



Towner County

Cando, North Dakota

Audit Report

For the Years Ended December 31, 2016 and 2015

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

TOWNER COUNTY
Cando, North Dakota

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TOWNER COUNTY
Cando, North Dakota

COUNTY OFFICIALS

December 31, 2016

Doug Berg
David Lagein
Scott Boe
Ken Teubner
Mike Weisz

Chairman
Vice-chairman
Commissioner
Commissioner
Commissioner

Joni Morlock
Joni Morlock
Wayne Lingen
Jolene Hoffert
Jolene Hoffert
Dustin Kuchar
Robert Ackre

County Auditor
County Treasurer
Superintendent of Schools
Register of Deeds
Clerk of Court
Sheriff
State's Attorney

December 31, 2015

Doug Berg
Mike Weisz
Scott Boe
Ken Teubner
David Lagein

Chairman
Vice-chairman
Commissioner
Commissioner
Commissioner

Joni Morlock
Joni Morlock
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Robert Ackre

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County Treasurer
Superintendent of Schools
Register of Deeds
Clerk of Court
Sheriff
State's Attorney



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
Towner County
Cando, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, Cando, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, Cando, North Dakota, as of December 31, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

TOWNER COUNTY

Independent Auditor's Report - Continued

Emphasis of a Matter

As discussed in Note 19 to the financial statements, Towner County adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

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 the notes to the required supplementary information* on pages 35-50 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 Towner County's basic financial statements. The *schedule of fund activity arising from cash transactions* are presented for purposes of additional analysis and are not a required part of the 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 and the schedule of expenditures of federal awards* are 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 November 7, 2017 on our consideration of Towner 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 Towner County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 7, 2017

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF NET POSITION
December 31, 2016

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Health District
ASSETS			
Cash and investments	\$ 3,875,124	\$ 448,371	\$ 138,114
Accounts receivable	65,968	-	443
Intergovernmental receivable	491,814	-	4,878
Road receivables	58,024	-	-
Taxes receivable	42,326	3,666	1,105
Capital Assets Not Being Depreciated:			
Land	12,250	-	-
Capital Assets (net of accumulated depreciation):			
Buildings	30,544	-	-
Equipment and vehicles	1,422,479	-	-
Small equipment	7,115	-	-
Infrastructure	5,201,508	-	-
Total Capital Assets	<u>\$ 6,673,896</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets	<u>\$ 11,207,152</u>	<u>\$ 452,037</u>	<u>\$ 144,540</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Items	<u>\$ 318,861</u>	<u>\$ -</u>	<u>\$ 16,297</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 11,526,013</u>	<u>\$ 452,037</u>	<u>\$ 160,837</u>
LIABILITIES			
Accounts payable	\$ 132,574	\$ -	\$ -
Salaries payable	32,886	-	-
Grants received in advance	56,091	-	-
Interest payable	4,815	-	-
Long-Term Liabilities:			
Due Within One Year:			
Capital leases payable	124,112	-	-
Compensated absences payable	2,655	-	513
Due After One Year:			
Capital leases payable	280,397	-	-
Compensated absences payable	23,901	-	4,614
Net pension liability	<u>994,216</u>	<u>-</u>	<u>56,078</u>
Total Liabilities	<u>\$ 1,651,647</u>	<u>\$ -</u>	<u>\$ 61,205</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes received in advance	\$ 542,199	\$ -	\$ -
Pension items	<u>58,599</u>	<u>-</u>	<u>6,906</u>
Total Deferred Inflows of Resources	<u>\$ 600,798</u>	<u>\$ -</u>	<u>\$ 6,906</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 2,252,445</u>	<u>\$ -</u>	<u>\$ 68,111</u>
NET POSITION			
Net Investment in Capital Assets	\$ 6,269,387	\$ -	\$ -
Restricted for:			
Highways	1,693,596	-	-
Flood repair	61,082	-	-
Health and welfare	47,144	-	92,726
Conservation of natural resources	117,071	452,037	-
Economic development	1	-	-
Emergencies	355,256	-	-
Unrestricted	<u>730,031</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>\$ 9,273,568</u>	<u>\$ 452,037</u>	<u>\$ 92,726</u>

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

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary Government	Component Units		
					Governmental Activities	Water Resource District	Health District	
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General government	\$ 1,154,073	\$ 37,361	\$ -	\$ -	\$ (1,116,712)			
Public safety	538,136	172,196	31,086	-	(334,854)			
Highways and bridges	2,643,079	350,297	1,772,003	8,500	(512,279)			
Flood repair	17,828	-	145,821	-	127,993			
Health and welfare	230,918	3,078	-	-	(227,840)			
Culture and recreation	10,217	-	-	-	(10,217)			
Conserv. of natural resources	76,515	-	56,425	-	(20,090)			
Economic development	8,000	-	-	-	(8,000)			
Interest & fiscal charges on long-term debt	11,223	-	-	-	(11,223)			
Total Governmental Activities	<u>\$ 4,689,989</u>	<u>\$ 562,932</u>	<u>\$ 2,005,335</u>	<u>\$ 8,500</u>	<u>\$ (2,113,222)</u>			
<u>Component Units:</u>								
Water resource district	\$ 45,157	\$ -	\$ -	\$ -	\$ -	\$ (45,157)	\$ -	
Health district	224,081	62,080	63,353	-	-	-	(98,648)	
Total Component Units	<u>\$ 269,238</u>	<u>\$ 62,080</u>	<u>\$ 63,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (45,157)</u>	<u>\$ (98,648)</u>	
<u>General Revenues:</u>								
Taxes:								
Property taxes; levied for general purposes					\$ 878,318	\$ 106,193	\$ 53,465	
Property taxes; levied for special purposes					1,042,266	-	-	
State Grants/Aid - Unrestricted					384,422	-	-	
Other Unrestricted Grant Income					13,364	-	-	
Unrestricted Investment Earnings					9,114	806	22	
Miscellaneous Revenue					81,936	-	-	
Total General Revenues					<u>\$ 2,409,420</u>	<u>\$ 106,999</u>	<u>\$ 53,487</u>	
Change in Net Position					<u>\$ 296,198</u>	<u>\$ 61,842</u>	<u>\$ (45,161)</u>	
Net Position - January 1					<u>\$ 8,977,370</u>	<u>\$ 390,195</u>	<u>\$ 137,887</u>	
Net Position - December 31					<u>\$ 9,273,568</u>	<u>\$ 452,037</u>	<u>\$ 92,726</u>	

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

TOWNER COUNTY
Cando, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2016

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	FEMA	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED								
OUTFLOWS OF RESOURCES								
Assets:								
Cash and investments	\$ 1,635,394	\$ 586,401	\$ 598,069	\$ 367,349	\$ 131,281	\$ 56,091	\$ 500,539	\$ 3,875,124
Accounts receivable	11,631	-	54,337	-	-	-	-	65,968
Intergovernmental receivable	94,684	290,238	-	29,350	-	61,082	16,460	491,814
Road receivables	-	-	58,024	-	-	-	-	58,024
Taxes receivable	19,469	6,444	6,375	-	5,395	-	4,643	42,326
Due from other funds	756	-	-	-	-	-	-	756
Total Assets	\$ 1,761,934	\$ 883,083	\$ 716,805	\$ 396,699	\$ 136,676	\$ 117,173	\$ 521,642	\$ 4,534,012
LIABILITIES, DEFERRED INFLOWS OF								
RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ -	\$ 10,025	\$ 74,410	\$ 25,420	\$ 22,719	\$ -	\$ -	\$ 132,574
Salaries payable	18,967	-	13,919	-	-	-	-	32,886
Grants received in advance	-	-	-	-	-	56,091	-	56,091
Due to other funds	-	-	-	-	-	-	756	756
Total Liabilities	\$ 18,967	\$ 10,025	\$ 88,329	\$ 25,420	\$ 22,719	\$ 56,091	\$ 756	\$ 222,307
Deferred Inflows of Resources:								
Taxes receivable	\$ 19,469	\$ 6,444	\$ 6,375	\$ -	\$ 5,395	\$ -	\$ 4,643	\$ 42,326
Road receivables	-	-	58,024	-	-	-	-	58,024
Taxes received in advance	272,484	78,386	79,859	-	66,030	-	45,440	542,199
Total Deferred Inflows of Resources	\$ 291,953	\$ 84,830	\$ 144,258	\$ -	\$ 71,425	\$ -	\$ 50,083	\$ 642,549
Total Liabilities and Deferred Inflows of Resources	\$ 310,920	\$ 94,855	\$ 232,587	\$ 25,420	\$ 94,144	\$ 56,091	\$ 50,839	\$ 864,856
Fund Balances:								
Restricted:								
Highways and bridges	\$ -	\$ 788,228	\$ 484,218	\$ 371,279	\$ -	\$ -	\$ -	\$ 1,643,725
Flood repair	-	-	-	-	-	61,082	-	61,082
Health and welfare	-	-	-	-	42,532	-	2,681	45,213
Conservation of natural resources	-	-	-	-	-	-	113,939	113,939
Emergency	-	-	-	-	-	-	354,182	354,182
Economic development	-	-	-	-	-	-	1	1
Unassigned	1,451,014	-	-	-	-	-	-	1,451,014
Total Fund Balances	\$ 1,451,014	\$ 788,228	\$ 484,218	\$ 371,279	\$ 42,532	\$ 61,082	\$ 470,803	\$ 3,669,156
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,761,934	\$ 883,083	\$ 716,805	\$ 396,699	\$ 136,676	\$ 117,173	\$ 521,642	\$ 4,534,012

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

TOWNER COUNTY
Cando, North Dakota

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

Total *Fund Balances* for Governmental Funds \$ 3,669,156

Total *net position* reported for government activities in the statement of net assets 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	\$ 9,108,310	
Less Accumulated Depreciation	<u>(2,434,414)</u>	6,673,896

