



Pierce County

Rugby, North Dakota

Audit Report

For the Year Ended December 31, 2016

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

PIERCE COUNTY
Rugby, North Dakota
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PIERCE COUNTY
Rugby, North Dakota

COUNTY OFFICIALS

December 31, 2016

David Migler	Chairman
Mike Brossart	Vice-Chairman
Mike Christenson	Commissioner
Terry Hoffert	Commissioner
Richard Larson	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

December 31, 2016

Ronald Kremer	Chairman
Bill Deck	Vice-Chairman
Duane Hawk	Treasurer

**HEART OF AMERICA CORRECTIONAL
AND TREATMENT CENTER OFFICIALS**

December 31, 2016

David Migler	Chairman
Mike Brossart	Vice-Chairman
Terry Hoffert	Commissioner
Mike Christenson	Commissioner
Richard Larson	Commissioner
Mike Graner	Director of Business Operations
Justine Fjellanger	Accounting Specialist

STATE AUDITOR

JOSHUA C. GALLION
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pierce County, Rugby, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pierce County, Rugby, North Dakota, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PIERCE COUNTY

Independent Auditor's Report - Continued

Other Matters

Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension schedules, and notes to the required supplementary information* on pages 34-41 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pierce County's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of fund activity arising from cash transactions* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the schedule of fund activity arising from cash transactions* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017 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.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 6, 2017

PIERCE COUNTY
Rugby, North Dakota
STATEMENT OF NET POSITION
December 31, 2016

	Primary Government			Component Unit Water Resource Dist.
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash, Cash Equivalents and Investments	\$ 4,907,457	\$ 831,788	\$ 5,739,245	\$ 14,561
Accounts Receivable	127,500	301,888	429,388	-
Intergovernmental Receivable	266,247	-	266,247	-
Due from County	-	-	-	192
Road Receivables	390	-	390	-
Taxes Receivable	43,218	-	43,218	867
Capital Assets (not being depreciated):				
Land	11,500	-	11,500	-
Construction in Progress	429,050	-	429,050	-
Capital Assets (net of accumulated depreciation):				
Buildings	652,914	1,800,560	2,453,474	-
Equipment	958,538	48,463	1,007,001	-
Infrastructure	2,378,158	68,927	2,447,085	-
Total Capital Assets	<u>\$ 4,430,160</u>	<u>\$ 1,917,950</u>	<u>\$ 6,348,110</u>	<u>\$ -</u>
Total Assets	<u>\$ 9,774,972</u>	<u>\$ 3,051,626</u>	<u>\$ 12,826,598</u>	<u>\$ 15,620</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	\$ 395,325	\$ 506,305	\$ 901,630	\$ -
Total Assets and Deferred Outflows of Resources	<u>\$ 10,170,297</u>	<u>\$ 3,557,931</u>	<u>\$ 13,728,228</u>	<u>\$ 15,620</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 19,528	\$ 33,267	\$ 52,795	\$ -
Salaries Payable	22,767	-	22,767	-
Grants Received in Advance	129,043	-	129,043	-
Retainage Payable	8,581	-	8,581	-
Interest Payable	1,868	234	2,102	-
Non-Current Liabilities:				
Due Within One Year:				
Special Assessment Payable	6,417	876	7,293	-
Loan Payable	3,961	-	3,961	-
Compensated Absences Payable	15,198	13,401	28,599	-
Due After One Year:				
Special Assessment Payable	44,919	6,130	51,049	-
Loan Payable	46,835	-	46,835	-
Compensated Absences Payable	60,791	53,604	114,395	-
Net Pension Liability	1,001,910	1,307,477	2,309,387	-
Total Liabilities	<u>\$ 1,361,818</u>	<u>\$ 1,414,989</u>	<u>\$ 2,776,807</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes Received in Advance	\$ 330,530	\$ -	\$ 330,530	\$ -
Pensions	59,052	77,061	136,113	-
Total Deferred Inflows of Resources	<u>\$ 389,582</u>	<u>\$ 77,061</u>	<u>\$ 466,643</u>	<u>\$ -</u>
Total Liabilities and Deferred Intflows of Resources	<u>\$ 1,751,400</u>	<u>\$ 1,492,050</u>	<u>\$ 3,243,450</u>	<u>\$ -</u>
NET POSITION				
Net Investment in Capital Assets	\$ 4,430,160	\$ 1,917,950	\$ 6,348,110	\$ -
Restricted for:				
Highways	2,368,348	-	2,368,348	-
Flood Repair	15,727	-	15,727	-
Health and Welfare	237,894	-	237,894	-
Culture and Recreation	64,810	-	64,810	-
Conservation of Natural Resources	203,451	-	203,451	15,620
Emergencies	216,457	-	216,457	-
Unrestricted	872,296	147,931	1,020,227	-
Total Net Position	<u>\$ 8,418,897</u>	<u>\$ 2,065,881</u>	<u>\$ 10,484,778</u>	<u>\$ 15,620</u>

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

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	Primary Government		Total	
					Governmental Activities	Business- Type Activities		
Governmental Activities:								
General Government	\$ 1,031,632	\$ 41,599	\$ 55,448	\$ -	\$ (934,585)	\$ -	\$ (934,585)	\$ -
Public Safety	675,412	96,466	43,802	-	(535,144)	-	(535,144)	-
Highways	3,413,524	169,432	2,310,290	429,050	(504,752)	-	(504,752)	-
Flood Repair	226,604	-	332,416	-	105,812	-	105,812	-
Health and Welfare	656,893	-	113,171	-	(543,722)	-	(543,722)	-
Culture and Recreation	13,000	-	-	-	(13,000)	-	(13,000)	-
Conserv. of Natural Resources	223,679	-	41,719	-	(181,960)	-	(181,960)	-
Other	54,144	-	-	-	(54,144)	-	(54,144)	-
Interest on Long-Term Debt	3,033	-	-	-	(3,033)	-	(3,033)	-
Total Governmental Activities	\$ 6,297,921	\$ 307,497	\$ 2,896,846	\$ 429,050	\$ (2,664,528)	\$ -	\$ (2,664,528)	\$ -
Business-Type Activities:								
HACTC	\$ 2,944,379	\$ 2,928,663	\$ -	\$ -	\$ -	\$ (15,716)	\$ (15,716)	\$ -
Total Primary Government	\$ 9,242,300	\$ 3,236,160	\$ 2,896,846	\$ 429,050	\$ (2,664,528)	\$ (15,716)	\$ (2,680,244)	\$ -
Component Unit:								
Water Resource District	\$ 86,837	\$ 11,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (75,837)
General Revenues:								
Taxes:								
Property taxes; levied for general purposes					\$ 1,454,252	\$ -	\$ 1,454,252	\$ -
Property taxes; levied for special purposes					861,351	-	861,351	44,121
State aid & grants not restricted to specific programs:								
State Aid Distribution and Grants					534,921	-	534,921	5,108
Other State Shared Revenues					57,369	-	57,369	1,223
Forgiveness of debt					9,209	438	9,647	-
Unrestricted investment earnings					14,706	310	15,016	22
Miscellaneous revenue					132,001	2,240	134,241	813
Total General Revenues					\$ 3,063,809	\$ 2,988	\$ 3,066,797	\$ 51,287
Change in Net Position					\$ 399,281	\$ (12,728)	\$ 386,553	\$ (24,550)
Net Position - January 1					\$ 8,019,616	\$ 2,078,609	\$ 10,098,225	\$ 40,170
Net Position - December 31					\$ 8,418,897	\$ 2,065,881	\$ 10,484,778	\$ 15,620

