-	102,781	2,959,981
Highways	-	5,892,087	178,096	6,070,183
Health and welfare	-	-	870,153	870,153
Culture and recreation	403,286	-	207,221	610,507
Conservation of natural resources	-	-	192,278	192,278
Economic development	162,943	-	-	162,943
Other	-	-	20,314	20,314
Capital outlay	17,648,982	16,536,815	1,331,006	35,516,803
Debt service				
Principal	9,414	-	-	9,414
Interest and service charges	164,365	-	-	164,365
Total expenditures	<u>25,860,080</u>	<u>22,428,902</u>	<u>3,079,795</u>	<u>51,368,777</u>
Excess (deficiency) of revenues over expenditures	<u>1,727,734</u>	<u>(7,594,552)</u>	<u>879,040</u>	<u>(4,987,778)</u>
Other Financing Sources (Uses)				
Loan proceeds	17,673,467	-	-	17,673,467
Transfers In	49,943	21,141,268	904,767	22,095,978
Transfers Out	<u>(21,663,579)</u>	<u>(42,155)</u>	<u>(390,244)</u>	<u>(22,095,978)</u>
Total other financing sources (uses)	<u>(3,940,169)</u>	<u>21,099,113</u>	<u>514,523</u>	<u>17,673,467</u>
Net change in fund balances	<u>(2,212,435)</u>	<u>13,504,561</u>	<u>1,393,563</u>	<u>12,685,689</u>
Fund balance - January 1	<u>41,287,907</u>	<u>59,889,936</u>	<u>3,669,623</u>	<u>104,847,466</u>
Fund balance - December 31	<u><u>\$ 39,075,472</u></u>	<u><u>\$ 73,394,497</u></u>	<u><u>\$ 5,063,186</u></u>	<u><u>\$ 117,533,155</u></u>

Mountrail County

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

Net change in fund balance - total governmental funds		\$ 12,685,689
The change in net position reported for governmental activities in the statement of activities is different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year		
Current year capital outlay	\$ 35,516,803	
Current year depreciation expense	<u>(4,303,865)</u>	<u>31,212,938</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position		
Principal payments		<u>9,414</u>
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the statement of net position		
		<u>(17,673,467)</u>
Change in net position of governmental activities		<u><u>\$ 26,234,574</u></u>

Mountrail County
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis
December 31, 2016

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 2,059,305</u>
Liabilities	
Due to other governments	<u>\$ 2,059,305</u>

Note 1 - Summary of Significant Accounting Policies

The financial statements of Mountrail County have been prepared in conformity with the modified cash basis of accounting as applied to government units. 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 Mountrail 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 Mountrail 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 Mountrail County.

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

Component Unit

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

Discretely Presented Component Unit – The component unit's column in the combined financial statements includes the financial data of the County's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the County.

Mountrail County Water Resource Board – The members of the governing board are appointed by the Board of County Commissioners and can be removed from office by the County Commissioners for just cause. The County Commission can approve, disapprove or amend the Board's annual budget.

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 non-fiduciary activities of the primary government and its component units. Governmental activities, generally are financed through taxes, intergovernmental revenues, and non-exchange transactions. 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 non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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.

Governmental funds are reported using the current financial resources measurement focus and the cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are 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 and long-term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The County reports the following major governmental funds:

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

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

Additionally, the County reports the following fund type:

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

The County follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for all governmental entities. For the government-wide financial statements, the District follows all applicable GASB pronouncements to the extent they are applicable to the modified cash basis of accounting.

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) charges 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.

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.”

Fund Balance Classification Policies and Procedures

The County classifies governmental fund balances as follows:

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

Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and certificates of deposit with a maturity date of 90 days or less.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at fair value.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

General infrastructure assets consist of the road and bridge projects constructed since January 1, 2004 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 is capitalized on assets during the construction phase of the assets constructed. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	25-50
Buildings	5-75
Machinery and equipment	3-30

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.

Pension

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS's fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 8, is shown as additional information to the users of the financial statements.

Note 2 - Deposits

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

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

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

At December 31, 2016 the County's carrying amount of pooled deposits was \$119,592,964, of which \$117,533,155 was County funds and \$2,059,305 was fiduciary funds. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance for the deposits held at four separate financial institutions. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2016, Mountrail County Water Resource Board, a discretely presented component unit of Mountrail County, had a carrying amount of deposits of \$145,175, all of which is covered by Federal Depository Insurance.