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

Property Taxes Receivable	\$ 42,326	
Road Department Accounts Receivable	<u>58,024</u>	100,350

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	\$ 318,861	
Deferred Inflows Related to Pensions	<u>(58,599)</u>	260,262

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:

Capital Leases	\$ (404,509)	
Interest Payable	(4,815)	
Compensated Absences	(26,556)	
Net Pension Liability	<u>(994,216)</u>	<u>(1,430,096)</u>

Total Net Position of Governmental Activities		<u>\$ 9,273,568</u>
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The notes to the financial statements are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

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

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	FEMA	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 883,541	\$ 293,008	\$ 289,319	\$ -	\$ 239,994	\$ -	\$ 226,720	\$ 1,932,582
Intergovernmental	428,872	1,465,361	-	306,642	-	145,821	56,425	2,403,121
Licenses, permits and fees	2,690	-	-	-	-	-	-	2,690
Charges for services	207,985	-	347,383	-	-	-	-	555,368
Fines and forfeitures	1,960	-	-	-	-	-	-	1,960
Interest income	8,404	710	-	-	-	-	-	9,114
Miscellaneous	28,231	-	18,702	-	-	-	35,003	81,936
Total Revenues	\$ 1,561,683	\$ 1,759,079	\$ 655,404	\$ 306,642	\$ 239,994	\$ 145,821	\$ 318,148	\$ 4,986,771
Expenditures:								
Current:								
General government	\$ 1,032,362	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,067	\$ 1,125,429
Public safety	466,582	-	-	-	-	-	41,949	508,531
Highways and bridges	-	1,275,790	933,932	457,736	-	-	-	2,667,458
Flood repair	-	-	-	-	-	17,828	-	17,828
Health and welfare	6,578	-	-	-	223,471	-	-	230,049
Culture and recreation	10,217	-	-	-	-	-	-	10,217
Conserv. of natural resources	-	-	-	-	-	-	73,343	73,343
Economic development	8,000	-	-	-	-	-	-	8,000
Debt Service:								
Principal	-	-	-	219,380	-	-	-	219,380
Interest and fees	-	-	-	10,360	-	-	-	10,360
Total Expenditures	\$ 1,523,739	\$ 1,275,790	\$ 933,932	\$ 687,476	\$ 223,471	\$ 17,828	\$ 208,359	\$ 4,870,595
Excess (Deficiency) of Revenues Over Expenditures	\$ 37,944	\$ 483,289	\$ (278,528)	\$ (380,834)	\$ 16,523	\$ 127,993	\$ 109,789	\$ 116,176
Other Financing Sources (Uses):								
Transfers in	\$ 41,711	\$ -	\$ 100,299	\$ -	\$ -	\$ -	\$ -	\$ 142,010
Lease proceeds	-	-	-	249,904	-	-	-	249,904
Transfers out	-	(100,299)	-	-	-	-	(41,711)	(142,010)
Total Other Financing Sources and Uses	\$ 41,711	\$ (100,299)	\$ 100,299	\$ 249,904	\$ -	\$ -	\$ (41,711)	\$ 249,904
Net Change in Fund Balances	\$ 79,655	\$ 382,990	\$ (178,229)	\$ (130,930)	\$ 16,523	\$ 127,993	\$ 68,078	\$ 366,080
Fund Balances - January 1	\$ 1,371,359	\$ 405,238	\$ 662,447	\$ 502,209	\$ 26,009	\$ (66,911)	\$ 402,725	\$ 3,303,076
Fund Balances - December 31	\$ 1,451,014	\$ 788,228	\$ 484,218	\$ 371,279	\$ 42,532	\$ 61,082	\$ 470,803	\$ 3,669,156

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

TOWNER COUNTY
Cando, 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 *Fund Balances* - Total Governmental Funds \$ 366,080

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital contribution and capital outlay in the current year.

Current Year Capital Outlay	\$ 415,985	
Capital Contribution	8,500	
Current Year Depreciation Expense	<u>(401,432)</u>	23,053

The net effect of miscellaneous transactions involving capital assets is to decrease net capital assets. (13,050)

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 by which debt issuance exceeded debt repayment.

Repayment of Debt - Lease	\$ 219,380	
Lease Issuance	<u>(249,904)</u>	(30,524)

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.

Net Change in Compensated Absences	\$ (1,622)	
Net Change in Retainages Payable	26,838	
Net Change in Interest Payable	<u>(863)</u>	24,353

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.

Net Change in Net Pension Liability	\$ (332,389)	
Net Change in Deferred Outflows of Resources	252,607	
Net Change in Deferred Inflows of Resources	<u>15,152</u>	(64,630)

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. This consists of the changes in taxes receivable and road receivables.

Net Change in Taxes Receivable	\$ (11,998)	
Net Change in Road Department Receivables	<u>2,914</u>	<u>(9,084)</u>

Change in Net Position of Governmental Activities \$ 296,198

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

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF NET POSITION
December 31, 2015

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Health District
ASSETS			
Cash and investments	\$ 3,770,352	\$ 388,056	\$ 156,427
Intergovernmental receivable	167,518	-	29,839
Accounts receivable	27,742	-	485
Road receivables	55,111	-	-
Loan receivables	2,303	-	-
Taxes receivable	54,324	2,139	839
Capital Assets Not Being Depreciated:			
Land	12,250	-	-
Construction in progress	1,647,343	-	-
Capital Assets (net of accumulated depreciation):			
Buildings	31,771	-	-
Equipment and vehicles	1,309,269	-	-
Small equipment	11,883	-	-
Infrastructure	3,651,377	-	-
Total Capital Assets	<u>\$ 6,663,893</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets	<u>\$ 10,741,243</u>	<u>\$ 390,195</u>	<u>\$ 187,590</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Items	<u>\$ 66,254</u>	<u>\$ -</u>	<u>\$ 3,233</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 10,807,497</u>	<u>\$ 390,195</u>	<u>\$ 190,823</u>
LIABILITIES			
Accounts payable	\$ 89,093	\$ -	\$ -
Salaries payable	27,505	-	142
Grants received in advance	37,642	-	-
Retainage payable	26,838	-	-
Interest payable	3,952	-	-
Long-Term Liabilities:			
Due Within One Year:			
Capital leases payable	119,381	-	-
Compensated absences payable	2,493	-	496
Due After One Year:			
Capital leases payable	254,605	-	-
Compensated absences payable	22,441	-	4,467
Net pension liability	661,827	-	42,757
Total Liabilities	<u>\$ 1,245,777</u>	<u>\$ -</u>	<u>\$ 47,862</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes received in advance	\$ 510,599	\$ -	\$ -
Pension items	73,751	-	5,074
Total Deferred Inflows of Resources	<u>\$ 584,350</u>	<u>\$ -</u>	<u>\$ 5,074</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 1,830,127</u>	<u>\$ -</u>	<u>\$ 52,936</u>
NET POSITION			
Net Investment in Capital Assets	\$ 6,289,907	\$ -	\$ -
Restricted for:			
Highways	1,595,572	-	-
Health and welfare	36,967	-	137,887
Economic development	1	-	-
Conservation of natural resources	98,612	390,195	-
Emergencies	306,505	-	-
Unrestricted	649,806	-	-
Total Net Position	<u>\$ 8,977,370</u>	<u>\$ 390,195</u>	<u>\$ 137,887</u>

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

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary Government	Component Units	
					Governmental Activities	Water Resource District	Health District
<u>Primary Government:</u>							
<u>Governmental Activities:</u>							
General government	\$ 1,040,692	\$ 78,726	\$ -	\$ -	\$ (961,966)		
Public safety	365,608	29,759	33,245	-	(302,604)		
Highways and bridges	4,813,055	286,481	1,934,149	2,625,732	33,307		
Flood repair	237,499	-	195,428	-	(42,071)		
Health and welfare	278,153	2,792	-	-	(275,361)		
Culture and recreation	10,473	-	-	-	(10,473)		
Conserv. of natural resources	39,028	-	51,222	-	12,194		
Interest & fiscal charges on long-term debt	9,651	-	-	-	(9,651)		
Total Governmental Activities	<u>\$ 6,802,159</u>	<u>\$ 397,758</u>	<u>\$ 2,214,044</u>	<u>\$ 2,625,732</u>	<u>\$ (1,564,625)</u>		
<u>Component Units:</u>							
Water resource district	\$ 110,147	\$ -	\$ -	\$ -	\$ -	\$ (110,147)	\$ -
Health district	199,872	35,942	202,668	-	-	-	38,738
Total Component Units	<u>\$ 310,019</u>	<u>\$ 35,942</u>	<u>\$ 202,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (110,147)</u>	<u>\$ 38,738</u>
<u>General Revenues:</u>							
<u>Taxes:</u>							
Property taxes; levied for general purposes					\$ 342,986	\$ 59,713	\$ 41,057
Property taxes; levied for special purposes					1,560,107	-	-
State Grants/Aid - Unrestricted					396,523	-	-
Other Unrestricted Grant Income					13,968	-	-
Unrestricted Investment Earnings					9,399	993	87
Equipment Sales					125,250	-	-
Miscellaneous Revenue					116,861	-	-
Total General Revenues					<u>\$ 2,565,094</u>	<u>\$ 60,706</u>	<u>\$ 41,144</u>
Change in Net Position					<u>\$ 1,000,469</u>	<u>\$ (49,441)</u>	<u>\$ 79,882</u>
Net Position - January 1					\$ 8,542,919	\$ 439,636	\$ 109,237
Prior Period Adjustment					(566,018)	-	(51,232)
Net Position - January 1, as restated					<u>\$ 7,976,901</u>	<u>\$ 439,636</u>	<u>\$ 58,005</u>
Net Position - December 31					<u>\$ 8,977,370</u>	<u>\$ 390,195</u>	<u>\$ 137,887</u>

