



Pierce County

Pierce, North Dakota

Audit Report

For the Year Ended December 31, 2018

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

PIERCE COUNTY

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PIERCE COUNTY

County Officials and Audit Personnel

December 31, 2018

COUNTY OFFICIALS

David Migler	Chairman
Mike Brossart	Vice-Chairman
Mike Christenson	Commissioner
Terry Hoffert	Commissioner
Ashley Berg	Commissioner
Karin Fursather	Auditor/Treasurer
Josh Siegler	Sheriff
Lori Miron	County Recorder
Galen J. Mack	State's Attorney
Karin Fritel	Clerk of Court

WATER RESOURCE BOARD OFFICIALS

Bill Deck	Chairman
Ronald Kremer	Vice-Chairman
Joe Bohl	Treasurer

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Rick Kremer	Audit In-Charge



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pierce County
Rugby, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit and aggregate remaining fund information of Pierce County, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Pierce County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 business-type activities, each major fund, and the discretely presented component unit and aggregate remaining fund information of Pierce County, North Dakota, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2019 on our consideration of Pierce County'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 Pierce County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
August 20, 2019

PIERCE COUNTY
Statement of Net Position
December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Water Resource District
ASSETS				
Cash, Cash Equivalents, and Investments	\$ 4,886,609	\$ 1,004,761	\$ 5,891,370	\$ 30,057
Accounts Receivable	-	232,652	232,652	1,050
Intergovernmental Receivable	184,356	-	184,356	-
Taxes Receivable	37,050	-	37,050	1,369
Capital Assets, Net	5,007,102	1,799,420	6,806,522	
Total Assets	\$ 10,115,117	\$ 3,036,833	\$ 13,151,950	\$ 32,476
DEFERRED OUTFLOWS OF RESOURCES				
Derived from Pensions & OPEB	\$ 836,792	\$ 830,062	\$ 1,666,854	\$ -
LIABILITIES				
Accounts Payable	\$ 10,954	\$ 57,517	\$ 68,471	\$ -
Salaries and Retirement Payable	33,782	14,901	48,683	-
Grants Received in Advance	50,643	-	50,643	-
Interest Payable	1,416	175	1,591	-
Non-Current Liabilities				
Due Within One Year				
Long-Term Debt	10,660	876	11,536	-
Compensated Absences Payable	15,809	16,576	32,385	-
Due After One Year				
Long-Term Debt	45,324	4,379	49,703	-
Compensated Absences Payable	63,236	66,306	129,542	-
Net Pension & OPEB Liability	2,004,280	1,982,303	3,986,583	-
Total Liabilities	\$ 2,236,104	\$ 2,143,033	\$ 4,379,137	\$ -
DEFERRED INFLOWS OF RESOURCES				
Taxes Received in Advance	\$ 461,274	\$ -	\$ 461,274	\$ -
Derived from Pensions & OPEB	123,969	122,609	246,578	-
Total Deferred Inflows of Resources	\$ 585,243	\$ 122,609	\$ 707,852	\$ -
NET POSITION				
Net Investment in Capital Assets	\$ 5,007,102	\$ 1,799,420	\$ 6,806,522	\$ -
Restricted				
Highways	2,452,446	-	2,452,446	-
Culture and Recreation	47,679	-	47,679	-
Conserv. of Natural Resources	165,265	-	165,265	32,476
Emergencies	265,766	-	265,766	-
Unrestricted	192,304	(198,167)	(5,863)	-
Total Net Position	\$ 8,130,562	\$ 1,601,253	\$ 9,731,815	\$ 32,476