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. The following shows the investments by type, amount and duration at December 31, 2016:

	N/A	Less Than 1 Year	1-5 Years	Total
Certificates of Deposit	\$ -	\$ 6,061,309	\$ 213,297	\$ 6,274,606
Deposits	111,258,549	-	-	111,258,549
	\$ 111,258,549	\$ 6,061,309	\$ 213,297	\$ 117,533,155

Deposits of the Mountrail County Water Resource Board, a discretely presented component unit of Mountrail County, were certificates of deposit that mature in less than one year in the amount of \$16,578 and deposits in the amount of \$128,597.

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.

Concentration of Credit Risk

The County does not have a limit on the amount the County may invest in any one issuer.

Note 3 - Taxes Revenue

The County treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Any material collections are distributed after the end of the month.

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; 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.

Note 4 - Capital Assets

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

<u>Governmental Activities</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 1,131,291	\$ 594,866	\$ -	\$ 1,726,157
Construction in progress	89,824,604	34,516,339	48,905,321	75,435,622
	<u>90,955,895</u>	<u>35,111,205</u>	<u>48,905,321</u>	<u>77,161,779</u>
Capital assets being depreciated				
Buildings	10,750,654	-	-	10,750,654
Infrastructure	57,269,915	48,310,455	-	105,580,370
Machinery and equipment	11,587,221	1,569,850	1,072,949	12,084,122
Total capital assets, being depreciated	<u>79,607,790</u>	<u>49,880,305</u>	<u>1,072,949</u>	<u>128,415,146</u>
Less accumulated depreciation for				
Buildings	885,036	75,132	-	960,168
Infrastructure	5,355,429	3,205,038	-	8,560,467
Machinery and equipment	3,763,686	1,023,695	521,305	4,266,076
Total accumulated depreciation	<u>10,004,151</u>	<u>4,303,865</u>	<u>521,305</u>	<u>13,786,711</u>
Total capital assets being depreciated, net	<u>69,603,639</u>	<u>45,576,440</u>	<u>551,644</u>	<u>114,628,435</u>
Governmental activities - capital assets, net	<u>\$ 160,559,534</u>	<u>\$ 80,687,645</u>	<u>\$ 49,456,965</u>	<u>\$ 191,790,214</u>

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

Governmental Activities

General government	\$ 99,155
Public safety	166,303
Highways	3,967,729
Culture and recreation	36,971
Conservation of natural resources	33,707
Total depreciation expense - governmental activities	\$ 4,303,865

Note 5 - Component Unit – Mountrail County Water Resource Board

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

<u>Water Resource Board</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Capital assets not being depreciated				
Land	\$ 6,648	\$ -	\$ -	\$ 6,648
Capital assets being depreciated				
Machinery and equipment	109,414	1,000	-	110,414
Less accumulated depreciation for				
Machinery and equipment	12,519	6,593	-	19,112
Total capital assets being depreciated, net	96,895	(5,593)	-	91,302
Water resource board - capital assets, net	\$ 103,543	\$ (5,593)	\$ -	\$ 97,950

Note 6 - Long-Term Liabilities

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

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Certificate of indebtedness	\$ -	\$ 17,673,467	\$ 9,414	\$ 17,664,053	\$ 1,467,769

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

Certificate of Indebtedness

\$17,673,467 Certificate of Indebtedness Series 2015 - due in semi-annual installments of \$2,039,536 through April 15, 2027; variable interest rate (1.75% at December 31, 2016), liquidated out of the Debt Service Fund	\$ 17,664,053
--	---------------

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

Year Ending December 31	Certificate of Indebtedness	
	Principal	Interest
2017	\$ 1,467,769	\$ 571,767
2018	1,608,564	430,972
2019	1,652,805	386,731
2020	1,698,262	341,274
2021	1,744,970	294,566
2022-2026	8,495,775	717,426
2027	975,908	8,570
	\$ 17,644,053	\$ 2,751,306

Note 7 - Related Organization

Mountrail County is also responsible for levying a property tax for the Historical Society, Job Authority and Senior Citizens, but the County’s accountability for these entities does not extend beyond levying the tax. In 2016, the County remitted \$7,514, \$28,737 and \$106,448 to the Historical Society, Job Authority and Senior Citizens, respectively.

Note 8 - Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

Net Pension Liability

At December 31, 2016, the Employer's proportionate share of the net pension liability \$3,677,021. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the Employer's proportion was 0.540752 percent. The Employer's proportionate share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

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

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

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (7.00%)	Discount Rate (8%)	1% Increase in Discount Rate (9.00%)
County's proportionate share of the NDPERS net pension liability	\$ 7,475,614	\$ 5,270,155	\$ 3,411,942

Pension Plan Fiduciary Net Position

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

Note 9 - Risk Management

Mountrail 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. Mountrail County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF for automobile and general liability is limited to losses of one million dollars per occurrence. Inland marine coverage is limited to \$7,693,623.