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

PIERCE COUNTY
Rugby, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2016

	General	Farm to Market Road	Highway Tax Distribution	FEMA	County Poor Relief	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$1,315,594	\$ 808,620	\$ 980,197	\$ 129,043	\$ 415,947	\$ 1,258,056	\$ 4,907,457
Accounts Receivable	-	-	127,500	-	-	-	127,500
Intergovernmental Receivable	82,977	101,073	47,151	15,727	8,446	10,873	266,247
Road Receivables	-	-	-	-	-	390	390
Taxes Receivable	23,265	4,578	-	-	6,351	9,024	43,218
Due from Other Funds	323	-	-	-	-	-	323
Total Assets	\$ 1,422,159	\$ 914,271	\$ 1,154,848	\$ 144,770	\$ 430,744	\$ 1,278,343	\$ 5,345,135
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 1,614	\$ -	\$ -	\$ -	\$ -	\$ 17,914	\$ 19,528
Salaries Payable	8,297	-	-	-	-	14,470	22,767
Grants Received in Advance	-	-	-	129,043	-	-	129,043
Due to Other Funds	-	-	-	-	-	323	323
Total Liabilities	\$ 9,911	\$ -	\$ -	\$ 129,043	\$ -	\$ 32,707	\$ 171,661
Deferred Inflows of Resources:							
Taxes Received in Advance	\$ 175,067	\$ 26,749	\$ -	\$ -	\$ 49,199	\$ 79,515	\$ 330,530
Road Receivables	-	-	-	-	-	390	390
Taxes Receivable	23,265	4,578	-	-	6,351	9,024	43,218
Total Deferred Inflows of Resources	\$ 198,332	\$ 31,327	\$ -	\$ -	\$ 55,550	\$ 88,929	\$ 374,138
Total Liabilities and Deferred Inflows of Resources	\$ 208,243	\$ 31,327	\$ -	\$ 129,043	\$ 55,550	\$ 121,636	\$ 545,799
Fund Balances:							
Restricted for:							
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,506	\$ 53,506
Highways and Bridges	-	882,944	1,154,848	-	-	515,074	2,552,866
Flood Repair	-	-	-	15,727	-	-	15,727
Health and Welfare	-	-	-	-	375,194	84,827	460,021
Culture and Recreation	-	-	-	-	-	64,764	64,764
Conserv. of Natural Resources	-	-	-	-	-	218,529	218,529
Emergencies	-	-	-	-	-	215,707	215,707
Other Purposes	-	-	-	-	-	4,623	4,623
Unassigned:	1,213,916	-	-	-	-	(323)	1,213,593
Total Fund Balances	\$ 1,213,916	\$ 882,944	\$ 1,154,848	\$ 15,727	\$ 375,194	\$ 1,156,707	\$ 4,799,336
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,422,159	\$ 914,271	\$ 1,154,848	\$ 144,770	\$ 430,744	\$ 1,278,343	\$ 5,345,135

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

PIERCE COUNTY
Rugby, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 4,799,336

Total *Net Position* reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	\$ 7,587,880	
Less Accumulated Depreciation	<u>(3,157,720)</u>	
Net Capital Assets		4,430,160

Property taxes & road accounts 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	\$ 43,218	
Road Department Accounts Receivable	<u>390</u>	43,608

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

Deferred Outflows Related to Pensions	\$ 395,325	
Deferred Inflows Related to Pensions	<u>(59,052)</u>	336,273

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are the following

Special Assessments Payable	\$ (51,336)	
Loan Payable	(50,796)	
Interest Payable	(1,868)	
Compensated Absences	(75,989)	
Net Pension Liability	<u>(1,001,910)</u>	<u>(1,181,899)</u>

Total Net Position of Governmental Activities \$ 8,418,897

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General	Farm to Market Road	Highway Tax Distribution	FEMA	County Poor Relief	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 1,442,994	\$ 220,472	\$ -	\$ -	\$ 244,155	\$ 416,601	\$ 2,324,222
Intergovernmental	528,403	1,984,657	618,129	194,562	38,563	553,872	3,918,186
Licenses, Permits and Fees	3,450	-	-	-	-	-	3,450
Charges for Services	38,149	-	-	-	-	266,203	304,352
Interest Income	14,706	-	-	-	-	-	14,706
Miscellaneous	105,154	-	-	-	-	26,847	132,001
Total Revenues	\$ 2,132,856	\$ 2,205,129	\$ 618,129	\$ 194,562	\$ 282,718	\$ 1,263,523	\$ 6,696,917
Expenditures:							
Current:							
General Government	\$ 1,009,198	\$ -	\$ -	\$ -	\$ -	\$ 7,367	\$ 1,016,565
Public Safety	545,681	-	-	-	-	128,944	674,625
Highways and Bridges	-	2,190,584	312,487	-	-	1,025,178	3,528,249
Flood Repair	-	-	-	226,604	-	-	226,604
Health and Welfare	22,516	-	-	-	-	622,475	644,991
Culture and Recreation	-	-	-	-	-	13,000	13,000
Conserv. of Natural Resources	700	-	-	-	-	220,754	221,454
Other	54,144	-	-	-	-	-	54,144
Debt Service:							
Principal	5,976	-	-	-	-	2,101	8,077
Interest and Fees	2,530	-	-	-	-	757	3,287
Total Expenditures	\$ 1,640,745	\$ 2,190,584	\$ 312,487	\$ 226,604	\$ -	\$ 2,020,576	\$ 6,390,996
Excess (Deficiency) of Revenues Over Expenditures	\$ 492,111	\$ 14,545	\$ 305,642	\$ (32,042)	\$ 282,718	\$ (757,053)	\$ 305,921
Other Financing Sources (Uses):							
Transfers In	\$ 414,707	\$ -	\$ -	\$ -	\$ 26,242	\$ 912,120	\$ 1,353,069
Transfers Out	(41,583)	-	(400,000)	-	(450,000)	(461,486)	(1,353,069)
Total Other Financing Sources and Uses	\$ 373,124	\$ -	\$ (400,000)	\$ -	\$ (423,758)	\$ 450,634	\$ -
Net Change in Fund Balances	\$ 865,235	\$ 14,545	\$ (94,358)	\$ (32,042)	\$ (141,040)	\$ (306,419)	\$ 305,921
Fund Balances - January 1	\$ 348,681	\$ 868,399	\$ 1,249,206	\$ 47,769	\$ 516,234	\$ 1,463,126	\$ 4,493,415
Fund Balances - December 31	\$ 1,213,916	\$ 882,944	\$ 1,154,848	\$ 15,727	\$ 375,194	\$ 1,156,707	\$ 4,799,336