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

TOWNER COUNTY
Cando, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2015

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	FEMA	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED								
OUTFLOWS OF RESOURCES								
<u>Assets:</u>								
Cash and investments	\$ 1,456,658	\$ 499,718	\$ 767,966	\$ 470,183	\$ 117,865	\$ -	\$ 457,962	\$ 3,770,352
Accounts receivable	11,253	-	16,489	-	-	-	-	27,742
Intergovernmental receivable	118,237	-	-	37,975	-	-	11,306	167,518
Road receivables	-	-	55,111	-	-	-	-	55,111
Loan receivable	2,303	-	-	-	-	-	-	2,303
Taxes receivable	24,692	7,982	8,299	-	7,384	-	5,967	54,324
Due from other funds	33,401	-	-	-	-	-	-	33,401
Total Assets	\$ 1,646,544	\$ 507,700	\$ 847,865	\$ 508,158	\$ 125,249	\$ -	\$ 475,235	\$ 4,110,751
<u>LIABILITIES, DEFERRED INFLOWS OF</u>								
<u>RESOURCES AND FUND BALANCES</u>								
<u>Liabilities:</u>								
Accounts payable	\$ -	\$ 16,530	\$ 33,114	\$ 5,949	\$ 28,158	\$ 5,342	\$ -	\$ 89,093
Salaries payable	17,148	-	10,357	-	-	-	-	27,505
Grants received in advance	-	-	-	-	-	37,642	-	37,642
Due to other funds	-	-	-	-	-	23,927	9,474	33,401
Total Liabilities	\$ 17,148	\$ 16,530	\$ 43,471	\$ 5,949	\$ 28,158	\$ 66,911	\$ 9,474	\$ 187,641
<u>Deferred Inflows of Resources:</u>								
Taxes receivable	\$ 24,692	\$ 7,982	\$ 8,299	\$ -	\$ 7,384	\$ -	\$ 5,967	\$ 54,324
Road receivables	-	-	55,111	-	-	-	-	55,111
Taxes received in advance	233,345	77,950	78,537	-	63,698	-	57,069	510,599
Total Deferred Inflows of Resources	\$ 258,037	\$ 85,932	\$ 141,947	\$ -	\$ 71,082	\$ -	\$ 63,036	\$ 620,034
Total Liabilities and Deferred Inflows of Resources	\$ 275,185	\$ 102,462	\$ 185,418	\$ 5,949	\$ 99,240	\$ 66,911	\$ 72,510	\$ 807,675
<u>Fund Balances:</u>								
<u>Non-Spendable:</u>								
Loan receivable	\$ 2,303	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,303
<u>Restricted:</u>								
Highways and bridges	-	405,238	662,447	502,209	-	-	-	1,569,894
Health and welfare	-	-	-	-	26,009	-	3,015	29,024
Conservation of natural resources	-	-	-	-	-	-	94,791	94,791
Economic Development	-	-	-	-	-	-	1	1
Emergency	-	-	-	-	-	-	304,918	304,918
Unassigned	1,369,056	-	-	-	-	(66,911)	-	1,302,145
Total Fund Balances	\$ 1,371,359	\$ 405,238	\$ 662,447	\$ 502,209	\$ 26,009	\$ (66,911)	\$ 402,725	\$ 3,303,076
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,646,544	\$ 507,700	\$ 847,865	\$ 508,158	\$ 125,249	\$ -	\$ 475,235	\$ 4,110,751

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

TOWNER COUNTY
Cando, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2015

Total *Fund Balances* for Governmental Funds \$ 3,303,076

Total *net position* reported for government activities in the statement of net assets 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	\$ 8,705,325	
Less Accumulated Depreciation	<u>(2,041,432)</u>	6,663,893

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

Property Taxes Receivable	\$ 54,324	
Road Department Accounts Receivable	<u>55,111</u>	109,435

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	\$ 66,254	
Deferred Inflows Related to Pensions	<u>(73,751)</u>	(7,497)

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, 2015 are:

Capital Leases	\$ (373,986)	
Interest Payable	(3,952)	
Compensated Absences	(24,934)	
Retainages Payable	(26,838)	
Net Pension Liability	<u>(661,827)</u>	<u>(1,091,537)</u>

Total Net Position of Governmental Activities		<u><u>\$ 8,977,370</u></u>
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The notes to the financial statements are an integral part of this statement

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	FEMA	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 333,935	\$ 286,774	\$ 286,841	\$ -	\$ 255,280	\$ -	\$ 718,615	\$ 1,881,445
Intergovernmental	439,552	1,524,997	60,339	348,813	-	195,428	55,406	2,624,535
Licenses, permits and fees	6,500	-	-	-	-	-	-	6,500
Charges for services	103,747	-	248,067	-	-	-	-	351,814
Fines and forfeitures	1,030	-	-	-	-	-	-	1,030
Interest income	8,693	706	-	-	-	-	-	9,399
Miscellaneous	42,850	-	49,666	-	-	-	24,345	116,861
Total Revenues	\$ 936,307	\$ 1,812,477	\$ 644,913	\$ 348,813	\$ 255,280	\$ 195,428	\$ 798,366	\$ 4,991,584
Expenditures:								
Current:								
General government	\$ 588,443	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,856	\$ 1,070,299
Public safety	286,172	-	-	-	-	-	106,965	393,137
Highways and bridges	-	3,152,617	918,306	411,192	-	-	-	4,482,115
Flood repair	-	-	-	-	-	237,499	-	237,499
Health and welfare	11,623	-	-	-	269,516	-	-	281,139
Culture and recreation	-	-	-	-	-	-	10,473	10,473
Conserv. of natural resources	-	-	-	-	-	-	39,531	39,531
Economic development	8,000	-	-	-	-	-	-	8,000
Debt Service:								
Principal	-	-	-	161,144	-	-	-	161,144
Interest and fees	-	-	-	9,698	-	-	-	9,698
Total Expenditures	\$ 894,238	\$ 3,152,617	\$ 918,306	\$ 582,034	\$ 269,516	\$ 237,499	\$ 638,825	\$ 6,693,035
Excess (Deficiency) of Revenues Over Expenditures	\$ 42,069	\$ (1,340,140)	\$ (273,393)	\$ (233,221)	\$ (14,236)	\$ (42,071)	\$ 159,541	\$ (1,701,451)
Other Financing Sources (Uses):								
Transfers in	\$ 484,437	\$ -	\$ 101,207	\$ -	\$ -	\$ -	\$ -	\$ 585,644
Equipment sales	-	-	125,250	-	-	-	-	125,250
Lease proceeds	-	-	-	188,459	-	-	-	188,459
Transfers out	-	(100,354)	-	-	-	(853)	(484,437)	(585,644)
Total Other Financing Sources and Uses	\$ 484,437	\$ (100,354)	\$ 226,457	\$ 188,459	\$ -	\$ (853)	\$ (484,437)	\$ 313,709
Net Change in Fund Balances	\$ 526,506	\$ (1,440,494)	\$ (46,936)	\$ (44,762)	\$ (14,236)	\$ (42,924)	\$ (324,896)	\$ (1,387,742)
Fund Balances - January 1	\$ 844,853	\$ 1,845,732	\$ 709,383	\$ 546,971	\$ 40,245	\$ (23,987)	\$ 727,621	\$ 4,690,818
Fund Balances - December 31	\$ 1,371,359	\$ 405,238	\$ 662,447	\$ 502,209	\$ 26,009	\$ (66,911)	\$ 402,725	\$ 3,303,076

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

TOWNER COUNTY
Cando, 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, 2015

Net Change in *Fund Balances* - Total Governmental Funds \$ (1,387,742)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital contribution and capital asset additions exceeded depreciation expense in the current year.

Capital Contribution	\$ 2,625,732	
Capital Asset Additions	102,132	
Current Year Depreciation Expense	<u>(325,673)</u>	2,402,191

The net effect of miscellaneous transactions involving capital assets is to decrease net capital assets. (125,152)

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 by which debt issuance exceeded debt repayment.

Repayment of Debt - Lease	\$ 161,144	
Lease Issuance	<u>(188,459)</u>	(27,315)

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.

Net Change in Compensated Absences	\$ 8,827	
Net Change in Retainages Payable	(26,838)	
Net Change in Interest Payable	<u>47</u>	(17,964)

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.

Net Change in Net Pension Liability	\$ 36,983	
Net Change in Deferred Outflows of Resources	44,191	
Net Change in Deferred Inflows of Resources	<u>15,215</u>	96,389

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. This consists of the changes in taxes receivable and road receivables.

Net Change in Taxes Receivable	\$ 21,648	
Net Change in Road Department Receivables	<u>38,414</u>	60,062

Change in Net Position of Governmental Activities \$ 1,000,469

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

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and investments	<u>\$ 947,617</u>	<u>\$ 959,345</u>
<u>LIABILITIES</u>		
Due to other governments	<u>\$ 947,617</u>	<u>\$ 959,345</u>

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

TOWNER COUNTY
Cando, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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The financial statements of Towner County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of Towner 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 criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Towner 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 Towner County.

Based on these criteria, there are two discretely presented component units to be included within Towner County as a reporting entity.

Component Units

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

Discretely Presented Component Units: The component unit columns in the basic financial statements include the financial data of the county's two component units. These units are reported in a separate column to emphasize that they are legally separate from the county.

Towner County Water Resource District - The County's governing board appoints a voting majority of the members of the Towner County Water Resource District Board. The county has the authority to approve or modify the Water Resource District operational and capital budgets. The county also must approve the tax levy established by the Water Resource District.

Towner County District Health District - The County's governing board appoints a voting majority of the members of the Health District Board. The County has the authority to approve or modify the Health District operational and capital budgets. The County's governing board must approve the tax levy established by the Health District.