Mountrail County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Mountrail 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 Mountrail 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.

Mountrail County has workers compensation with the North Dakota Workforce Safety and Insurance. The County pays for the family health insurance premium for full-time employees. Part-time employees working 20 hours or more per week, the County pays 50% of their family health insurance premium.

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

Note 10 - Joint Ventures

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

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

Cash and investments	\$ 2,203,202
Other assets	569,902
Deferred outflows of resources	<u>100,484</u>
Total assets and deferred outflows of resources	<u><u>\$ 2,873,588</u></u>
Total liabilities	\$ 2,251,911
Total deferred inflows of resources	<u>158,283</u>
Total liabilities and deferred inflows of resources	2,410,194
Total net position	<u>463,394</u>
Total liabilities and net position	<u><u>\$ 2,873,588</u></u>
Total revenues	\$ 2,579,880
Total expenses	<u>2,643,966</u>
Change in net position	<u><u>\$ (64,086)</u></u>

Complete financial information can be obtained from the Upper Missouri District Health Unit; 110 W Broadway Suite 101, Williston, ND 58801-5522.

Note 11 - Transfers

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

Funds	Transfers In	Transfers Out
General Fund	\$ 49,943	\$ (21,663,579)
County Road and Bridge	21,141,268	(42,155)
Other governmental funds	<u>904,767</u>	<u>(390,244)</u>
Total transfers	<u><u>\$ 22,095,978</u></u>	<u><u>\$ (22,095,978)</u></u>

Transfers were used to move revenues from the funds that are required to collect them to funds that are allowed to expend them.

Note 12 - Commitments and Contingencies

Construction Commitments

As of December 31, 2016 the County had outstanding construction contracts in the amount of \$82,045,099, of which the County has paid \$75,435,622. Subsequent to year-end the County entered into construction contracts totaling \$13,242,434.

Litigation

The County is a defendant in a lawsuit, filed by a former construction contractor.

Note 13 - Subsequent Events

Subsequent to December 31, 2016, the County paid off the State Aid Certificate of Indebtedness Bonds, Series 2015 in full.



Supplementary Information
December 31, 2016
Mountrail County

Mountrail County
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,878,734	\$ 1,878,734	\$ 1,904,558	\$ 25,824
Licenses, permits and fees	2,270,280	2,270,280	1,640,152	(630,128)
Intergovernmental	31,130,183	31,130,183	22,495,592	(8,634,591)
Charges for services	1,237,533	1,237,533	789,480	(448,053)
Fines and forfeits	63,000	63,000	77,075	14,075
Interest income	100,000	100,000	376,448	276,448
Rent income	-	-	85,559	85,559
Miscellaneous	10,553,838	10,553,838	218,950	(10,334,888)
Total revenues	<u>47,233,568</u>	<u>47,233,568</u>	<u>27,587,814</u>	<u>(19,645,754)</u>
Expenditures				
Current				
General government	38,308,276	38,356,827	22,262,872	16,093,955
Public safety	4,244,330	4,244,330	2,857,200	1,387,130
Culture and recreation	409,211	417,133	403,286	13,847
Economic development	229,248	229,248	162,943	66,305
Debt service	-	-	173,779	(173,779)
Total expenditures	<u>43,191,065</u>	<u>43,247,538</u>	<u>25,860,080</u>	<u>17,387,458</u>
Excess (Deficiency) of Revenues over Expenditures	<u>4,042,503</u>	<u>3,986,030</u>	<u>1,727,734</u>	<u>(2,258,296)</u>
Other Financing Sources (Uses)				
Loan proceeds	17,673,467	17,673,467	17,673,467	-
Transfers In	103,000	103,000	49,943	(53,057)
Transfers Out	(25,242,250)	(25,242,250)	(21,663,579)	3,578,671
Total other financing sources (uses)	<u>(7,465,783)</u>	<u>(7,465,783)</u>	<u>(3,940,169)</u>	<u>3,525,614</u>
Net Change in Fund Balances	(3,423,280)	(3,479,753)	(2,212,435)	1,267,318
Fund Balance - January 1	<u>41,287,907</u>	<u>41,287,907</u>	<u>41,287,907</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 37,864,627</u>	<u>\$ 37,808,154</u>	<u>\$ 39,075,472</u>	<u>\$ 1,267,318</u>