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

PIERCE COUNTY
Rugby, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net Change in <i>Fund Balances</i> - Total Governmental Funds		\$ 305,921
<p>The change in net position reported for governmental activities in the statement of activities is different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and capital contributions exceeded depreciation expense in the current year.</p>		
Current Year Capital Outlay	\$ 345,681	
Capital Contributions	429,050	
Current Year Depreciation Expense	<u>(644,134)</u>	130,597
<p>The net result of miscellaneous transactions involving capital assets was a net decrease to capital assets.</p>		
		(5,310)
<p>Retainage payable is not an expenditure at the fund level. Retainages are paid or will be paid more than two months after year-end. The net change in retainages payable totaled.</p>		
		(8,581)
<p>The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayment.</p>		
Repayment of Debt - Special Assessments	\$ 6,416	
Repayment of Debt - Loans	<u>10,870</u>	17,286
<p>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.</p>		
Increase in Compensated Absences	\$ (15,154)	
Decrease in Interest Payable	<u>254</u>	(14,900)
<p>The Net Pension 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.</p>		
Increase in Net Pension Liability	\$ (290,709)	
Increase in Deferred Outflows of Resources Related to Pensions	254,575	
Decrease in Deferred Inflows of Resources Related to Pensions	<u>19,326</u>	(16,808)
<p>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.</p>		
Decrease in Taxes Receivable	\$ (8,619)	
Decrease in Road Department Receivables	<u>(305)</u>	(8,924)
Change in Net Position of Governmental Activities		<u><u>\$ 399,281</u></u>

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2016

	Business-Type Activities
	Heart of America Correctional and Treatment Center
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 831,788
Accounts Receivable	301,888
Total Current Assets	\$ 1,133,676
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depreciation):	
Buildings	\$ 1,800,560
Equipment	48,463
Infrastructure	68,927
Total Capital Assets	\$ 1,917,950
Total Noncurrent Assets	\$ 1,917,950
Total Assets	\$ 3,051,626
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pensions	\$ 506,305
Total Assets and Deferred Outflows of Resources	\$ 3,557,931
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 33,267
Interest Payable	234
Special Assessment Payable	876
Compensated Absences	13,401
Total Current Liabilities	\$ 47,778
<u>Noncurrent Liabilities:</u>	
Special Assessment Payable	\$ 6,130
Compensated Absences	53,604
Net Pension Liability	1,307,477
Total Noncurrent Liabilities	\$ 1,367,211
Total Liabilities	\$ 1,414,989
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pensions	\$ 77,061
Total Liabilities and Deferred Intflows of Resources	\$ 1,492,050
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 1,917,950
Unrestricted	147,931
Total Net Position	\$ 2,065,881

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	<u>Business-Type Activities</u>
	<u>Heart of America Correctional and Treatment Center</u>
<u>Operating Revenues:</u>	
Housing - Security	\$ 2,779,700
Laundry Services	43,680
Commission - Turnkey	60,141
Other Operating Revenues	<u>45,142</u>
Total Operating Revenues	<u>\$ 2,928,663</u>
<u>Operating Expenses:</u>	
Payroll and Employee Benefits	\$ 2,253,351
Utilities	122,230
Medical (Prisoners)	32,085
Kitchen & Laundry	242,201
Professional Fees	3,000
Other Operating Expenses	223,000
Depreciation Expense	<u>68,383</u>
Total Operating Expenses	<u>\$ 2,944,250</u>
Operating Income (Loss)	<u>\$ (15,587)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	\$ 310
Miscellaneous Revenue	2,240
Forgiveness of Debt	438
Interest and Service Charges	<u>(129)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 2,859</u>
Change in Net Position	<u>\$ (12,728)</u>
Total Net Position - January 1	<u>\$ 2,078,609</u>
Total Net Position - December 31	<u><u>\$ 2,065,881</u></u>

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Business-Type Activities
	Heart of America Correctional and Treatment Center
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 2,911,159
Cash Payments to Suppliers for Goods and Services	(2,171,360)
Cash Payments to Employees for Services	(637,447)
Net Cash Provided by Operating Activities	\$ 102,352
<u>Cash Flows from Non-capital and Related Financing Activities:</u>	
Miscellaneous	\$ 2,240
Interest Received	310
Net Cash Provided (Used) by Non-capital and Related Financing Activities	\$ 2,550
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Principal on Long-Term Debt	\$ (438)
Interest Paid	(158)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (596)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 104,306
Cash and Cash Equivalents, January 1	\$ 727,482
Cash and Cash Equivalents, December 31	\$ 831,788
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ (15,587)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation Expense	\$ 68,383
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(17,504)
Decrease in Salaries Payable	(78,549)
Decrease in Accounts Payable	(14,931)
Increase in Compensated Absences	6,181
Increase in Net Pension Liability	506,172
Increase in Deferred Outflows Related to Pensions	(340,566)
Decrease in Deferred Inflows Related to Pensions	(11,247)
Total Adjustments	\$ 117,939
Net Cash Provided by Operating Activities	\$ 102,352

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

PIERCE COUNTY
Rugby, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2016

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash and Investments	<u>\$ 1,069,952</u>
<u>Liabilities:</u>	
Due to Other Governments/Entities	<u>\$ 1,069,952</u>

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

PIERCE COUNTY
Rugby, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pierce 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 Pierce County. The county has considered all potential component units for which the county is financially accountable and other organizations for which the nature and significance of their relationships with the county such that exclusion would cause the county's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This 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 Pierce County.

Based on these criteria, the component units discussed below are 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: 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, Pierce County 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. Business-type activities are financed in whole or part by fees charged to external parties.

PIERCE COUNTY

Notes to the Financial Statements – Continued

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

The County reports the following major governmental funds:

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

Farm to Market Road Fund. This fund accounts for the costs of constructing and maintaining federal aid farm to market roads within the county. The major sources of revenues are a restricted tax levy and State/Federal grants/reimbursements.

Highway Tax Distribution Fund. This fund accounts for the Highway Tax Distribution from the State to be used for the maintenance and repair of roads within the county. The major source of revenue is restricted state highway tax funds

FEMA Fund. This fund accounts for state and federal grants for flood disaster repairs and the related disbursements. The major primary source of revenue is restricted Federal and State grants/reimbursements for flood related repairs.