Component Unit Financial Statements: The financial statements of the discretely presented component units are presented in the County's basic financial statements. Complete financial statements of the component units can be obtained from the Towner County Auditor Towner County, PO Box 603 Cando ND, 58324.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Related Organizations - The County is accountable for the following legally separate entities because it appoints a voting majority to their governing boards. Although, the County is not financially accountable for these entities, County did provide operating grants to them as follows:

	2016	2015
Weed Control	\$ 73,343	\$ 39,531
County Park	-	10,472

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's and the component unit 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 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 non-major 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 Fund. This fund accounts for repair and improvement of highways and bridges that are legally restricted from taxes levied. The major source of revenue is a restricted tax levy.

County Road and Bridge Fund. This fund accounts for all financial resources related to highway maintenance, except those required to be accounted for in another fund. The major source of revenue is a restricted tax levy.

Highway Tax Distribution Fund. This fund accounts for the Highway Tax Distribution revenue collected during the year and used for appropriate highway and road projects. The major source of revenues is restricted and State/Federal grants/reimbursements.

County Emergency Poor Fund. This fund accounts for the costs of providing social service benefits to needy residents of the county. The major source of revenue is a restricted tax levy.

FEMA Fund. This fund accounts for the federal public assistance grants passed through the State to be used for the repair of roads in the county that were damaged from flooding. The major source of revenue is restricted State/Federal grants/reimbursements.

The County reports the following fund type:

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

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

Government-wide and Fiduciary Fund Financial Statements. The government-wide 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 long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of 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 are 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.

All governmental and internal service funds of the County and the discretely presented component unit follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less.

E. Capital Assets**Primary Government:**

Capital assets, which include property, plant, and equipment, are reported in the 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.

General infrastructure assets acquired prior to January 1, 2004 consisting of various road and bridge network assets are not reported in the financial statements, as the County was required to prospectively report infrastructure assets beginning January 1, 2004 as a Phase III GASB 34 implementation entity. 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. Interest incurred during the construction phase of capital assets is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWNER COUNTY**Notes to the Financial Statements – Continued**

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

Assets	Years
Buildings	50
Equipment	5 - 20
Small Equipment	3 - 10
Infrastructure	50

F. Compensated Absences

Vacation leave is earned at the rate of 5 to 15 days per year depending on years of service. Vacation leave may be carried over from one year to the next, but it must be used within 15 months from when earned; if not used within that time frame, the employee will forfeit the unused time. Upon termination vacation benefits that have accrued through the last day of work will be paid. Employees accrue sick leave benefits at the rate of 12 days per year. Unused sick leave benefits will be allowed to accumulate to a limit of 60 days.

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. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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. 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.

J. Fund Balances / Net Position**Fund Balance**

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.

Fund Balance Spending Policy:

It is the policy of Towner 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.

Major Special Revenue Fund Purposes & Revenue Sources:

Purposes and major revenue sources of the major special revenue are disclosed in more detail in Note 1B.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Minimum Fund Balance Policy/Budget Stabilization

The County adopted a minimum fund balance policy for the general fund to protect against cash flow shortfalls related to timing of project revenues and receipts and to maintain a budget stabilization commitment. The County intends to maintain a minimum unassigned fund balance in its general fund of \$550,000, but not less than 15% of annual general fund expenditures.

When fund balance falls below 15% range, the County will replenish shortages/deficiencies using the budget strategies and time frames described below:

- a. Reduce recurring expenditures to eliminate any structural deficit, or
 - b. Increase revenues or pursue other funding sources, or
 - c. Some combination of the two options above
- Deficiency resulting in a minimum fund balance between 12.5 percent and 15 percent shall be replenished over a period not exceeding one year
 - Deficiency resulting in a minimum fund balance between 10 percent and 12.5 percent shall be replenished over a period not to exceed 3 years
 - Deficiency resulting in a minimum fund balance of less than 10 percent shall be replenished over a period not to exceed five years

Unassigned fund balance of the general fund balance at 12-31-16 and 12-31-15 of \$1,451,014 and \$1,369,056, respectively, was 95% and 153% of 2016 and 2015 general fund expenditures, respectively.

GASB Statement No. 54, 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	Available for any remaining general fund expenditure.

Towner County only reports restricted and unassigned fund balances at December 31, 2016 and non-spendable, restricted, and unassigned fund balances at December 31, 2015.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Non-spendable fund balances:

Non-spendable fund balances consist of loans receivable totaling \$2,303 reported in the general fund at December 31, 2015.

Restricted Fund Balances – consist of the following items at December 31, 2016 and 2015:

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 resources, emergencies, and economic development. Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments for various grants & reimbursements).

Special Revenue Funds – Restricted & 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.

Restricted fund balances totaled \$2,218,142 at 12-31-16, and \$1,998,628 at 12-31-15.

Unassigned Fund Balances:

Unassigned fund balances at year-end 2016 consist of an amount in the general fund totaling \$1,451,014. Unassigned fund balances at December 31, 2015 consist of the amount in the general fund totaling \$1,369,056, and the negative fund balance in the FEMA fund totaling (\$66,911). The ending unassigned general fund balance at December 31, 2016 represented 95% of total 2016 general fund expenditures. The ending unassigned fund balance at December 31, 2015 represented 153% of total 2015 general fund expenditures.

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 any related debt used to finance the purchase or construction of those capital assets. These assets are not available for future spending.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements. Net position in the statement of net position is also shown by primary function (as fund balance are shown) as fund balances are shown and is restricted for highways and bridges, flood repair, health & welfare, conservation of resources, emergencies, and economic development.

Unrestricted net position is primarily unrestricted amounts related to the general fund, as well as amounts shown for negative funds. 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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 2: DEPOSITS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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 any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2016 the county's carrying amount of deposits totaled \$4,822,491, and the bank balances totaled \$5,206,130. Of the bank balances, \$1,040,800 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2015 the county's carrying amount of deposits totaled \$4,729,446, and the bank balances totaled \$4,672,026. Of the bank balances, \$1,040,800 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2016, the Towner County Water Resource District's carrying amount of deposits totaled \$448,371, and bank balances totaled \$448,817. Of the deposits, a total of \$1,574 was not covered by FDIC insurance, and the remaining deposits were covered by Federal Depository Insurance. At year ended December 31, 2015, the Towner County Water Resource District's carrying amount of deposits totaled \$388,056, and bank balances totaled \$389,023. Of the deposits, a total of \$1,072 was not covered by FDIC insurance, and the remaining deposits were covered by Federal Depository Insurance.

At year ended December 31, 2016, the Towner County Public Health District's carrying amount of deposits was \$138,114, and the bank balances totaled \$143,168, all of which was covered by Federal Depository Insurance. At year ended December 31, 2015, the Towner County Public Health District's carrying amount of deposits was \$155,922, and the bank balances totaled \$166,766, all of which was covered by Federal Depository Insurance.

Credit Risk:

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

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

As of December 31, 2016 and 2015, Towner County had certificates of deposit totaling \$453,048 and \$451,571, respectively, all of which are considered deposits.

As of December 31, 2016 and 2015, the Towner County Health District had certificates of deposit totaling \$21,809 and \$21,787, respectively, all of which were considered deposits.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Concentration of Credit Risk:

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

NOTE 3: TAXES RECEIVABLE

The taxes receivable represents the past two years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable because any defaults will be covered by enforcement of the liens.

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 on or before February 15 and receive the 5% discount on the property taxes.

NOTE 4: ROAD ACCOUNTS RECEIVABLE

Road accounts receivable consist of amounts due for road work for townships, cities and private citizens.

NOTE 5: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of amounts due from the state for the state and federal share of various social service programs, highway tax distribution, state aid, and other state and federal grants.

NOTE 6: DUE TO OTHER FUNDS & DUE FROM OTHER FUNDS

In 2016, due to and due from other funds on the governmental funds modified accrual balance sheet represents the amount of cash borrowed by the Stone Garden Grant Fund (\$756) covered by the General Fund.

In 2015, due to and due from other funds on the governmental funds modified accrual balance sheet represents the amount of cash borrowed by the FEMA fund (\$23,947) and the Stone Garden Grant Fund (\$9,474) totaling \$33,401 covered by the General Fund.

NOTE 7: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes, road accounts receivables, and the amount for taxes received 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 received 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 but not earned until January the following year when they are properly apportioned.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Deferred inflows of resources in the statement of net position represent the amount of taxes received in advance, as well as pension items. Deferred inflows of resources also includes amounts related to pensions as outlined in more detail in Note 15.

NOTE 8: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions for various components of pension deferred outflows and district contributions made subsequent to the measurement date as outlined in detail in Note 15.

NOTE 9: 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	\$ 41,711	\$ -
County Road & Bridge	100,299	-
Farm to Market	-	100,299
OASIS & FICA	-	6,008
Special Revenue Funds:		
Special Road & Bridge	-	210
Health Insurance	-	2,613
Advertising	-	163
Insurance Reserve	-	1,621
Weed Control	-	29,689
Regional Correctional Center	-	920
County Park	-	487
Total Transfers	\$ 142,010	\$ 142,010

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

	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ 484,437	\$ -
Farm to Market	-	100,354
County Road & Bridge	101,207	-
OASIS & FICA	-	168,592
FEMA	-	853
Special Revenue Funds:		
Special Road & Bridge	-	667
Health Insurance	-	84,171
Advertising	-	22,445
Insurance Reserve	-	165,317
Weed Control	-	25,014
Regional Correctional Center	-	9,648
County Park	-	8,583
Total Transfers	\$ 585,644	\$ 585,644

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. Transfers were also used to close several non-major funds into the general fund in 2016 due to changes in tax levy law.