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

PIERCE COUNTY
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Water Resource District
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		
						Business- Type Activities	Total	
Governmental Activities								
General Government	\$ 1,129,739	\$ 42,890	\$ 91,870	\$ -	\$ (994,979)	\$ -	\$ (994,979)	\$ -
Public Safety	774,161	94,745	11,430	-	(667,986)	-	(667,986)	-
Highways	1,641,422	212,863	692,392	404,308	(331,859)	-	(331,859)	-
Flood Repair	79,465	-	44,883	-	(34,582)	-	(34,582)	-
Health and Welfare	683,607	-	587,477	-	(96,130)	-	(96,130)	-
Culture and Recreation	11,000	-	-	-	(11,000)	-	(11,000)	-
Conserv. of Natural Resources	255,750	-	-	-	(255,750)	-	(255,750)	-
Emergencies	-	-	-	-	-	-	-	-
Other	74,033	-	-	-	(74,033)	-	(74,033)	-
Interest on Long-Term Debt	675	-	-	-	(675)	-	(675)	-
Total Governmental Activities	\$ 4,649,852	\$ 350,498	\$ 1,428,052	\$ 404,308	\$ (2,466,994)	\$ -	\$ (2,466,994)	\$ -
Business-Type Activities								
HACTC	\$ 3,143,734	\$ 2,659,244	\$ -	\$ -	\$ -	\$ (484,490)	\$ (484,490)	\$ -
Total Primary Government	\$ 7,793,586	\$ 3,009,742	\$ 1,428,052	\$ 404,308	\$ (2,466,994)	\$ (484,490)	\$ (2,951,484)	\$ -
Component Unit								
Water Resource District	\$ 69,875	\$ -	\$ 9,178	\$ -	\$ -	\$ -	\$ -	\$ (60,697)
General Revenues								
Taxes					\$ 1,711,481	\$ -	\$ 1,711,481	\$ 57,861
Unrestricted State Grants					547,857	-	547,857	10,346
Gain on sale of capital asset					176,675	-	176,675	-
Forgiveness of debt					13,004	437	13,441	-
Unrestricted investment earnings					49,328	91	49,419	58
Miscellaneous revenue					149,224	27,776	177,000	-
Total General Revenues					\$ 2,647,569	\$ 28,304	\$ 2,675,873	\$ 68,265
Change in Net Position					\$ 180,575	\$ (456,186)	\$ (275,611)	\$ 7,568
Net Position - January 1					\$ 7,939,228	\$ 2,057,439	\$ 9,996,667	\$ 24,908
Prior Period Adjustments					\$ 10,759	\$ -	\$ 10,759	\$ -
Net Position - January 1, as restated					\$ 7,949,987	\$ 2,057,439	\$ 10,007,426	\$ 24,908
Net Position - December 31					\$ 8,130,562	\$ 1,601,253	\$ 9,731,815	\$ 32,476

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

PIERCE COUNTYBalance Sheet – Governmental Funds
December 31, 2018

	General	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,406,402	\$ 3,480,207	\$ 4,886,609
Intergovernmental Receivable	114,871	69,485	184,356
Taxes Receivable	24,750	12,300	37,050
Total Assets	\$ 1,546,023	\$ 3,561,992	\$ 5,108,015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 9,290	\$ 1,664	\$ 10,954
Salaries and Retirement Payable	14,187	19,595	33,782
Grants Received in Advance	-	50,643	50,643
Total Liabilities	\$ 23,477	\$ 71,902	\$ 95,379
Deferred Inflows of Resources			
Taxes Received in Advance	\$ 308,163	\$ 153,111	\$ 461,274
Taxes Receivable	24,750	12,300	37,050
Total Deferred Inflows of Resources	\$ 332,913	\$ 165,411	\$ 498,324
Total Liabilities and Deferred Inflows of Resources	\$ 356,390	\$ 237,313	\$ 593,703
Fund Balance			
Restricted			
Public Safety	\$ -	\$ 42,655	\$ 42,655
Highways and Bridges	-	2,697,151	2,697,151
Health and Welfare	-	88,664	88,664
Culture and Recreation	-	47,679	47,679
Conserv. of Natural Resources	-	183,097	183,097
Emergencies	-	264,387	264,387
Other Purposes	-	1,046	1,046
Unassigned	1,189,633	-	1,189,633
Total Fund Balances	\$ 1,189,633	\$ 3,324,679	\$ 4,514,312
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,546,023	\$ 3,561,992	\$ 5,108,015

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

PIERCE COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total Fund Balances for Governmental Funds \$ 4,514,312

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. \$ 5,007,102

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenues in the funds.

Property Taxes Receivable \$ 37,050

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB \$ 836,792
Deferred Inflows Related to Pensions and OPEB (123,969) 712,823

Long-term liabilities 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.

Long-Term Debt \$ (55,984)
Interest Payable (1,416)
Compensated Absences Payable (79,045)
Net Pension and OPEB Liability (2,004,280) (2,140,725)

Total Net Position of Governmental Activities \$ 8,130,562

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

PIERCE COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 For the Year Ended December 31, 2018

	General	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 1,138,144	\$ 580,754	\$ 1,718,898
Intergovernmental	542,403	1,837,814	2,380,217
Licenses, Permits and Fees	3,450	-	3,450
Charges for Services	43,202	304,005	347,207
Interest Income	49,328	-	49,328
Miscellaneous	122,556	26,668	149,224
Total Revenues	\$ 1,899,083	\$ 2,749,241	\$ 4,648,324
EXPENDITURES			
Current			
General Government	\$ 1,041,698	\$ -	\$ 1,041,698
Public Safety	554,996	118,184	673,180
Highways and Bridges	-	1,657,425	1,657,425
Flood Repair	-	79,465	79,465
Health and Welfare	8,683	622,305	630,988
Culture and Recreation	-	11,000	11,000
Conserv. of Natural Resources	700	250,278	250,978
Emergencies	-	-	-
Other	74,033	-	74,033
Debt Service			
Principal	1,199	9,294	10,493
Interest and Fees	308	593	901
Total Expenditures	\$ 1,681,617	\$ 2,748,544	\$ 4,430,161
Excess (Deficiency) of Revenues Over Expenditures	\$ 217,466	\$ 697	\$ 218,163
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 142,446	\$ 18,888	\$ 161,334
Sale of Capital Assets	-	176,675	176,675
Transfers Out	(18,888)	(142,446)	(161,334)
Total Other Financing Sources and Uses	\$ 123,558	\$ 53,117	\$ 176,675
Net Change in Fund Balances	\$ 341,024	\$ 53,814	\$ 394,838
Fund Balances - January 1	\$ 848,609	\$ 3,270,865	\$ 4,119,474
Fund Balances - December 31	<u>\$ 1,189,633</u>	<u>\$ 3,324,679</u>	<u>\$ 4,514,312</u>

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

PIERCE COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds **\$ 394,838**

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.