County Poor Relief Fund. This fund accounts for the taxes levied for social welfare programs that are transferred to the social welfare fund to help finance the costs of providing social service benefits and programs to needy residents of the county. The major source of revenue is a restricted tax levy.

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 hold 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.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the county during the year ended December 31, 2016 consist of certificates of deposit stated at fair value with maturities in excess of 3 months.

E. Capital Assets

PRIMARY GOVERNMENT – 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.

PIERCE COUNTY

Notes to the Financial Statements – Continued

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

PRIMARY GOVERNMENT – BUSINESS-TYPE ACTIVITIES:

Capital Assets – 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.

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. Fund Balances / Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

PIERCE COUNTY

Notes to the Financial Statements – Continued

Fund Balance Spending Policy:

It is the policy of Pierce 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.

Minimum Fund Balance Policy:

The Pierce 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.

Major Special Revenue Fund Purposes & Revenue Sources:

Purposes and major revenue sources of the major special revenue funds (farm to market road, highway tax distribution, FEMA, and county poor relief) are disclosed in more detail in Note 1B in the discussion of major funds.

Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes;	Available for any remaining general fund expenditure.

PIERCE COUNTY

Notes to the Financial Statements – Continued

Pierce County reports restricted and unassigned fund balances at December 31, 2016.

Restricted fund balances are shown by primary function on the balance sheet for public safety, highways & bridges, flood repair, health & welfare, culture & recreation, conservation of natural resources, emergencies, and other purposes (health insurance, insurance reserve, veteran's service officer, and social security). Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments).

Special Revenue Funds – Restricted & Committed Fund Balances:

(a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:

- Restricted tax levies – includes fund balances for various tax levies other than the general fund.
- Restricted grants/reimbursements – primarily includes FEMA funds, other grant funds, and highway tax distribution.

Unassigned Fund Balances:

Unassigned fund balances at year-end 2016 consist of an amount in the general fund and amounts reported for negative fund balances in the sheriff's grant fund.

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, and less any related debt to purchase/finance the construction of those capital assets. These assets are not available for future spending.

Restrictions of net position shown in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements. Restrictions of net position in the statement of net position are shown by primary function and are restricted for highways and bridges, public safety, health & welfare, culture & recreation, conservation of natural resources, emergencies, and other purposes (health insurance, insurance reserve, veteran's service officer, and social security).

Unrestricted net position is primarily unrestricted amounts related to the general fund. The unrestricted net position is available to meet the district's ongoing obligations.

I. Interfund Transactions

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

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

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

NOTE 2: DEPOSITS

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

PIERCE COUNTY

Notes to the Financial Statements – Continued

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 December 31, 2016, the county's carrying amount of deposits was \$6,561,500 and the bank balances were \$6,975,436. Of the bank balances, \$1,005,510 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

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

As of December 31, 2016, the county held certificates of deposit in the amount of \$1,900,000, which are all considered deposits.

Concentration of Credit Risk:

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

Discretely Presented Component Units:

At December 31, 2016, Pierce County Water Resource District's carrying amount of deposits was \$14,561 and the bank balance was \$16,636, all of which was covered by Federal Depository Insurance. The Water Resource District does not have any investments.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of billings for costs related to prisoners at the Heart of America Correctional and Treatment Center.

NOTE 4: INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due for expenses in the operation various welfare, road, and emergency management programs. These amounts consist of a mix of state and federal dollars.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 5: ROAD RECEIVABLES

Road department receivables of the primary government consist of amounts due for road work for townships and individuals.

NOTE 6: TAXES RECEIVABLE

Taxes receivable included in the deferred inflows of resources on the balance sheet represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

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

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

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

NOTE 7: CAPITAL ASSETS

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

Governmental Activities:	Balance 1-1-16	Increases	Decreases	Balance 12-31-16
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Construction in Progress	-	429,050	-	429,050
Total Capital Assets, Not Being Depreciated	\$ 11,500	\$ 429,050	\$ -	\$ 440,550
<i>Capital assets being depreciated:</i>				
Buildings	\$ 934,190	\$ -	\$ -	\$ 934,190
Equipment	2,019,045	345,681	281,006	2,083,720
Infrastructure	4,129,420	-	-	4,129,420
Total Capital Assets, Being Depreciated	\$ 7,082,655	\$ 345,681	\$ 281,006	\$ 7,147,330
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 269,890	\$ 11,386	\$ -	\$ 281,276
Equipment	1,092,976	307,901	275,695	1,125,182
Infrastructure	1,426,415	324,847	-	1,751,262
Total Accumulated Depreciation	\$ 2,789,281	\$ 644,134	\$ 275,695	\$ 3,157,720
Total Capital Assets Being Depreciated, Net	\$ 4,293,374	\$ (298,453)	\$ 5,311	\$ 3,989,610
Governmental Activities Capital Assets, Net	\$ 4,304,874	\$ 130,597	\$ 5,311	\$ 4,430,160

PIERCE COUNTY

Notes to the Financial Statements – Continued

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

Governmental Activities:	Amounts
General Government	\$ 8,789
Public Safety	16,673
Highways and Bridges	613,815
Health and Welfare	3,509
Conservation of Natural Resources	1,348
Total Depreciation Expense-Governmental Activities	\$ 644,134

Heart of America Correctional and Treatment Center

The following is a summary of changes in capital assets for the Heart of America Correctional and Treatment Center, a discretely presented component unit of Pierce County, for the year ended December 31, 2016:

Enterprise Activities:	Balance 1-1-16	Increases	Decreases	Balance 12-31-16
<i>Capital assets being depreciated:</i>				
Buildings	\$ 2,147,250	\$ -	\$ -	\$ 2,147,250
Equipment	149,186	-	-	149,186
Infrastructure	79,531	-	-	79,531
Total Capital Assets, Being Depreciated	\$ 2,375,967	\$ -	\$ -	\$ 2,375,967
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 302,300	\$ 44,390	\$ -	\$ 346,690
Equipment	78,321	22,402	-	100,723
Infrastructure	9,013	1,591	-	10,604
Total Accumulated Depreciation	\$ 389,634	\$ 68,383	\$ -	\$ 458,017
Total Capital Assets Being Depreciated, Net	\$ 1,986,333	\$ (68,383)	\$ -	\$ 1,917,950
<i>Governmental Activities Capital Assets, Net</i>	<i>\$ 1,986,333</i>	<i>\$ (68,383)</i>	<i>\$ -</i>	<i>\$ 1,917,950</i>

Depreciation expense totaling \$68,383 was charged to the Heart of America Correctional and Treatment Center.

NOTE 8: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions related to differences between actual & expected experience, changes of assumptions, net difference between projected and actual investment earnings, changes in proportion and differences between employer contributions and proportionate share of contributions, and employer contributions subsequent to the measurement date.