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 10: CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2016 and 2015 for the primary government:

Primary Government (2016):	Balance January 1	Increases	Decreases	Transfers	Balance December 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 12,250	\$ -	\$ -	\$ -	\$ 12,250
Construction in Progress	1,647,343	48,703	-	(1,696,046)	-
Total Capital Assets, Not Being Depreciated	\$ 1,659,593	\$ 48,703	\$ -	\$ (1,696,046)	\$ 12,250
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 392,500	\$ -	\$ -	\$ -	\$ 392,500
Equipment	2,435,815	375,782	21,500	-	2,790,097
Small Equipment	76,880	-	-	-	76,880
Infrastructure	4,140,536	-	-	1,696,046	5,836,582
Total Capital Assets, Being Depreciated	\$ 7,045,731	\$ 375,782	\$ 21,500	\$ 1,696,046	\$ 9,096,059
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 360,729	\$ 1,227	\$ -	\$ -	\$ 361,956
Equipment	1,126,546	249,522	8,450	-	1,367,618
Small Equipment	64,997	4,769	-	-	69,766
Infrastructure	489,159	145,914	-	-	635,073
Total Accumulated Depreciation	\$ 2,041,431	\$ 401,432	\$ 8,450	\$ -	\$ 2,434,413
Total Capital Assets Being Depreciated, Net	\$ 5,004,300	\$ (25,650)	\$ 13,050	\$ 1,696,046	\$ 6,661,646
Governmental Activities-Capital Assets, Net	\$ 6,663,893	\$ 23,053	\$ 13,050	\$ -	\$ 6,673,896

Primary Government (2015):	Balance January 1	Increases	Decreases	Transfers	Balance December 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 12,250	\$ -	\$ -	\$ -	\$ 12,250
Construction in Progress	266,544	2,625,731	-	(1,244,932)	1,647,343
Total Capital Assets, Not Being Depreciated	\$ 278,794	\$ 2,625,731	\$ -	\$ (1,244,932)	\$ 1,659,593
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 392,500	\$ -	\$ -	\$ -	\$ 392,500
Equipment	2,533,275	102,132	199,592	-	2,435,815
Small Equipment	76,880	-	-	-	76,880
Infrastructure	2,895,604	-	-	1,244,932	4,140,536
Total Capital Assets, Being Depreciated	\$ 5,898,259	\$ 102,132	\$ 199,592	\$ 1,244,932	\$ 7,045,731
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 359,502	\$ 1,227	\$ -	\$ -	\$ 360,729
Equipment	984,822	216,164	74,440	-	1,126,546
Small Equipment	60,229	4,768	-	-	64,997
Infrastructure	385,646	103,513	-	-	489,159
Total Accumulated Depreciation	\$ 1,790,199	\$ 325,672	\$ 74,440	\$ -	\$ 2,041,431
Total Capital Assets Being Depreciated, Net	\$ 4,108,060	\$ (223,540)	\$ 125,152	\$ 1,244,932	\$ 5,004,300
Governmental Activities-Capital Assets, Net	\$ 4,386,854	\$ 2,402,191	\$ 125,152	\$ -	\$ 6,663,893

Depreciation expense was charged to functions/programs of the county as follows for the year ended December 31, 2015:

Primary Government	2016	2015
General Government	\$ 4,266	\$ 4,266
Public Safety	16,003	12,260
Conservation of Natural Resources	2,504	-
Highways	378,659	309,146
Total Depreciation Expense - Primary Government	\$ 401,432	\$ 325,672

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 11: 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.

NOTE 12: SALARIES PAYABLE

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

NOTE 13: LONG-TERM LIABILITIES

Primary Government:

Changes in Long-Term Liabilities - During the years ended December 31, 2016 and 2015, the following changes occurred in governmental activities long-term liabilities for the primary government:

Primary Government (2016)	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Leases Payable	\$ 373,986	\$ 249,904	\$ 219,381	\$ 404,509	\$ 124,112
Compensated Absences *	24,934	1,622	-	26,556	2,655
Net Pension Liability *	661,827	332,389	-	994,216	-
Total Governmental Activities	\$ 1,060,747	\$ 583,915	\$ 219,381	\$ 1,425,281	\$ 126,767

Primary Government (2015)	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Leases Payable	\$ 346,672	\$ 188,458	\$ 161,144	\$ 373,986	\$ 119,381
Compensated Absences *	33,761	-	8,827	24,934	2,493
Net Pension Liability *	698,810	-	36,983	661,827	-
Total Governmental Activities	\$ 1,079,243	\$ 188,458	\$ 206,954	\$ 1,060,747	\$ 121,874

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

Outstanding governmental activities debt at December 31, 2016 is comprised of the following individual issues:

Leases Payable:

\$188,459 Lease from Caterpillar for a 140M Motor Grader. Payments are \$31,191 annually through 2020; interest at 2.85%.	\$ 116,356
\$249,904 Lease from Merchant's Capital Resources, Inc. for a 2014 140M Motor Grader. Payments are \$32,546 annually through 2021; interest at 2.80%.	149,904
\$218,450 Lease from Caterpillar for a 2012 140M Motor Grader. Remaining payments are \$23,969 annually through 2018; interest at 2.65%.	46,097
\$151,825 Lease from Kinetic Leasing for a 2012 Cat 938K Wheel Loader. Remaining payment is \$23,158 in 2017; interest at 2.65%.	22,560
\$112,991 Lease from Caterpillar for a 2012 Cat 140M2 Motor Grader. Remaining payments are \$24,461 annually through 2019; interest at 2.70%.	69,592
Total Lease Payable	\$ 404,509

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Leases Payable	
	Principal	Interest
2017	\$ 124,112	\$ 11,212
2018	104,353	7,813
2019	83,262	4,935
2020	61,123	2,613
2021	31,659	887
Total	\$ 404,509	\$ 27,460

Changes in Long-Term Liabilities - During the years ended December 31, 2016 and 2015, the following changes occurred in governmental activities long-term liabilities for the health district:

Health District (2016)	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 4,963	\$ 164	\$ -	\$ 5,127	\$ 513
Net Pension Liability *	42,757	13,321	-	56,078	-
Total Governmental Activities	\$ 4,963	\$ 164	\$ -	\$ 5,127	\$ 513

Health District (2015)	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 2,564	\$ 2,399	\$ -	\$ 4,963	\$ 496
Net Pension Liability *	46,330	-	3,573	42,757	-
Total Governmental Activities	\$ 2,564	\$ 2,399	\$ -	\$ 4,963	\$ 496

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

NOTE 14: PENSION PLAN**North Dakota Public Employees Retirement System (NDPERS) (Main System)****General Information about the NDPERS Pension Plan**

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.

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

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

At December 31, 2016 and 2015, Towner County reported a liability of \$994,216 and \$661,827, and Towner County Health District reported a liability of \$56,078 and \$42,757, respectively, for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The district's proportion of the net pension liability was based on the district's share of covered payroll in the main system pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016 and 2015, the County's proportion was .102013 and .097330 percent, respectively, which was an increase of .004683 percent from its proportion measured as of June 30, 2015. At June 30, 2016 and 2015, the Health District's proportion was .005754 and .006288 percent, respectively, which was a decrease of .000534 percent from its proportion measured as of June 30, 2015.

For the years ended December 31, 2016 and 2015, the County recognized pension expense of \$139,699 and \$65,566, and the health district recognized pension expense of \$6,688 and \$4,003, respectively. At December 31, 2016 and 2015, the County and Health District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Primary Government (2016)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 14,935	\$ 9,206
Changes of Assumptions	91,654	49,393
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	138,708	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	35,449	-
District Contributions Subsequent to the Measurement Date	38,115	-
Total	\$ 318,861	\$ 58,599

Primary Government (2015)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 19,200	\$ -
Changes of Assumptions	-	58,966
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	13,971
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	13,146	814
District Contributions Subsequent to the Measurement Date	33,908	-
Total	\$ 66,254	\$ 73,751

Health District (2016)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 842	\$ 519
Changes of Assumptions	5,170	2,786
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	7,823	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	3,601
District Contributions Subsequent to the Measurement Date	2,462	-
Total	\$ 16,297	\$ 6,906

TOWNER COUNTY

Notes to the Financial Statements – Continued

Health District (2015)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,240	\$ -
Changes of Assumptions	-	3,809
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	902
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	363
District Contributions Subsequent to the Measurement Date	1,993	-
Total	\$ 3,233	\$ 5,074

\$38,115 and \$2,462 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017 by the County and Health District, respectively.

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

	Primary Government	Health District
2017	\$ 33,642	\$ 1,898
2018	33,642	1,898
2019	63,900	3,604
2020	40,969	2,311
2021	14,545	820

Actuarial Assumptions

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

Inflation	3.50%
Salary Increases	4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

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

The 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.

TOWNER COUNTY**Notes to the Financial Statements – Continued**

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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
County's Proportionate Share of the Net Pension Liability	\$ 1,410,276	\$ 994,216	\$ 643,664
Health District's Proportionate Share of the Net Pension Liability	79,546	56,078	36,306

Pension Plan Fiduciary Net Position

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 15: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Towner County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence for general liability and automobile and \$2,417,958 for public assets (mobile equipment and portable property).

Towner County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Towner 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 Towner County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

NOTE 16: DEFICIT CASH FUND BALANCES

At December 31, 2016 and 2015, the following funds had deficit cash fund balances:

	2016	2015
FEMA Fund	\$ -	\$ (23,927)
Stonegarden Grant	(756)	(9,464)

NOTE 17: CONDUIT DEBT OBLIGATIONS

From time to time, Towner County has obtained community development block grant loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facility transfers to the private-sector entity served by the loan. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

As of December 31, 2016 and 2015, there was one community development block grant loan outstanding, with an aggregate principal amount payable of \$142,784.

NOTE 18: TAX ABATEMENTS – GASB 77

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

Towner 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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

Public Charity Exemption:

Public Charities are eligible for property tax incentives if they meet state requirements (NDCC 57-02-08(8)) and the guidelines stated below. The following criteria are only guidelines.