Current Year Capital Outlay	\$ 757,562	
Current Year Depreciation Expense	<u>(789,047)</u>	(31,485)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of a lease isn't an inflow of resources, but does increase liabilities.

Repayment of Long-Term Debt		23,497
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Increase in Compensated Absences	\$ (637)	
Decrease in Interest Payable	<u>226</u>	(411)

The net pension and OPEB liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension & OPEB Liability	\$ (29,658)	
Decrease in Deferred Outflows of Resources Related to Pensions & OPEB	(137,264)	
Increase in Deferred Inflows of Resources Related to Pensions & OPEB	<u>(31,366)</u>	(198,288)

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

Decrease in Taxes Receivable	\$ (7,417)	
Decrease in Road Department Receivables	<u>(159)</u>	<u>(7,576)</u>

Change in Net Position of Governmental Activities **\$ 180,575**

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

PIERCE COUNTY

Statement of Net Position - Proprietary Funds
December 31, 2018

	<u>Business-Type Activities</u>
	<u>Heart of America Correctional and Treatment Center</u>
ASSETS	
Current Assets	
Cash	\$ 1,004,761
Accounts Receivable	232,652
Total Current Assets	<u>\$ 1,237,413</u>
Noncurrent Assets	
Capital Assets, Net	<u>1,799,420</u>
Total Assets	<u>\$ 3,036,833</u>
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions & OPEB	<u>\$ 830,062</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,866,895</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 57,517
Salaries and Retirement Payable	14,901
Interest Payable	175
Long-Term Debt	876
Compensated Absences	16,576
Total Current Liabilities	<u>\$ 90,045</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 4,379
Compensated Absences	66,306
Net Pension & OPEB Liability	1,982,303
Total Noncurrent Liabilities	<u>\$ 2,052,988</u>
Total Liabilities	<u>\$ 2,143,033</u>
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions & OPEB	<u>\$ 122,609</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 2,265,642</u>
NET POSITION	
Net Investment in Capital Assets	\$ 1,799,420
Unrestricted	<u>(198,167)</u>
Total Net Position	<u>\$ 1,601,253</u>

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

PIERCE COUNTY

Statement of Revenues, Expenses and changes In Fund Net Position - Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-Type Activities</u>
	<u>Heart of America Correctional and Treatment Center</u>
OPERATING REVENUES	
Housing - Security	\$ 2,566,683
Laundry Services	42,630
Commission - Turnkey	<u>49,930</u>
Total Operating Revenues	<u>\$ 2,659,243</u>
OPERATING EXPENSES	
Payroll and Employee Benefits	\$ 2,384,649
Utilities	153,590
Medical (Prisoners)	33,857
Kitchen & Laundry	260,294
Supplies	
Professional Fees	5,050
Other Operating Expenses	247,820
Depreciation Expense	<u>58,380</u>
Total Operating Expenses	<u>\$ 3,143,640</u>
Operating Income (Loss)	<u>\$ (484,397)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	\$ 91
Miscellaneous Revenue	27,776
Forgiveness of Debt	438
Interest and Service Charges	<u>(94)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 28,211</u>
Change in Net Position	<u>\$ (456,186)</u>
Total Net Position - January 1	<u>\$ 2,065,881</u>
Total Net Position - December 31	<u><u>\$ 1,601,253</u></u>

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

PIERCE COUNTYStatement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-Type Activities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 2,694,013
Cash Payments to Suppliers for Goods and Services	(667,789)
Cash Payments to Employees for Services	<u>(2,105,784)</u>
Net Cash Used by Operating Activities	<u>\$ (79,560)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ 27,776
Interest Received	<u>91</u>
Net Cash Provided by Non-capital and Related Financing Activities	<u>\$ 27,867</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal on Long-Term Debt	\$ (438)
Interest Paid	<u>(123)</u>
Net Cash Used by Capital and Related Financing Activities	<u>\$ (561)</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (52,254)</u>
Cash and Cash Equivalents, January 1	<u>\$ 1,057,015</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 1,004,761</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	<u>\$ (484,397)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 58,380
Change in Assets and Liabilities	
Decrease in Accounts Receivable	34,768
Increase in Accounts Payable	24,262
Increase in Compensated Absences	13,107
Increase in Net Pension & OPEB Liability	157,123
Decrease in Deferred Outflows Derived from Pensions & OPEB	80,183
Increase in Deferred Inflows Derived from Pensions & OPEB	<u>37,014</u>
Total Adjustments	<u>\$ 404,837</u>
Net Cash Used by Operating Activities	<u><u>\$ (79,560)</u></u>

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

PIERCE COUNTY

Statement of Fiduciary Assets and Liabilities – Agency Funds
December 31, 2018

ASSETS

Cash and Investments \$ 1,751,999

LIABILITIES

Due to Other Governments/Entities \$ 1,751,999

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

PIERCE COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pierce County ("County") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 County's accounting policies are described below.