NOTE 9: ACCOUNTS PAYABLE

Accounts payable consists of a liability account reflecting amounts on open accounts owing to private persons or organizations for goods and services received prior to December 31, 2016.

NOTE 10: SALARIES PAYABLE

Salaries payable consists of a liability account reflecting amounts owing to employees for work provided on behalf of the county prior to December 31 of each year-end.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 11: GRANTS RECEIVED IN ADVANCE

Grants received in advance consist of funds received in the FEMA fund where the eligibility requirements have not been met at December 31, 2016.

NOTE 12: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long-term debt (bonds payable and leases payable) outstanding at December 31, 2016.

NOTE 13: LONG-TERM LIABILITIESPRIMARY GOVERNMENT:

Changes in Long-Term Liabilities - During the year ended December 31, 2016, the following changes occurred in long-term liabilities for Pierce County:

Governmental Activities:	Balance 1-1-16	Increases	Decreases	Balance 12-31-16	Due Within One Year
Special Assessments	\$ 57,753	\$ -	\$ 6,417	\$ 51,336	\$ 6,417
USDA Loans	61,665	-	10,869	50,796	3,961
Compensated Absences *	60,835	15,154	-	75,989	15,198
Net Pension Liability *	711,201	290,709	-	1,001,910	-
Total Governmental Activities	\$ 891,454	\$ 305,863	\$ 17,286	\$ 1,180,031	\$ 25,576

Business-Type Activities:	Balance 1-1-16	Increases	Decreases	Balance 12-31-16	Due Within One Year
Special Assessments	\$ 7,882	\$ -	\$ 876	\$ 7,006	\$ 876
Compensated Absences *	60,824	6,181	-	67,005	13,401
Net Pension Liability *	801,305	506,172	-	1,307,477	-
Total Governmental Activities	\$ 870,011	\$ 512,353	\$ 876	\$ 1,381,488	\$ 14,277

* The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Outstanding debt (excluding compensated absences and net pension liability) at December 31, 2016 consists of the following issues:

Governmental Activities:**Special Assessments on County Property:**

Special assessments on several parcels of property at various locations throughout the County. \$ 51,336

Loans Payable:

\$99,463 Loan Payable for library elevator project, due in monthly installments of \$7,000 through December 31, 2032; interest at 3.50%. 50,796

Total Long-Term Debt (excluding compensated absences) \$102,132

PIERCE COUNTY

Notes to the Financial Statements – Continued

Business-Type Activities:**Special Assessments on HATC Property:**

Special assessments on several parcels of property at various locations throughout the County.

\$7,006

The annual requirements to amortize the outstanding debt, excluding compensated absences, are as follows:

GOVERNMENTAL ACTIVITIES				
Year Ending Dec 31	Special Assessments		Loan Payable	
	Principal	Interest	Principal	Interest
2017	\$ 6,417	\$ 2,053	\$ 3,961	\$ 1,886
2018	6,417	1,797	4,100	1,742
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 - 2026	19,251	1,540	25,227	3,816
2027 - 2031	-	-	4,328	202
Total	\$ 51,336	\$ 9,240	\$ 50,796	\$ 11,961

BUSINESS-TYPE ACTIVITIES		
Year Ending Dec 31	Special Assessments	
	Principal	Interest
2017	\$ 876	\$ 280
2018	876	245
2019	876	210
2020	876	175
2021	876	140
2022 - 2026	2,626	210
Total	\$ 7,006	\$ 1,260

NOTE 14: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the government wide financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts include the amount for pensions for net difference between projected and actual investment earnings, and changes of assumptions. See more detail in Note 17.

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes, road receivables, and the amount for taxes paid in advance in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes are measurable but not available. Taxes paid in advance in the deferred inflows of resources in the government wide statement of net position consist of prepaid taxes collected prior to December 31, 2016 but not earned until January 2017 when they are properly apportioned.

NOTE 15: RETAINAGES PAYABLE

Retainages payable is reported at the government wide level for amounts withheld from construction projects until they are satisfactorily completed.

PIERCE COUNTY

Notes to the Financial Statements – Continued

NOTE 16: TRANSFERS

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

	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ 414,707	\$ 41,583
Road and Bridge	400,000	-
Highway Distribution	-	400,000
Road Districts	33,704	5,537
County Poor Relief	26,242	450,000
Nonmajor Special Revenue Funds		
Social Services	450,000	-
Emergency Poor	-	26,242
Social Security	-	264,533
Health Insurance	-	30,203
Law Enforcement Center	-	103,030
E911 Wireless	-	15,000
E 911 System	17,310	-
Community Service	4,000	-
County Park	-	16,909
Sheriff's Grant	106	-
Insurance Reserve	-	32
Library Proj. Elevator	7,000	-
Total Transfers	\$ 1,353,069	\$ 1,353,069

Transfers are used to move unrestricted general revenue to finance programs that the county accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 17: PENSION PLAN**General Information about the Pension Plan*****North Dakota Public Employees Retirement System (Main System)***

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no 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 after January 1, 2016 the Rule of 85 will be replaced with a rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

PIERCE COUNTY

Notes to the Financial Statements – Continued

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 12/31/2016, the Employer reported a liability of \$2,309,387 for its proportionate share of the net pension liability. The net pension liability was measured as of 6/30/2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer’s proportion of the net pension liability was based on the Employer’s share of covered payroll in the main system pension plan relative to the covered payroll of all participating Main System employers. At 6/30/2016, the Employer’s proportion was .236958 percent, which was an increase of .014525 percent from its proportion measured as of 6/30/2015.

For the year ended 12/31/2016, the Employer recognized pension expense of \$350,652. At 12/31/2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,692	\$ 21,383
Changes of assumptions	212,896	114,730
Net difference between projected and actual earnings of pension plan investments	322,192	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	190,709	-
Employer contributions subsequent to the measurement date	141,141	-
Total	\$ 901,630	\$ 136,113

\$141,141 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 12/31/2017.

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

2017	\$ 122,290
2018	122,290
2019	192,575
2020	138,770
2021	48,451
Thereafter	-

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

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

PIERCE COUNTY

Notes to the Financial Statements – Continued

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

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

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

PIERCE COUNTY

Notes to the Financial Statements – Continued

	Decrease (7%)	Current Discount Rate (8%)	Increase (9%)
Employer's Proportionate Share of the Net Pension Liability	\$ 3,275,820	\$ 2,309,387	\$ 1,495,116

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

NOTE 18: RISK MANAGEMENT

Pierce 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 two million dollars per occurrence. Public Assets coverage is limited to \$2,020,515.

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 one 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.

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

NOTE 19: JOINT VENTURESLake 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.