All buildings belonging to institutions of public charity, including public hospitals and nursing homes licensed pursuant to section 23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit. The exemption provided by this subsection includes any dormitory, dwelling, or residential-type structure, together with necessary land on which such structure is located, owned by a religious or charitable organization recognized as tax exempt under section 501(c)(3) of the United States Internal Revenue Code which is occupied by members of said organization who are subject to a religious vow of poverty and devote and donate substantially all of their time to the religious or charitable activities of the owner.

Exemption Criteria:

Property exempt if the qualified facility is used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit.

2016 Reduction in Taxes – Due to Agreements with Other Entities:

Total program reduction in taxes – \$13,106

NOTE 19: PRIOR PERIOD ADJUSTMENT**Prior Period Error – Capital Assets:**

There was a prior period adjustment for the period ending December 31, 2014 for Governmental Wide Activities involving adjustments to the beginning balance on January 1, 2015 for an error in beginning capital assets construction in progress totaling \$199,695 for the county. An error in cash was also noted for the Health District.

Change in Accounting Principle:

Net position as of January 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Primary Government	Amounts
Total Governmental Activities as previously reported	\$ 8,542,919
Adjustments to restate the January 1, 2015 Total Governmental Activities for the following:	
Net Pension Liability	(698,810)
Deferred Inflows - Pension Items	(117,942)
Deferred Outflows - Pension Items	51,039
Capital assets - construction in progress	199,695
Net Position, January 1, 2015, as restated	\$ 7,976,901

Public Health District	Amounts
Beginning Net Position, as previously reported	\$ 109,237
Adjustments to restate the January 1, 2015 Net Position:	
Prior Cash Error	(515)
Net Pension Liability	(46,330)
Deferred Outflows of Resources - Pensions	3,432
Deferred Inflows of Resources - Pensions	(7,819)
Net Position, January 1, 2015, as restated	\$ 58,005

TOWNER COUNTY
Cando, 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	\$ 887,867	\$ 887,867	\$ 883,541	\$ (4,326)
Intergovernmental	512,634	512,634	428,872	(83,762)
Licenses, permits and fees	1,300	1,300	2,690	1,390
Charges for services	192,224	192,224	207,985	15,761
Fines and forfeitures	4,200	4,200	1,960	(2,240)
Interest income	5,000	5,000	8,404	3,404
Miscellaneous	15,500	15,500	28,231	12,731
Total Revenues	\$ 1,618,725	\$ 1,618,725	\$ 1,561,683	\$ (57,042)
<u>Expenditures:</u>				
Current:				
General government	\$ 1,129,926	\$ 1,129,926	\$ 1,032,362	\$ 97,564
Public safety	414,297	414,297	466,582	(52,285)
Health and welfare	18,045	18,045	6,578	11,467
Culture & Recreation	15,600	15,600	10,217	5,383
Economic development	9,600	9,600	8,000	1,600
Total Expenditures	\$ 1,587,468	\$ 1,587,468	\$ 1,523,739	\$ 63,729
Excess (Deficiency) of Revenues Over Expenditures	\$ 31,257	\$ 31,257	\$ 37,944	\$ 6,687
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 29,689	\$ 29,689	\$ 41,711	\$ 12,022
Net Change in Fund Balances	\$ 60,946	\$ 60,946	\$ 79,655	\$ 18,709
Fund Balances - January 1	\$ 1,371,359	\$ 1,371,359	\$ 1,371,359	\$ -
Fund Balances - December 31	\$ 1,432,305	\$ 1,432,305	\$ 1,451,014	\$ 18,709

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, 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	\$ 300,000	\$ 300,000	\$ 293,008	\$ (6,992)
Intergovernmental	-	1,313,167	1,465,361	152,194
Interest	-	-	710	710
Total Revenues	<u>\$ 300,000</u>	<u>\$ 1,613,167</u>	<u>\$ 1,759,079</u>	<u>\$ 145,912</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 1,313,167	\$ 1,313,167	\$ 1,275,790	\$ 37,377
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,013,167)</u>	<u>\$ 300,000</u>	<u>\$ 483,289</u>	<u>\$ 183,289</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out	\$ (100,000)	\$ (100,000)	\$ (100,299)	\$ (299)
Net Change in Fund Balances	<u>\$ (1,113,167)</u>	<u>\$ 200,000</u>	<u>\$ 382,990</u>	<u>\$ 182,990</u>
Fund Balances - January 1	<u>\$ 405,238</u>	<u>\$ 405,238</u>	<u>\$ 405,238</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ (707,929)</u></u>	<u><u>\$ 605,238</u></u>	<u><u>\$ 788,228</u></u>	<u><u>\$ 182,990</u></u>

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY ROAD AND BRIDGE FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 297,192	\$ 297,192	\$ 289,319	\$ (7,873)
Intergovernmental	80,000	80,000	-	(80,000)
Charges for services	255,000	255,000	347,383	92,383
Miscellaneous	20,000	20,000	18,702	(1,298)
Total Revenues	\$ 652,192	\$ 652,192	\$ 655,404	\$ 3,212
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 732,236	890,236	\$ 933,932	\$ (43,696)
Excess (Deficiency) of Revenues Over Expenditures	\$ (80,044)	\$ (238,044)	\$ (278,528)	\$ (40,484)
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 100,000	\$ 100,000	\$ 100,299	\$ 299
Net Change in Fund Balances	\$ 19,956	\$ (138,044)	\$ (178,229)	\$ (40,185)
Fund Balances - January 1	\$ 662,447	\$ 662,447	\$ 662,447	\$ -
Fund Balances - December 31	\$ 682,403	\$ 524,403	\$ 484,218	\$ (40,185)

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, 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	\$ 395,000	\$ 395,000	\$ 306,642	\$ (88,358)
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 418,842	\$ 418,842	\$ 207,832	\$ 211,010
Debt Service:				
Principal	-	-	219,380	(219,380)
Interest	-	-	10,360	(10,360)
Total Expenditures	\$ 418,842	\$ 418,842	\$ 437,572	\$ (18,730)
Excess (Deficiency) of Revenues Over Expenditures	\$ (23,842)	\$ (23,842)	\$ (130,930)	\$ (107,088)
Fund Balances - January 1	\$ 502,209	\$ 502,209	\$ 502,209	\$ -
Fund Balances - December 31	\$ 478,367	\$ 478,367	\$ 371,279	\$ (107,088)

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 244,950	\$ 244,950	\$ 239,994	\$ (4,956)
<u>Expenditures:</u>				
Current:				
Health and welfare	\$ 244,950	\$ 244,950	\$ 223,471	\$ 21,479
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ 16,523	\$ 16,523
Fund Balances - January 1	\$ 26,009	\$ 26,009	\$ 26,009	\$ -
Fund Balances - December 31	\$ 26,009	\$ 26,009	\$ 42,532	\$ 16,523

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, 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	\$ -	\$ -	\$ 145,821	\$ 145,821
<u>Expenditures:</u>				
Current:				
Flood Repair	\$ -	\$ 23,170	\$ 17,828	\$ 5,342
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (23,170)	\$ 127,993	\$ 151,163
Fund Balances - January 1	\$ (66,911)	\$ (66,911)	\$ (66,911)	\$ -
Fund Balances - December 31	\$ (66,911)	\$ (90,081)	\$ 61,082	\$ 151,163

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 339,006	\$ 339,006	\$ 333,935	\$ (5,071)
Intergovernmental	458,039	458,039	439,552	(18,487)
Licenses, permits and fees	800	800	6,500	5,700
Charges for services	82,801	82,801	103,747	20,946
Fines and forfeitures	1,500	1,500	1,030	(470)
Interest income	5,000	5,000	8,693	3,693
Miscellaneous	31,500	31,500	42,850	11,350
Total Revenues	\$ 918,646	\$ 918,646	\$ 936,307	\$ 17,661
<u>Expenditures:</u>				
Current:				
General government	\$ 629,096	\$ 629,096	\$ 588,443	\$ 40,653
Public safety	248,570	248,570	286,172	(37,602)
Health and welfare	9,200	9,200	11,623	(2,423)
Economic development	8,000	8,000	8,000	-
Conservation of natural resources	1,600	1,600	-	1,600
Total Expenditures	\$ 896,466	\$ 896,466	\$ 894,238	\$ 2,228
Excess (Deficiency) of Revenues Over Expenditures	\$ 22,180	\$ 22,180	\$ 42,069	\$ 19,889
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 38,014	\$ 38,014	\$ 484,437	\$ 446,423
Net Change in Fund Balances	\$ 60,194	\$ 60,194	\$ 526,506	\$ 466,312
Fund Balances - January 1	\$ 844,853	\$ 844,853	\$ 844,853	\$ -
Fund Balances - December 31	\$ 905,047	\$ 905,047	\$ 1,371,359	\$ 466,312

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
FARM TO MARKET ROAD FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 300,075	\$ 300,075	\$ 286,774	\$ (13,301)
Intergovernmental	-	100	1,524,997	1,524,897
Interest	700	700	706	6
Total Revenues	<u>\$ 300,775</u>	<u>\$ 300,875</u>	<u>\$ 1,812,477</u>	<u>\$ 1,511,602</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 200,875	\$ 3,140,875	\$ 3,152,617	\$ (11,742)
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 99,900</u>	<u>\$ (2,840,000)</u>	<u>\$ (1,340,140)</u>	<u>\$ 1,499,860</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out	\$ (100,000)	\$ (100,000)	\$ (100,354)	\$ (354)
Net Change in Fund Balances	<u>\$ (100)</u>	<u>\$ (2,940,000)</u>	<u>\$ (1,440,494)</u>	<u>\$ 1,499,506</u>
Fund Balances - January 1	<u>\$ 1,845,732</u>	<u>\$ 1,845,732</u>	<u>\$ 1,845,732</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 1,845,632</u></u>	<u><u>\$ (1,094,268)</u></u>	<u><u>\$ 405,238</u></u>	<u><u>\$ 1,499,506</u></u>