A. Reporting Entity

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

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

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

Pierce County Water Resource District ("Water Resource District")- 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 district's annual budget.

B. Basis of Presentation

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

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

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

PIERCE COUNTY

Notes to the Financial Statements – Continued

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.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

The County reports the following major enterprise fund:

HACTC. This fund accounts for the lease payments received from the Heart of America Correctional and Treatment Center and for the Heart of America Correctional and Treatment Center’s employee benefits, which are reimbursed by the Heart of America Correctional and Treatment Center. The major source of revenue has been committed by a board motion.

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

Additionally, the County reports the following fund type:

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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

PIERCE COUNTY

Notes to the Financial Statements – Continued

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the County consist of certificates of deposit stated at fair value with maturities in excess of 3 months.

E. Capital Assets

Governmental Activities

Capital assets of the governmental activities, which include property, plant, and equipment, are reported in the applicable governmental 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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	15 – 100
Equipment	5 – 12
Infrastructure	8 – 20

Business-Type Activities

Capital assets of the Heart of America Correctional and Treatment Center include vehicles, equipment, and infrastructure. Assets are reported in the business-type activities column in the government-wide financial statements, and in the statement of net position – proprietary funds for business-type activities. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend asset lives are not capitalized.

F. Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the County. Upon termination of employment, employees will be paid for vacation benefits that have accrued to a maximum of thirty days. Sick leave benefits are allowed to accumulate up to 60 days. Once an employee has reached their maximum sick leave level, they are eligible to trade any additional sick leave awarded at a rate of one day of vacation for ten days of sick leave. Vested or accumulated vacation leave is reported in the general long-term debt account group. No liability is recorded for non-vesting accumulating rights for sick leave benefits.

G. 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.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

PIERCE COUNTY

Notes to the Financial Statements – Continued

H. Pension

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

I. Other Post-Employment Benefits (OPEB)

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

J. Fund Balances

Minimum Fund Balance Policy. The County budget committee established a 15-20% general fund carryover balance target to help with financial stability. The 15-20% fund balance range is a part of the budget recommendation adopted by the county each fiscal year. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district.

Fund Balance Spending Policy. It is the policy of the County to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

K. Net Position

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

L. 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.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 2: PRIOR PERIOD ADJUSTMENT

Beginning net position adjustments were necessary for accumulated depreciation for capital assets

Adjustments to beginning net position are as follows:

Governmental Activities	Amounts
Beginning Net Position, as previously reported	\$ 7,939,228
Adjustments to restate the January 1, 2018 Net Position	
Capital Assets - Depreciation	10,759
Net Position January 1, as restated	\$ 7,949,987

NOTE 3: DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution’s failure, the County would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The County does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution 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 year ended December 31, 2018, the County’s carrying amount of deposits totaled \$7,217,141, and the bank balances totaled \$7,334,888. Of the bank balances, \$1,225,646 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution’s agent in the government’s name.

At year ended December 31, 2018, the Water Resource District’s carrying amount of deposits totaled \$30,057, and the bank balances totaled \$37,305, all of which was covered by Federal Depository Insurance.

NOTE 4: PROPERTY TAXES

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.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 5: CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the year ended December 31, 2018:

Governmental Activities	Bal Jan 1 Restated	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 11,500	\$ -	\$ -	\$ -	\$ 11,500
Construction in Progress	970,350	413,099	-	(1,383,449)	-
Total Capital Assets, Not Being Depreciated	\$ 981,850	\$ 413,099	\$ -	\$ (1,383,449)	\$ 11,500
Capital Assets Being Ddepreciated					
Buildings	\$ 1,288,953	\$ -	\$ -	\$ -	\$ 1,288,953
Equipment	2,159,821	344,463	309,784	-	2,194,500
Infrastructure	4,129,420	-	-	1,383,449	5,512,869
Total Capital Assets, Being Depreciated	\$ 7,578,194	\$ 344,463	\$ 309,784	\$ 1,383,449	\$ 8,996,322
Less Accumulated Depreciation					
Buildings	\$ 292,952	\$ 22,438	\$ -	\$ -	\$ 315,390
Equipment	1,152,397	336,741	309,784	-	1,179,354
Infrastructure	2,076,108	429,868	-	-	2,505,976
Total Accumulated Depreciation	\$ 3,521,457	\$ 789,047	\$ 309,784	\$ -	\$ 4,000,720
Total Capital Assets Being Depreciated, Net	\$ 4,056,737	\$ (444,584)	\$ -	\$ 1,383,449	\$ 4,995,602
Governmental Activities Capital Assets, Net	\$ 5,038,587	\$ (31,485)	\$ -	\$ -	\$ 5,007,102