Unaudited summary financial information for the year ended December 31, 2016 is as follows:

	Lake Region District Health Unit
Cash and Investments	\$ 1,044,488
Total Revenues	\$ 1,728,473
Total Expenses	1,766,468
Net Change in Position	\$ (37,995)

PIERCE COUNTY

Notes to the Financial Statements – Continued

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, 2016 is as follows:

	Heart of America Library
Cash and Investments	\$ 231,587
Total Revenues	\$ 177,515
Total Expenses	187,156
Net Change in Position	\$ (9,641)

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.

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
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

Notes to the Financial Statements – Continued

NOTE 20: CONSTRUCTION COMMITMENTS

Pierce County had the following open construction commitments as of December 31, 2016 as follows:

Project	Contract Amount	Change Orders	Amended Contract	Total Completed	Retainage	Remaining Balance
CNOB-3521 (060) HBP & Bituminous Chip Seal	\$ 468,861	\$ 254,214	\$ 723,075	\$ 429,050	\$ 8,581	\$ 302,606

NOTE 21: TAX ABATEMENTS

Pierce County and political subdivisions within the county are able to negotiate property tax abatement agreements with individuals and various commercial entities/businesses. Pierce County and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at December 31, 2016.

Pierce County will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs.

New and Expanding Business:

Businesses that are primarily industrial, commercial, retail or service are eligible for property tax incentives for new and expanding businesses if they meet state requirements (NDCC 40.57.1) and the guidelines stated below. The following criteria are only guidelines.

General criteria — In evaluation applications for property tax exemption, the Rugby Job Development Authority Board of Directors will consider the following factors:

- Economic impact through increased construction activity, equipment purchases, additional product purchases, additional work activity, immediate and projected increases in property values, and impact on future tax collections.
- Number of jobs created and employee benefits (types of jobs — professional, managerial, technical, skilled, unskilled with emphasis on full-time positions)
- Diversification of economic base
- Growth potential of company and industry and potential spin-off benefits
- Impact on city services: Can the company be accommodated within existing service levels, or will additional capacity be needed? Is the company locating where better use of existing services will take place or further the development plans of the City?
- Utilization of local resources: Will the company be an exporter from our region? Will it provide support services to existing companies? Use of raw materials and services developed in the area

Exemption Criteria:

Amount of exemption will be according to the following schedule: Year 1 — 100%, Year 2 — 100%, Year 3 — 75%, Year 4 — 50%, Year 5 — 25%.

Annual reports — By February 15 of each year, the recipient of the exemption will file an annual employment verification report with the Rugby Job Development Authority. A qualified project may receive up to 100% exemption in each of years 3, 4 and 5 provided that at the end of year two at least one full-time job has been created for every \$250,000 of the building's true and full value subject to the tax exemption. Jobs must be maintained in years 3, 4, and 5.

2016 Reduction in Taxes:

Total County Only Taxes - \$15,516

Total All Taxes – \$57,702

20% Individually Stated:

Farmers Union Elevator – \$11,888 (county taxes) and \$44,211 (all taxes)

Single Family Residence:

Single Family property owners are eligible for property tax incentives for the specified property that meet state requirements (NDCC 57-02-08(35)).

General Criteria -- Up to one hundred fifty thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time if all of the following conditions are met:

- a. The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of the property by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed.
- b. Special assessments and taxes on the property upon which the residence is situated are not delinquent.

2016 Reduction in Taxes:

Total County Only Taxes – \$1,065

Total All Taxes – \$3,959

Builder of New Family Residence:

Builder of New Single Family properties are eligible for property tax incentives for the specified property that meet state requirements (NDCC 57-02-08(42)).

New single-family residential property, exclusive of the land on which it is situated, is exempt from assessment for the taxable year in which construction began and the next two taxable years, if the property remains owned by the builder, remains unoccupied, and all of the following conditions are met:

- (1) The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of property under this subsection by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed.
- (2) Special assessments and taxes on the property upon which the residence is situated are not delinquent.

2016 Reduction in Taxes:

Total County Only Taxes – \$355

Total All Taxes – \$1,320

Renaissance Zone:

Under authority of the Renaissance Zone Act created by the North Dakota State Legislature as outlined in NDCC Chapter 40-63, any taxpaying entity in good standing with the State and the City may be eligible for tax incentives when they:

- Construct a new building within the Zone;
- Rehabilitate a building in the Zone;
- Buy a building or primary residence in the Zone and make significant improvements;
- Lease space in the Zone for a new or expanding business;
- Continue a lease in a building being rehabilitated as a Zone project;

PIERCE COUNTY

Notes to the Financial Statements – Continued

The minimum level of investment to qualify as a Renaissance Zone Project varies based on the type of project. Designation as a Renaissance Zone Project is necessary to be eligible for any incentives. Potential projects must be approved by the Renaissance Zone Authority, City Council and the North Dakota Department of Commerce/Division of Community Services prior to any work being completed or any lease signed.

Incentives are in the form of 5-year property tax exemptions, 5-year state income tax exemptions, and historic tax credits. The tax abatements are offered primarily to stimulate new home and business construction, and to stimulate home and business improvements within city limits.

Current Residential Property: If the owner makes all necessary improvements to eliminate poor conditions and meets the greater of: 20% of true and full value prior to improvements OR \$20,000 of capital investment, then the city *may offer* a 5-year property tax exemption on improvements only.

New Residential Property: a 5-year declining partial property tax exemption may be offered. However, if the owner opts for the standard 2-year property tax exemption on the first \$150,000 value of the home, then there is no zone project.

New Commercial Construction or Additions: A 5-year declining partial property tax exemption *may* be offered if there is a minimum investment of \$20 per square foot in capital improvements.

Current Commercial Property: Property owner must make capital improvements equal to the greater of: 50% of true and full value prior to improvements, or \$10,000 in capital investment. The City *may offer* a 100% tax exemption for 5 years on the improvements only.

2016 Reduction in Taxes:

Total County Only Taxes – \$380

Total All Taxes – \$1,413

PIERCE COUNTY
Rugby, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 1,459,490	\$ 1,459,490	\$ 1,442,994	\$ (16,496)
Intergovernmental	666,424	666,424	528,403	(138,021)
Licenses, permits and fees	3,450	3,450	3,450	-
Charges for services	42,000	42,000	38,149	(3,851)
Interest income	15,000	15,000	14,706	(294)
Miscellaneous	121,315	121,315	105,154	(16,161)
Total Revenues	\$ 2,307,679	\$ 2,307,679	\$ 2,132,856	\$ (174,823)
<u>Expenditures:</u>				
Current:				
General government	\$ 1,259,145	\$ 1,259,145	\$ 1,009,198	\$ 249,947
Public safety	698,768	698,768	545,681	153,087
Health and welfare	24,000	24,000	22,516	1,484
Conservation of natural resources	1,100	1,100	700	400
Other	98,708	98,708	54,144	44,564
Debt Service:				
Principal	-	-	5,976	(5,976)
Interest	-	-	2,530	(2,530)
Total Expenditures	\$ 2,081,721	\$ 2,081,721	\$ 1,640,745	\$ 440,976
Excess (Deficiency) of Revenues Over Expenditures	\$ 225,958	\$ 225,958	\$ 492,111	\$ 266,153
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 414,707	\$ 414,707
Transfers out	-	-	(41,583)	(41,583)
Net Change in Fund Balances	\$ 225,958	\$ 225,958	\$ 865,235	\$ 639,277
Fund Balances - January 1	\$ 348,681	\$ 348,681	\$ 348,681	\$ -
Fund Balances - December 31	\$ 574,639	\$ 574,639	\$ 1,213,916	\$ 639,277