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY ROAD AND BRIDGE FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 297,242	\$ 297,242	\$ 286,841	\$ (10,401)
Intergovernmental	70,150	70,150	60,339	(9,811)
Charges for services	252,500	252,500	248,067	(4,433)
Miscellaneous	20,000	20,000	49,666	29,666
Total Revenues	\$ 639,892	\$ 639,892	\$ 644,913	\$ 5,021
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 700,929	\$ 900,929	\$ 918,306	\$ (17,377)
Excess (Deficiency) of Revenues Over Expenditures	\$ (61,037)	\$ (261,037)	\$ (273,393)	\$ (12,356)
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 100,000	\$ 100,000	\$ 101,207	\$ 1,207
Equipment sales	-	-	125,250	125,250
Total Other Financing Sources (Uses)	\$ 100,000	\$ 100,000	\$ 226,457	\$ 126,457
Net Change in Fund Balances	\$ 38,963	\$ (161,037)	\$ (46,936)	\$ 114,101
Fund Balances - January 1	\$ 709,383	\$ 709,383	\$ 709,383	\$ -
Fund Balances - December 31	\$ 748,346	\$ 548,346	\$ 662,447	\$ 114,101

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX DISTRIBUTION FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 2,014,371	\$ 2,014,371	\$ 348,813	\$ (1,665,558)
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 2,014,282	\$ 2,014,282	\$ 222,733	\$ 1,791,549
Debt Service:				
Principal	-	-	161,144	(161,144)
Interest	-	-	9,698	(9,698)
Total Expenditures	\$ 2,014,282	\$ 2,014,282	\$ 393,575	\$ 1,620,707
Excess (Deficiency) of Revenues Over Expenditures	\$ 89	\$ 89	\$ (44,762)	\$ (44,851)
Fund Balances - January 1	\$ 546,971	\$ 546,971	\$ 546,971	\$ -
Fund Balances - December 31	\$ 547,060	\$ 547,060	\$ 502,209	\$ (44,851)

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY EMERGENCY POOR FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 266,450	\$ 266,450	\$ 255,280	\$ (11,170)
<u>Expenditures:</u>				
Current:				
Health and welfare	\$ 266,450	\$ 266,450	\$ 269,516	\$ (3,066)
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ (14,236)	\$ (14,236)
Fund Balances - January 1	\$ 40,245	\$ 40,245	\$ 40,245	\$ -
Fund Balances - December 31	\$ 40,245	\$ 40,245	\$ 26,009	\$ (14,236)

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
FEMA FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 195,428	\$ 195,428
<u>Expenditures:</u>				
Current:				
Flood repair	\$ -	\$ 373,387	\$ 237,499	\$ 135,888
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (373,387)	\$ (42,071)	\$ 331,316
<u>Other Financing Sources (Uses)</u>				
Transfers out	\$ -	\$ (854)	\$ (853)	\$ 1
Net Change in Fund Balances	\$ -	\$ (374,241)	\$ (42,924)	\$ 331,317
Fund Balances - January 1	\$ (23,987)	\$ (23,987)	\$ (23,987)	\$ -
Fund Balances - December 31	\$ (23,987)	\$ (398,228)	\$ (66,911)	\$ 331,317

The notes to the required supplementary information are an integral part of this statement.

TOWNER COUNTY
Cando, North Dakota
PENSION SCHEDULES
For the Years Ended December 31, 2016 and 2015

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

Primary Government - County	2016	2015	2014
County's proportion of the net pension liability (asset)	0.102013%	0.097330%	0.095191%
County's proportionate share of the net pension liability (asset)	\$ 994,216	\$ 661,827	\$ 698,810
County's covered-employee payroll	\$ 1,028,054	\$ 867,092	\$ 801,874
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	87.15%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.70%	77.15%

Component Unit - Health District	2016	2015	2014
District's proportion of the net pension liability (asset)	0.005754%	0.006288%	0.006311%
District's proportionate share of the net pension liability (asset)	\$ 56,078	\$ 42,757	\$ 46,330
District's covered-employee payroll	\$ 57,989	\$ 56,015	\$ 53,165
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.70%	76.33%	87.14%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.70%	77.15%

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

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

Primary Government - County	2016	2015	2014
Statutorily required contribution	\$ 74,429	\$ 65,863	\$ 57,093
Contributions in relation to the statutorily required contribution	\$ (70,862)	\$ (64,886)	\$ (57,093)
Contribution deficiency (excess)	\$ 3,567	\$ 977	\$ -
County's covered-employee payroll	\$ 1,028,054	\$ 867,092	\$ 801,874
Contributions as a percentage of covered-employee payroll	7.24%	7.60%	7.12%

Component Unit - Health District	2016	2015	2014
Statutorily required contribution	\$ 4,198	\$ 4,255	\$ 3,785
Contributions in relation to the statutorily required contribution	\$ (4,130)	\$ (3,988)	\$ (3,785)
Contribution deficiency (excess)	\$ 68	\$ 267	\$ -
County's covered-employee payroll	\$ 57,989	\$ 56,015	\$ 801,874
Contributions as a percentage of covered-employee payroll	7.24%	7.60%	0.47%

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

TOWNER COUNTY
Cando, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016 and 2015

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: BUDGET TO ACTUAL RECONCILIATION

The county entered into a lease for the purchase of one motor grader during 2016 and one motor grader in 2015. The lease proceeds and corresponding highway expenditures were reported on the statement of revenues, expenditures and changes in fund balance – governmental funds for the highway tax distribution fund, but were not reported on the budgetary comparison schedule for the highway tax distribution fund. The county did not budget for these funds and these transactions were not recorded on the county's general ledger. The differences are as follows:

2016 Highway Tax Distribution	Combined Statement	Adjustment	Budget to Actual
Expenditures	\$ 687,476	\$ (249,904)	\$ 437,572
Lease Proceeds	249,904	(249,904)	-

TOWNER COUNTY

Notes to the Required Supplementary Information - Continued

2015 Highway Tax Distribution	Combined Statement	Adjustment	Budget to Actual
Expenditures	\$ 582,034	\$ (188,459)	\$ 393,575
Lease Proceeds	188,459	(188,459)	-

NOTE 3: LEGAL COMPLIANCE - BUDGETS**BUDGET AMENDMENTS**

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

Expenditures & Transfers Out:	Original Budget	Budget Amendment	Amended Budget
<u>Expenditures:</u>			
County Road and Bridge	\$ 732,236	\$ 158,000	\$ 890,236
Highway Tax	343,842	75,000	418,842
FEMA	-	23,170	23,170
Stonegarden	-	41,949	
Weed Control	68,500	4,900	73,400
<u>Transfers Out:</u>			-
Special Road & Bridge	-	210	210
OASIS & FICA	-	6,008	6,008
Healthcare Insurance	-	2,613	2,613
Advertising	-	163	163
Insurance Reserve	-	1,621	1,621
County Parks	-	487	487

The board of county commissioners amended the county budgeted expenditures for 2015 as follows:

Expenditures & Transfers Out:	Original Budget	Budget Amendment	Amended Budget
<u>Expenditures:</u>			
Farm to Market Road	\$ 200,875	\$ 2,940,000	\$ 3,140,875
County Road & Bridge	700,929	200,000	900,929
FEMA	-	373,387	373,387
Stonegarden	-	37,255	37,255
Veteran's Service Officer	19,747	105	19,852
Healthcare Insurance	116,240	26,610	142,850
Regional Corretional Center	42,000	15,000	57,000
<u>Transfers Out:</u>			-
FEMA	-	854	854
Special Road & Bridge	-	667	667
OASIS & FICA	-	168,592	168,592
Healthcare Insurance	-	84,172	84,172
Advertising	-	22,445	22,445
Insurance Reserve	-	165,317	165,317
Regional Corretional Center	-	9,649	9,649
County Parks	-	8,584	8,584