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

General Government	\$ 19,840
Public Safety	65,094
Highways and Bridges	699,256
Health and Welfare	3,509
Conservation of Natural Resources	1,348
Total Depreciation Expense - Governmental Activities	\$ 789,047

Business-Type Activities

Business-Type Activities	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Being Depreciated					
Buildings	\$ 2,147,250	\$ -	\$ -	\$ -	\$ 2,147,250
Equipment	157,777	-	-	-	157,777
Infrastructure	79,531	-	-	-	79,531
Total Capital Assets, Being Depreciated	\$ 2,384,558	\$ -	\$ -	\$ -	\$ 2,384,558
Less Accumulated Depreciation					
Buildings	\$ 391,080	\$ 44,390	\$ -	\$ -	\$ 435,470
Equipment	123,484	12,399	-	-	135,883
Infrastructure	12,194	1,591	-	-	13,785
Total Accumulated Depreciation	\$ 526,758	\$ 58,380	\$ -	\$ -	\$ 585,138
Total Capital Assets Being Depreciated, Net	\$ 1,857,800	\$ (58,380)	\$ -	\$ -	\$ 1,799,420
Business-Type Activities Capital Assets, Net	\$ 1,857,800	\$ (58,380)	\$ -	\$ -	\$ 1,799,420

PIERCE COUNTY

Notes to the Financial Statements – Continued

Depreciation expense was charged to the Heart of America Correctional and Treatment Center.

NOTE 6: LONG-TERM LIABILITIES

Governmental Activities

During the year ended December 31, 2018, the following changes occurred in governmental activities long-term liabilities:

Governmental Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Special Assessments	\$ 44,919	\$ -	\$ 6,704	\$ 38,215	\$ 6,417
USDA Loans	34,562	-	16,793	17,769	4,243
Total Long-Term Debt	\$ 79,481	\$ -	\$ 23,497	\$ 55,984	\$ 10,660
Compensated Absences *	78,408	637	-	79,045	15,809
Net Pension/OPEB Liability	1,974,622	29,658	-	2,004,280	-
Total Governmental Activities	\$ 2,211,992	\$ 30,295	\$ 46,994	\$ 2,195,293	\$ 37,129

* - The change in compensated absences is shown as a net change.

Debt service requirements on long-term debt is as follows:

GOVERNMENTAL ACTIVITIES				
Year Ending Dec 31	Special Assessments		Loan Payable	
	Principal	Interest	Principal	Interest
2019	\$ 6,417	\$ 1,540	\$ 4,243	\$ 1,594
2020	6,417	1,283	4,392	1,440
2021	6,417	1,027	4,545	1,281
2022	6,417	770	4,589	1,116
2023	6,417	513		
2024 - 2028	6,130	257		
Total	\$ 38,215	\$ 5,390	\$ 17,769	\$ 5,431

Business-Type Activities

Business-Type Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Special Assessments	\$ 6,130	\$ -	\$ 875	\$ 5,255	\$ 876
Compensated Absences *	\$ 69,775	\$ 13,107	\$ -	\$ 82,882	\$ 16,576
Net Pension/OPEB Liability	1,825,182	157,121	-	1,982,303	-
Total Business-Type Activities	\$ 1,901,087	\$ 170,228	\$ 875	\$ 2,070,440	\$ 17,452

* - The change in compensated absences is shown as a net change.

PIERCE COUNTY

Notes to the Financial Statements – Continued

Debt service requirements on long-term debt is as follows:

BUSINESS-TYPE ACTIVITIES		
Year Ending Dec 31	Special Assessments	
	Principal	Interest
2019	\$ 876	\$ 210
2020	876	175
2021	876	140
2022	876	105
2023	876	70
2024 - 2028	875	35
Total	\$ 5,255	\$ 735

NOTE 7: PENSION PLAN

General Information about the NDPERS 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 nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

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.

PIERCE COUNTY

Notes to the Financial Statements – Continued

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability 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 contributions 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

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

At December 31, 2018, the following net pension liability was reported:

	Net Pension Liability
County	\$ 3,819,245

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurement	Pension Expense
County	0.226311%	0.000397%	658,418

PIERCE COUNTY

Notes to the Financial Statements – Continued

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 10,108	\$ 129,938
Changes of Assumptions	1,378,668	54,512
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	102,417	54,035
Employer Contributions Subsequent to the Measurement Date	134,861	-
Total Deferred Outflows and Inflows of Resources	\$ 1,626,054	\$ 238,485