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

PIERCE COUNTY
Rugby, North Dakota

BUDGETARY COMPARISON SCHEDULE
FARM TO MARKET ROAD FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 223,600	\$ 223,600	\$ 220,472	\$ (3,128)
Intergovernmental	1,681,970	1,681,970	1,984,657	302,687
Total Revenues	<u>\$ 1,905,570</u>	<u>\$ 1,905,570</u>	<u>\$ 2,205,129</u>	<u>\$ 299,559</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 1,795,782</u>	<u>\$ 2,190,584</u>	<u>\$ 2,190,584</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 109,788</u>	<u>\$ (285,014)</u>	<u>\$ 14,545</u>	<u>\$ 299,559</u>
Fund Balances - January 1	<u>\$ 868,399</u>	<u>\$ 868,399</u>	<u>\$ 868,399</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 978,187</u>	<u>\$ 583,385</u>	<u>\$ 882,944</u>	<u>\$ 299,559</u>

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

PIERCE COUNTY
Rugby, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX DISTRIBUTION FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 570,603	\$ 570,603	\$ 618,129	\$ 47,526
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 254,908	\$ 312,487	\$ 312,487	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 315,695	\$ 258,116	\$ 305,642	\$ 47,526
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ (600,000)	\$ (600,000)	\$ (400,000)	\$ 200,000
Net Change in Fund Balances	\$ (284,305)	\$ (341,884)	\$ (94,358)	\$ 247,526
Fund Balances - January 1	\$ 1,249,206	\$ 1,249,206	\$ 1,249,206	\$ -
Fund Balances - December 31	\$ 964,901	\$ 907,322	\$ 1,154,848	\$ 247,526

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

PIERCE COUNTY
Rugby, North Dakota

BUDGETARY COMPARISON SCHEDULE
FEMA FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 194,562	\$ 194,562
<u>Expenditures:</u>				
Current:				
Flood repair	\$ -	\$ 226,604	\$ 226,604	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (226,604)	\$ (32,042)	\$ 194,562
Fund Balances - January 1	\$ 47,769	\$ 47,769	\$ 47,769	\$ -
Fund Balances - December 31	\$ 47,769	\$ (178,835)	\$ 15,727	\$ 194,562

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

PIERCE COUNTY
Rugby, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY POOR RELIEF FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 243,366	\$ 243,366	\$ 244,155	\$ 789
Intergovernmental	50,636	50,636	38,563	(12,073)
Total Revenues	<u>\$ 294,002</u>	<u>\$ 294,002</u>	<u>\$ 282,718</u>	<u>\$ (11,284)</u>
<u>Expenditures:</u>				
	\$ -	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 294,002</u>	<u>\$ 294,002</u>	<u>\$ 282,718</u>	<u>\$ (11,284)</u>
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 26,242	\$ 26,242
Transfers out	(266,725)	(266,725)	(450,000)	(183,275)
Total other financing sources (uses)	<u>\$ (266,725)</u>	<u>\$ (266,725)</u>	<u>\$ (423,758)</u>	<u>\$ (157,033)</u>
Net Change in Fund Balances	<u>\$ 27,277</u>	<u>\$ 27,277</u>	<u>\$ (141,040)</u>	<u>\$ (168,317)</u>
Fund Balances - January 1	<u>\$ 516,234</u>	<u>\$ 516,234</u>	<u>\$ 516,234</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 543,511</u>	<u>\$ 543,511</u>	<u>\$ 375,194</u>	<u>\$ (168,317)</u>

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

PIERCE COUNTY
Rugby, North Dakota

PENSION SCHEDULES
For the Year Ended December 31, 2016

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

	2016	2015	2014
District's proportion of the net pension liability (asset)	0.236958%	0.222433%	0.200929%
District's proportionate share of the net pension liability (asset)	\$ 2,309,387	\$ 1,512,506	\$ 1,275,339
District's covered-employee payroll	\$ 2,387,981	\$ 1,981,611	\$ 1,692,589
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

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

	2016	2015	2014
Statutorily required contribution	\$ 170,024	\$ 141,091	\$ 120,512
Contributions in relation to the statutorily required contribution	\$ (170,024)	\$ (141,091)	\$ (120,512)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 2,387,981	\$ 1,981,611	\$ 1,692,589
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%

*Complete data for this schedule is not available prior to 2014.

PIERCE COUNTY
Rugby, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board of county commissioners amended the county budget for 2016 as follows:

	EXPENDITURES		
	Original Budget	Budget Amendment	Amended Budget
<u>Governmental Activities</u>			
<u>Major Funds:</u>			
Farm to Market	\$ 1,795,782	\$ 394,802	\$ 2,190,584
Highway Tax	254,908	57,579	312,487
FEMA	-	226,604	226,604
<u>Nonmajor Special Revenue Funds</u>			
Veteran's Service Control	7,016	351	7,367
Road Districts	229,475	204,868	434,343
Weed Control	160,371	6,010	166,381
E911	45,067	2,214	47,281
Sheriff's Grant	-	2,212	2,212
State Grant	-	17,848	17,848
<u>Business-Type Activities</u>			
HACTC	2,777,525	31,877	2,809,402