Mountrail County
 Budgetary Comparison Schedule – County Road and Bridge Fund
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 565	\$ 565	\$ 31,099	\$ 30,534
Intergovernmental	13,941,592	13,941,592	13,483,290	(458,302)
Charges for services	182,500	182,500	766,261	583,761
Miscellaneous	30,000	30,000	553,700	523,700
Total revenues	<u>14,154,657</u>	<u>14,154,657</u>	<u>14,834,350</u>	<u>679,693</u>
Expenditures				
Current				
Highways	<u>62,712,592</u>	<u>62,712,592</u>	<u>22,428,902</u>	<u>40,283,690</u>
Deficiency of Revenues over Expenditures	<u>(48,557,935)</u>	<u>(48,557,935)</u>	<u>(7,594,552)</u>	<u>40,963,383</u>
Other Financing Sources (Uses)				
Transfers In	25,209,720	25,209,720	21,141,268	(4,068,452)
Transfers Out	(80,000)	(80,000)	(42,155)	37,845
Total other financing sources (uses)	<u>25,129,720</u>	<u>25,129,720</u>	<u>21,099,113</u>	<u>(4,030,607)</u>
Net Change in Fund Balances	(23,428,215)	(23,428,215)	13,504,561	36,932,776
Fund Balance - January 1	<u>59,889,936</u>	<u>59,889,936</u>	<u>59,889,936</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 36,461,721</u>	<u>\$ 36,461,721</u>	<u>\$ 73,394,497</u>	<u>\$ 36,932,776</u>

Mountrail County
Schedules of Employer's Share of Net Pension Liability and Employer' Contributions
Year Ended December 31, 2016

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

Pension Plan	Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS	6/30/2016	<u>0.592772%</u>	<u>\$ 5,777,141</u>	<u>\$ 5,973,748</u>	<u>96.71%</u>	<u>70.46%</u>

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Employer's Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (a/d)
NDPERS	6/30/2016	<u>\$ 432,489</u>	<u>\$ (421,492)</u>	<u>\$ 10,997</u>	<u>\$ 5,973,748</u>	<u>7.24%</u>

Note 1 - Schedule of Employer Pension Liability and Contributions

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

Note 2 - Changes of Assumptions

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



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

To the Board of County Commissioners
Mountrail County
Stanley, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Mountrail County as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Mountrail County’s basic financial statements, and have issued our report thereon dated August 22, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of audit findings as item 2016-C to be a material weakness.

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 audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of audit findings as items 2016-A and 2016-B to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountrail County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The results of our tests did however disclose one instance of immaterial noncompliance that is reported as finding 2016-D.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bismarck, North Dakota
August 22, 2018

Findings – Financial Statement Audit

2016-A Segregation of Duties – Significant Deficiency

Condition - The County and various departments have a lack of segregation of duties in certain areas over the cash receipt process due to one employee being able to handle a transaction from inception to completion.

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.

Cause – The County and various departments have limited staff to be able 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.

Views of Responsible Officials – Management agrees with the finding.

2016-B Preparation of Financial Statements – Significant Deficiency

Condition – With the switch to modified cash basis of accounting it is believed that Mountrail County could prepare the financial statements without any material misstatements. However, there is still a risk over preparation of the financial statements because of the likelihood that the County would not be able to prepare all of the accompanying notes to the financial statements without the assistance of auditors.

Criteria – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements.

Cause – The County has not trained staff in GASB reporting standards.

Effect – With the switch to modified cash basis of accounting it is believed that Mountrail County could prepare the financial statements without any material misstatements. However, it is still considered a finding because of the likelihood that the County would not be able to prepare all of the accompanying notes to the financial statements without the assistance of auditors.

Recommendation – The 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.

Views of Responsible Officials – Management agrees with the finding.

2016-C Recording of Transactions – Material Weakness

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

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

Cause – Misstatements to the financial statements result from inadequate controls over recording of transactions.

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

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

Views of Responsible Officials – Management agrees with the finding.

State Compliance Item

2016-D Improper Valuation of Lands

Condition – The County has failed to implement the use of soil type and soil classification data from detailed and general soil surveys to properly value their land to submit to county assessors before February first of each year.

Criteria – According to North Dakota Century Code 57-02-27.2(7) the county director of tax equalization must use soil type and soil classification data from detailed and general soil surveys to properly determine the relative value of lands for each assessment district to compare to the county average.

Cause – The County has not fully implemented the use of soil type and soil classification data from detailed and general soil surveys.

Effect – The County is not in compliance with North Dakota Century Code 57-02-27.2(7), stating that the county director of tax equalization must use soil type and soil classification data from detailed and general soil surveys to value the land.

Recommendation – The County should continually be aware of the century code requirements as set forth by the State of North Dakota.

Views of Responsible Officials – Management agrees with the finding.