\$134,861 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

2018	\$ 421,444
2019	370,032
2020	282,470
2021	150,342
2022	9,839

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%																						
Salary increases	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Service at Beginning of year:</td> <td style="width: 50%;">Increase Rate:</td> </tr> <tr> <td style="text-align: center;">0</td> <td style="text-align: right;">15.00%</td> </tr> <tr> <td style="text-align: center;">1</td> <td style="text-align: right;">10.00%</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: right;">8.00%</td> </tr> <tr> <td>Age*</td> <td></td> </tr> <tr> <td style="text-align: center;">Under 30</td> <td style="text-align: right;">10.00%</td> </tr> <tr> <td style="text-align: center;">30 – 39</td> <td style="text-align: right;">7.50%</td> </tr> <tr> <td style="text-align: center;">40 – 49</td> <td style="text-align: right;">6.75%</td> </tr> <tr> <td style="text-align: center;">50 – 59</td> <td style="text-align: right;">6.50%</td> </tr> <tr> <td style="text-align: center;">60+</td> <td style="text-align: right;">5.25%</td> </tr> <tr> <td colspan="2">* Age-based salary increase rates apply for employees with three or more years of service</td> </tr> </table>	Service at Beginning of year:	Increase Rate:	0	15.00%	1	10.00%	2	8.00%	Age*		Under 30	10.00%	30 – 39	7.50%	40 – 49	6.75%	50 – 59	6.50%	60+	5.25%	* Age-based salary increase rates apply for employees with three or more years of service	
Service at Beginning of year:	Increase Rate:																						
0	15.00%																						
1	10.00%																						
2	8.00%																						
Age*																							
Under 30	10.00%																						
30 – 39	7.50%																						
40 – 49	6.75%																						
50 – 59	6.50%																						
60+	5.25%																						
* Age-based salary increase rates apply for employees with three or more years of service																							
Investment rate of return	7.75%, net of investment expenses																						
Cost-of-living adjustments	None																						

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

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 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:

PIERCE COUNTY

Notes to the Financial Statements – Continued

Asset Class	Target Allocation	Long -Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the County’s and Health District’s proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the County’s and Health District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate.

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Proportionate Share of the Net Pension Liability	\$ 5,189,644	\$ 3,819,245	\$ 2,675,691

Pension Plan Fiduciary Net Position

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

NOTE 8: OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the following net OPEB liability was reported:

	Net OPEB Liability
County	\$ 167,338

The net OPEB liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

PIERCE COUNTY

Notes to the Financial Statements – Continued

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurement	OPEB Expense
County	0.212474%	-0.000702%	20,602

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 5,010	\$ 3,457
Changes of Assumptions	13,730	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	3,600
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	467	1,036
Employer Contributions Subsequent to the Measurement Date	21,593	-
Total Deferred Outflows and Inflows of Resources	\$ 40,800	\$ 8,093

\$21,593 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

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

2018	\$ 1,328
2019	1,328
2020	1,328
2021	2,917
2022	2,625
2023	1,403
Thereafter	185

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, net of investment expenses
Cost-of-Living Adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2018 are summarized in the following table:

PIERCE COUNTY

Notes to the Financial Statements – Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the County's and Health District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate Share of the Net OPEB Liability	\$ 211,722	\$ 167,338	\$ 129,289

NOTE 9: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Pierce County pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF for automobile and general liability is limited to losses of four million dollars per occurrence. Public Assets coverage is limited to \$2,109,465.

Pierce County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Pierce 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 four million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Pierce County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees, and \$690,000 for the Heart of America Correctional and Treatment Center employees. The State Bonding Fund does not currently charge any premium for this coverage.

Pierce County has workers' compensation with the North Dakota Workforce Safety and Insurance. The County provides health insurance for employees.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 10 JOINT VENTURES

Lake Region District Health Unit

Pierce County entered into a joint venture with Ramsey, Benson and Eddy Counties for the operation of the Lake Region 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, 2017 is as follows:

	Lake Region District Health Unit
Assets	\$ 2,064,621
Liabilities	1,485,299
Net Position	\$ 579,322
<hr/>	
Total Revenues	\$ 1,959,461
Total Expenses	1,860,431
Net Change in Position	\$ 99,030

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

Heart of America Library

Pierce County entered into a joint venture with the City of Rugby for the operation of the Heart of America Library. Pierce County and the City of Rugby share of the cost of operations is determined by the mill levy allowed for libraries for each entity. Board member appointments consist of four members appointed by the county, four members appointed by the city and one member from each governing board.

Unaudited summary financial information for the year ended December 31, 2018 is as follows:

	Heart of America Library
Cash and Investments	\$ 262,922
<hr/>	
Total Revenues	\$ 186,439
Total Expenses	167,224
Net Change in Position	\$ 19,215

Complete financial information can be obtained from Heart of America Library, 201 Third Street SW, Rugby, ND 58368.

Devils Lake Basin Joint Water Resource District

Under authorization of state statutes, the Pierce County Water Resource District joined the water resource districts of Rolette County, Benson County, Nelson County, Ramsey County, Cavalier County, Towner County and Walsh County to establish and operate a joint exercise of powers agreement for water management districts located within the Devils Lake Basin. The joint agreement created the Devils Lake Basin Joint Water Resource Board. The agreement was established for the mutual advantage of the governments. One member of the directors for the joint venture is appointed by each government. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and net position cannot be determined due to lack of provisions being made for this in the joint powers agreement.