PIERCE COUNTY

Notes to the Required Supplementary Information – Continued

NOTE 3: PENSIONS - CHANGES OF ASSUMPTIONS

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

PIERCE COUNTY
Rugby, North Dakota

SCHEDULE OF FUND ACTIVITY
CLIENT BASIS
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Funds:						
General Fund	\$ 302,439.63	\$ 2,096,121.93	\$ 414,706.63	\$ 41,582.95	\$ 1,630,835.39	\$ 1,140,849.85
Farm to Market	861,298.93	2,111,155.19	-	-	2,190,583.59	781,870.53
Highway Distribution	1,188,745.94	503,938.01	-	400,000.00	312,487.14	980,196.81
FEMA	185,996.57	169,650.08	-	-	226,603.56	129,043.09
County Poor Relief	508,507.74	281,998.04	26,241.89	450,000.00	-	366,747.67
Total Major Funds	\$3,046,988.81	\$ 5,162,863.25	\$ 440,948.52	\$ 891,582.95	\$ 4,360,509.68	\$ 3,398,707.95
Nonmajor Funds:						
Special Revenue Funds:						
Road and Bridge	\$ 95,888.24	\$ 229,883.48	\$ 400,000.00	\$ -	\$ 616,968.71	\$ 108,803.01
Road Districts	287,516.82	517,781.52	33,704.51	5,537.26	407,199.90	426,265.69
Social Services	137,212.47	120,089.42	450,000.00	-	614,837.29	92,464.60
Emergency Poor	26,241.89	-	-	26,241.89	-	-
Emergency Fund	153,574.68	60,220.79	-	-	-	213,795.47
Veterans Service Officer	6,030.31	5,852.34	-	-	7,367.45	4,515.20
Social Security	264,532.82	-	-	264,532.82	-	-
Health Insurance	30,203.32	-	-	30,203.32	-	-
County Agent	70,738.97	55,861.48	-	-	54,394.56	72,205.89
Weed Control	147,989.23	160,612.93	-	-	166,380.97	142,221.19
Law Enforcement Center	103,030.32	-	-	103,030.32	-	-
E911 Wireless	34,693.62	32,620.54	-	15,000.00	5,957.66	46,356.50
E 911 System	16,414.52	20,706.15	17,310.00	-	47,281.39	7,149.28
Community Service	60,578.58	61,241.00	4,000.00	-	61,055.40	64,764.18
County Park	16,908.80	-	-	16,908.80	-	-
Sheriff's Grant	3.72	1,780.00	105.70	-	2,212.26	(322.84)
Insurance Reserve	31.37	-	-	31.37	-	-
State Grant	-	17,847.97	-	-	17,847.97	-
Library Proj. Elevator	0.02	6,000.00	7,000.00	-	13,000.00	0.02
Total Nonmajor Funds	\$1,451,589.70	\$ 1,290,497.62	\$ 912,120.21	\$ 461,485.78	\$ 2,014,503.56	\$ 1,178,218.19
Total Governmental Funds	\$4,498,578.51	\$ 6,453,360.87	\$ 1,353,068.73	\$ 1,353,068.73	\$ 6,375,013.24	\$ 4,576,926.14
Enterprise Fund:						
HACTC Facility	\$ 727,482.33	\$ 2,913,707.12	\$ -	\$ -	\$ 2,809,402.14	\$ 831,787.31
Total Primary Government	\$5,226,060.84	\$ 9,367,067.99	\$ 1,353,068.73	\$ 1,353,068.73	\$ 9,184,415.38	\$ 5,408,713.45
Agency Funds:						
Payroll Deduction	\$ 5,777.70	\$ 25,476.15	\$ -	\$ -	\$ 24,623.88	\$ 6,629.97
Senior Citizens	136.88	54,964.12	-	-	53,214.15	1,886.85
Job Development	0.34	-	-	-	-	0.34
State Medical Center	126.86	28,172.28	-	-	28,173.23	125.91
Mobile Homes	2,489.07	18,871.48	-	-	19,812.54	1,548.01
Advance Tax	7,723.48	33,648.34	-	-	21,427.05	19,944.77
Abused Persons	-	805.00	-	-	770.00	35.00
Game & Fish	1,407.00	13,021.50	-	-	14,428.50	-
NDSU Extension Activity	1,005.59	5,057.25	-	-	4,789.08	1,273.76
NDSU Pesticide	268.54	5.00	-	-	259.63	13.91
Preservation Fund	15,886.79	6,933.50	-	-	7,246.98	15,573.31
Ambulance	257.40	56,083.75	-	-	56,131.98	209.17
County/City Library	417.01	110,420.44	-	-	110,491.64	345.81
Garrison Diversion	126.86	30,969.74	-	-	30,970.69	125.91
Health District Fund	457.61	114,516.75	-	-	102,673.53	12,300.83
Historical Society	67.32	23,167.91	-	-	23,148.58	86.65
Soil Conservation	205.42	39,727.63	-	-	39,744.20	188.85
Commissary Funds	74,983.07	602,839.50	-	-	601,372.82	76,449.75
Total Cities	4,571.94	934,800.82	-	-	935,263.03	4,109.73
Total City Park Districts	658.21	115,163.87	-	-	115,231.66	590.42
Total School Districts	13,988.23	3,086,069.41	-	-	3,085,831.56	14,226.08
Total Townships	783.74	401,106.54	-	-	401,348.02	542.26
Total Water District	160.38	50,576.58	-	-	50,570.62	166.34
Total Fire Districts	329.54	80,675.59	-	-	80,698.81	306.32
Total Agency Funds	\$ 131,828.98	\$ 5,833,073.15	\$ -	\$ -	\$ 5,808,222.18	\$ 156,679.95
Total Primary Government	\$5,357,889.82	\$ 15,200,141.14	\$ 1,353,068.73	\$ 1,353,068.73	\$ 14,992,637.56	\$ 5,565,393.40

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OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

**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
Rugby, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pierce County as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Pierce County's basic financial statements, and have issued our report thereon dated March 6, 2017.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2016-001].

Compliance and Other Matters

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, 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

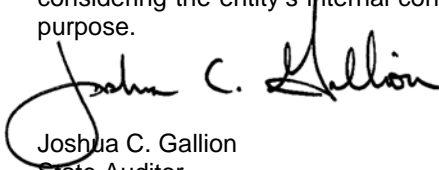
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Pierce County's Response to Findings

Pierce County's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. 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 result 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.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 6, 2017

PIERCE COUNTY
Rugby, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

Material weaknesses identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes

Noncompliance material to financial statements noted? Yes X No

Section II – Financial Statement Findings

2016-001 – LACK OF SEGREGATION OF DUTIES – COUNTY

Condition:

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 journals, maintain the general ledger, and perform bank reconciliations.

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.

Cause:

Due to the client's size, complexity, organizational structure and the economic realities the County faces, it is presently not economically feasible to have additional staff for the offices at Pierce County.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that 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.

PIERCE COUNTY

Schedule of Findings and Questioned Costs – Continued

Recommendation:

Due to the size, complexity and the economic realities of Pierce County, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

Views of Responsible Officials / Planned Corrective Actions:

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 AUDITOR

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Board of County Commissioners
Pierce County
Rugby, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Pierce County, Rugby, North Dakota, for the year ended December 31, 2016 which collectively comprise the County’s basic financial statements, and have issued our report thereon dated March 6, 2017. 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

As stated in our engagement letter dated January 23, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the 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 opinions on the financial statements and not to provide an opinion on the effectiveness of 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 grants 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, 2016. 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. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 March 6, 2017.

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:

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 WRD financial condition, whether due to error or fraud.

PIERCE COUNTY

Management's Letter - Continued

This information is intended solely for the use of the Board of County Commissioners and management of Pierce County, 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.

A handwritten signature in black ink that reads "Joshua C. Gallion". The signature is written in a cursive style with a large initial 'J'.

Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 6, 2017

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