PIERCE COUNTY

Notes to the Financial Statements – Continued

The following is summary financial information for the joint venture as of December 31, 2007, which is the most current audited information.

	Devils Lake Basin Joint WRD
Cash and Investments	\$ 664,254
Total Liabilities	25,968
Total Net Position	\$ 638,286
<hr/>	
Total Revenues	\$ 312,857
Total Expenses	406,925
Net Change in Position	\$ (94,068)

Complete financial information can be obtained from the Devils Lake Basin Joint Water Resource District, 524 4th Avenue NE, #27, Devils Lake, ND 58301.

PIERCE COUNTY

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 1,160,982	\$ 1,160,982	\$ 1,138,144	\$ (22,838)
Intergovernmental	470,160	470,160	542,403	72,243
Licenses, Permits and Fees	3,450	3,450	3,450	-
Charges for Services	40,200	40,200	43,202	3,002
Interest Income	15,000	15,000	49,328	34,328
Miscellaneous	119,772	119,772	122,556	2,784
Total Revenues	\$ 1,809,564	\$ 1,809,564	\$ 1,899,083	\$ 89,519
EXPENDITURES				
Current				
General Government	\$ 1,238,592	\$ 1,238,592	\$ 1,041,698	\$ 196,894
Public Safety	744,374	744,374	554,996	189,378
Health and Welfare	22,000	22,000	8,683	13,317
Conserv. of Natural Resources	1,100	1,100	700	400
Other	99,153	99,153	74,033	25,120
Debt Service				
Principal	-	-	1,199	(1,199)
Interest and Fees	-	-	308	(308)
Total Expenditures	\$ 2,105,219	\$ 2,105,219	\$ 1,681,617	\$ 423,602
Excess (Deficiency) of Revenues Over Expenditures	\$ (295,655)	\$ (295,655)	\$ 217,466	\$ 513,121
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 150,000	\$ 150,000	\$ 142,446	\$ (7,554)
Transfers Out	-	-	(18,888)	(18,888)
Total Other Financing Sources (Uses)	\$ 150,000	\$ 150,000	\$ 123,558	\$ (26,442)
Net Change in Fund Balances	\$ (145,655)	\$ (145,655)	\$ 341,024	\$ 486,679
Fund Balances - January 1	\$ 848,609	\$ 848,609	\$ 848,609	\$ -
Fund Balances - December 31	\$ 702,954	\$ 702,954	\$ 1,189,633	\$ 486,679

The accompanying required supplementary information notes are an integral part of this schedule.

PIERCE COUNTY

Budgetary Comparison Schedule – Special Revenue Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 555,189	\$ 555,189	\$ 580,754	\$ 25,565
Intergovernmental	1,498,240	1,498,240	1,837,814	339,574
Charges for Services	289,627	289,627	304,005	14,378
Miscellaneous	30,250	30,250	26,668	(3,582)
Total Revenues	\$ 2,373,306	\$ 2,373,306	\$ 2,749,241	\$ 375,935
EXPENDITURES				
Current				
General Government	\$ -	\$ -	\$ -	\$ -
Public Safety	354,787	354,787	118,184	236,603
Highways and Bridges	2,520,086	2,525,049	1,657,425	867,624
Flood Repair	-	79,465	79,465	-
Health and Welfare	684,162	686,258	622,305	63,953
Culture and Recreation	11,000	11,000	11,000	-
Conserv. of Natural Resources	236,062	254,507	250,278	4,229
Debt Service				
Principal	2,000	7,000	9,294	(2,294)
Interest and Fees	-	-	593	(593)
Total Expenditures	\$ 3,808,097	\$ 3,918,066	\$ 2,748,544	\$ 1,169,522
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,434,791)	\$ (1,544,760)	\$ 697	\$ 1,545,457
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 700,000	\$ 700,000	\$ 372,429	\$ (327,571)
Sale of Capital Assets	125,000	125,000	176,675	51,675
Transfers Out	(600,000)	(600,000)	(495,987)	104,013
Total Other Financing Sources (Uses)	\$ 225,000	\$ 225,000	\$ 53,117	\$ (171,883)
Net Change in Fund Balances	\$ (1,209,791)	\$ (1,319,760)	\$ 53,814	\$ 1,373,574
Fund Balances - January 1	\$ 3,270,865	\$ 3,270,865	\$ 3,270,865	\$ -
Fund Balances - December 31	\$ 2,061,074	\$ 1,951,105	\$ 3,324,679	\$ 1,373,574

The accompanying required supplementary information notes are an integral part of this schedule.

PIERCE COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2018

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.226311%	\$ 3,819,245	\$ 2,324,928	164.27%	62.80%
2017	0.225914%	3,631,179	2,306,229	157.45%	61.98%
2016	0.236958%	2,309,387	2,387,981	96.71%	70.46%
2015	0.222433%	1,512,506	1,981,611	76.33%	77.15%
2014	0.200929%	1,275,339	1,692,589	75.35%	77.70%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 171,241	\$ 166,176	\$ 5,065	\$ 2,324,928	7.15%
2017	167,230	171,436	(4,206)	2,306,229	7.43%
2016	172,886	166,344	6,542	2,387,981	6.97%
2015	150,519	153,449	(2,930)	1,981,611	7.74%
2014	120,512	120,512	-	1,692,589	7.12%

The accompanying required supplementary information notes are an integral part of this schedule.

PIERCE COUNTY

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
 For the Year Ended December 31, 2018

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

	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.212474%	\$ 167,338	\$ 2,324,928	7.20%	61.89%
2017	0.213176%	168,625	2,306,229	7.31%	59.78%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 27,270	\$ 26,606	664	\$ 2,324,928	1.14%
2017	26,808	27,449	(641)	2,306,229	1.19%

The accompanying required supplementary information notes are an integral part of this schedule.

PIERCE COUNTY

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- The County commission adopts an “appropriated budget” on the modified accrual 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 County commission holds a public hearing where any taxpayer may appear and shall be heard in favor of or against any proposed disbursements or tax levies. When the hearing shall have been concluded, the board shall adopt such estimate as finally is determined upon. All taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04
- The board of County commissioners, on or before the October meeting shall determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the County auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The board of County commissioners amended the County expenditures and transfers budget for various funds as follows:

	EXPENDITURES		
	Original Budget	Budget Amendment	Amended Budget
Special Revenue Fund	\$ 3,808,097	\$ 109,969	\$ 3,918,066

NOTE 3: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

NOTE 4: PENSION AND OPEB - CHANGES OF ASSUMPTIONS

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 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.



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

**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***

Independent Auditor's Report

Board of County Commissioners
Pierce County
Pierce, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component units and aggregate remaining fund information of Pierce County as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Pierce County's basic financial statements, and have issued our report thereon dated August 20, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, and 2018-003 that we consider to be material weaknesses.

PIERCE COUNTY

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pierce 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*.

Pierce County's Response to Findings

Pierce County's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Pierce County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
August 20, 2019

PIERCE COUNTY

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified
Discretely Presented Component Unit and Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

PIERCE COUNTY

Schedule of Audit Findings

For the Year Ended December 31, 2018

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Pierce County does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

Criteria

Management of Pierce County is responsible for establishing proper internal control over the preparation of Pierce County's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management may not be fully aware how to prepare basic financial statements that comply with GAAP and has chosen to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement to the Pierce County's financial statements.

Recommendation

We recommend Pierce County design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

Pierce County's Response

Agree. Pierce County is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

Pierce County is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Cause

Management is not fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

PIERCE COUNTY

Schedule of Audit Findings – Continued

Effect

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

Recommendation

We recommend Pierce County design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

Pierce County’s Response

Agree. Pierce County does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

2018-003 – LACK OF SEGREGATION OF DUTIES – COUNTY

Condition

Pierce County has limited staff responsible for the primary accounting functions. A lack of segregation of duties exists as limited staff is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the County.

Cause

Management has chosen to allocate its economic resources to other functions of the County.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the County's financial condition, whether due to error or fraud.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Pierce County’s Response

While we agree with the recommendation, due to the size and nature of the county, it is not feasible for us to obtain proper segregation of duties



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203.
FARGO, NORTH DAKOTA 58103

GOVERNANCE COMMUNICATION

Board of County Commissioners
Pierce County
Pierce, North Dakota

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the discretely presented component unit and aggregate remaining fund information of Pierce County, North Dakota, for the year ended December 31, 2018 which collectively comprise Pierce County's basic financial statements, and have issued our report thereon dated August 20, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated March 2, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Pierce County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Pierce County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pierce County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

Governmental Activities		
Client Adjustments		
Intergovernmental Receivable	184,356	
Revenue		184,356
Expenditures	31,364	
Accounts Payable		10,954
Salaries Payable		20,410
Audit Adjustments		
Revenue	50,643	
Unearned Revenue		50,643
Business-Type Activities		
Client Adjustments		
Accounts Receivable	232,652	
Revenue		232,652
Expenditures	33,865	
Accounts Payable		33,865

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 20, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following presents our informal recommendations:

FRAUD RISK ASSESSMENT

Pierce County does not currently prepare a fraud risk assessment of the entire entity. If the County does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the County’s goals in reporting, reliance, and accountability.

We recommend Pierce County prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

**LACK OF SEGREGATION OF DUTIES –
WATER RESOURCE DISTRICT**

The Pierce County Water Resource District has one employee responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations for each entity.

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Pierce County Water Resource District financial condition, whether due to error or fraud.

This information is intended solely for the use of the Board of County Commissioners and management of Pierce County, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Pierce County for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Pierce County.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
August 20, 2019

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