NOTE 4: PENSIONS - CHANGES OF ASSUMPTIONS

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

TOWNER COUNTY
Cando, North Dakota
SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-16
Major Funds:						
General Fund	\$ 1,492,362.24	\$ 1,623,996.35	\$ 41,710.87	\$ -	\$ 1,521,919.21	\$ 1,636,150.25
Special Revenue Funds:						
Farm to Market	\$ 499,718.60	\$ 1,469,276.90	\$ -	\$ 100,299.00	\$ 1,282,295.58	\$ 586,400.92
County Road and Bridge	767,966.05	618,877.27	100,299.00	-	889,073.75	598,068.57
Highway Taxes	470,183.28	315,266.76	-	-	418,101.05	367,348.99
County Emergency Poor	117,865.08	242,326.81	-	-	228,910.53	131,281.36
FEMA Funds	(23,927.41)	103,188.39	-	-	23,169.89	56,091.09
Total Special Revenue Funds	\$ 1,831,805.60	\$ 2,748,936.13	\$ 100,299.00	\$ 100,299.00	\$ 2,841,550.80	\$ 1,739,190.93
Total Major Funds	\$ 3,324,167.84	\$ 4,372,932.48	\$ 142,009.87	\$ 100,299.00	\$ 4,363,470.01	\$ 3,375,341.18
Special Revenue Funds (Non-Major):						
Special Road and Bridge	\$ -	\$ 209.63	\$ -	\$ 209.63	\$ -	\$ -
Stonegarden Grant	(9,474.02)	50,667.60	-	-	41,949.42	(755.84)
Emergency	317,921.54	36,260.68	-	-	-	354,182.22
Veterans Service Officer	8,341.03	20,391.90	-	-	20,366.02	8,366.91
Oasis and FICA	-	6,008.01	-	6,008.01	-	-
Health Insurance	-	2,613.00	-	2,613.00	-	-
Advertising	-	162.69	-	162.69	-	-
Insurance Reserve	-	1,621.38	-	1,621.38	-	-
County Agent	68,329.40	71,213.82	-	-	72,700.83	66,842.39
Weed Control	63,369.02	110,809.47	-	29,689.00	73,343.09	71,146.40
Regional Correctional Center	-	919.82	-	919.82	-	-
County Park	-	487.34	-	487.34	-	-
CDBG - Off Book	1.00	-	-	-	-	1.00
Total Non-Major Funds	\$ 448,487.97	\$ 301,365.34	\$ -	\$ 41,710.87	\$ 208,359.36	\$ 499,783.08
Total Governmental Funds	\$ 3,772,655.81	\$ 4,674,297.82	\$ 142,009.87	\$ 142,009.87	\$ 4,571,829.37	\$ 3,875,124.26
Agency Funds:						
Job Development	\$ 7,787.06	\$ 29,388.19	\$ -	\$ -	\$ 29,326.67	\$ 7,848.58
County Health District	14,292.76	60,560.27	-	-	53,706.53	21,146.50
County Airport	2,741.87	11,630.55	-	-	10,703.61	3,668.81
Hospital	19,500.95	74,148.69	-	-	74,093.60	19,556.04
Horizons	5,193.21	728.15	-	-	772.72	5,148.64
Ag Day	-	675.00	-	-	532.19	142.81
Senior Citizens	6,651.49	45,695.78	-	-	45,581.90	6,765.37
State Tax	7,229.15	25,162.24	-	-	25,096.82	7,294.57
Domestic Violence	1,330.00	455.00	-	-	-	1,785.00
Historical Society	1,997.78	7,233.04	-	-	7,535.39	1,695.43
Game and Fish	2,574.08	8,658.00	-	-	11,253.00	(20.92)
Ambulance General	2,887.29	11,899.77	-	-	11,795.46	2,991.60
Soil Conservation General	8,316.00	30,963.63	-	-	31,423.85	7,855.78
Water Resource District	33,262.97	87,036.23	-	-	104,665.92	15,633.28
Estimated Taxes	384.20	(222.95)	-	-	-	161.25
Ambulance North	6,654.55	25,436.02	-	-	22,494.10	9,596.47
Rolla Ambulance	4,099.89	13,137.90	-	-	13,081.99	4,155.80
Devils Lake Basin	4,512.88	18,990.54	-	-	18,706.46	4,796.96
Document Preservation	14,791.32	5,537.00	-	-	8,051.26	12,277.06
Sheriffs Special	290.74	-	-	-	-	290.74
Hazardous Chemicals	3,839.38	662.50	-	-	-	4,501.88
County Agent Special	5,919.83	455.46	-	-	260.98	6,114.31
County Agent Pesticide	6,556.97	-	-	-	855.84	5,701.13
Game and Fish Trust Fund	40,800.00	-	-	-	-	40,800.00
Bisbee Dam Project	25,201.43	1,284,490.00	-	-	1,203,584.57	106,106.86
Total Cities	42,111.31	253,306.24	-	-	240,420.56	54,996.99
Total City Park	13,416.39	72,268.13	-	-	71,132.29	14,552.23
Total School Districts	567,299.22	1,746,863.77	-	-	1,837,928.62	476,234.37
Total Townships	82,627.88	565,037.80	-	-	570,385.74	77,279.94
Total Rural Fire District	27,074.58	103,710.87	-	-	102,245.52	28,539.93
Total Agency Funds	\$ 959,345.18	\$ 4,483,907.82	\$ -	\$ -	\$ 4,495,635.59	\$ 947,617.41
Total Primary Government	\$ 4,732,000.99	\$ 9,158,205.64	\$ 142,009.87	\$ 142,009.87	\$ 9,067,464.96	\$ 4,822,741.67

TOWNER COUNTY
Cando, North Dakota

SCHEDULE OF FUND ACTIVITY - CLIENT BASIS
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-15
Major Funds:						
General Fund	\$ 778,553.75	\$ 1,125,250.18	\$ 484,436.99	\$ -	\$ 895,878.68	\$ 1,492,362.24
Special Revenue Funds:						
Farm to Market	\$ 487,999.38	\$ 3,249,325.96	\$ -	\$ 100,353.80	\$ 3,137,252.94	\$ 499,718.60
County Road and Bridge	789,822.30	776,255.29	101,207.60	-	899,319.14	767,966.05
Highway Taxes	506,193.94	356,427.13	-	-	392,437.79	470,183.28
County Emergency Poor	116,369.81	242,853.16	-	-	241,357.89	117,865.08
FEMA Funds	(69,945.19)	420,258.27	-	853.80	373,386.69	(23,927.41)
Total Special Revenue Funds	\$ 1,830,440.24	\$ 5,045,119.81	\$ 101,207.60	\$ 101,207.60	\$ 5,043,754.45	\$ 1,831,805.60
Total Major Funds	\$ 2,608,993.99	\$ 6,170,369.99	\$ 585,644.59	\$ 101,207.60	\$ 5,939,633.13	\$ 3,324,167.84
Special Revenue Funds (Non-Major):						
Special Road and Bridge	\$ 113.16	\$ 553.47	\$ -	\$ 666.63	\$ -	\$ -
Stonegarden Grant	(48,389.73)	76,170.10	-	-	37,254.39	(9,474.02)
Emergency	283,557.60	47,231.93	-	-	12,867.99	317,921.54
Veterans Service Officer	9,060.73	19,130.58	-	-	19,850.28	8,341.03
Oasis and FICA	174,846.55	187,760.04	-	168,591.57	194,015.02	-
Health Insurance	144,177.59	82,840.11	-	84,171.47	142,846.23	-
Advertising	21,631.51	5,082.10	-	22,444.86	4,268.75	-
Insurance Reserve	169,642.90	50,672.42	-	165,316.62	54,998.70	-
County Agent	68,716.05	65,490.45	-	-	65,877.10	68,329.40
Weed Control	35,813.98	92,100.25	-	25,014.00	39,531.21	63,369.02
Regional Correctional Center	37,793.61	28,697.39	-	9,648.36	56,842.64	-
County Park	7,983.25	11,072.71	-	8,583.48	10,472.48	-
CDBG - OffBook	1.00	-	-	-	-	1.00
Total Non-Major Funds	\$ 904,948.20	\$ 666,801.55	\$ -	\$ 484,436.99	\$ 638,824.79	\$ 448,487.97
Total Governmental Funds	\$ 3,513,942.19	\$ 6,837,171.54	\$ 585,644.59	\$ 585,644.59	\$ 6,578,457.92	\$ 3,772,655.81
Agency Funds:						
Job Development	\$ 8,682.37	\$ 28,073.20	\$ -	\$ -	\$ 28,968.51	\$ 7,787.06
County Health District	12,293.43	43,038.74	-	-	41,039.41	14,292.76
County Airport	12,909.76	31,276.73	-	-	41,444.62	2,741.87
Hospital	21,639.82	72,112.11	-	-	74,250.98	19,500.95
Horizons	5,193.21	94.29	-	-	94.29	5,193.21
Senior Citizens	6,777.43	58,202.57	-	-	58,328.51	6,651.49
State Tax	6,946.52	22,534.14	-	-	22,251.51	7,229.15
Domestic Violence	1,155.00	175.00	-	-	-	1,330.00
Historical Society	2,442.32	7,951.66	-	-	8,396.20	1,997.78
Game and Fish	6,559.08	16,197.00	-	-	20,182.00	2,574.08
Ambulance General	3,412.92	12,962.91	-	-	13,488.54	2,887.29
Soil Conservation General	8,947.27	29,353.66	-	-	29,984.93	8,316.00
Water Resource District	17,435.28	74,689.03	-	-	58,861.34	33,262.97
Estimated Taxes	113.10	1,321.11	-	-	1,050.01	384.20
Ambulance North	2,917.53	13,732.22	-	-	9,995.20	6,654.55
Rolla Ambulance	4,942.83	10,385.61	-	-	11,228.55	4,099.89
Devils Lake Basin	5,118.95	17,726.06	-	-	18,332.13	4,512.88
Document Preservation	11,637.96	14,624.40	-	-	11,471.04	14,791.32
Sheriffs Special	290.74	-	-	-	-	290.74
Hazardous Chemicals	3,314.38	525.00	-	-	-	3,839.38
County Agent Special	6,232.65	670.94	-	-	983.76	5,919.83
County Agent Pesticide	6,450.13	1,142.25	-	-	1,035.41	6,556.97
Game and Fish Trust Fund	40,800.00	-	-	-	-	40,800.00
Payroll Deduction	2,959.14	96,652.00	-	-	74,409.71	25,201.43
Total Cities	42,773.17	245,597.93	-	-	246,259.79	42,111.31
Total City Park	16,430.77	85,623.32	-	-	88,637.70	13,416.39
Total School Districts	561,663.91	1,510,510.22	-	-	1,504,874.91	567,299.22
Total Townships	85,931.00	736,778.77	-	-	740,081.89	82,627.88
Total Rural Fire District	27,645.52	92,588.06	-	-	93,159.00	27,074.58
Total Agency Funds	\$ 933,616.19	\$ 3,224,538.93	\$ -	\$ -	\$ 3,198,809.94	\$ 959,345.18
Total Primary Government	\$ 4,447,558.38	\$ 10,061,710.47	\$ 585,644.59	\$ 585,644.59	\$ 9,777,267.86	\$ 4,732,000.99



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
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
Towner County
Cando, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Towner County's basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control Over Financial Reporting

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

TOWNER COUNTY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Towner 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*.

Towner County's Response to Finding

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 7, 2017

TOWNER COUNTY
Cando, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Years Ended December 31, 2016 and 2015

Section I - Summary of Auditor's Results

Financial Statements

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

Internal Control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ X None Reported
Significant deficiencies identified not considered to be material weaknesses?	_____ X Yes	_____ None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X None Reported

Section II - Financial Statement Findings

2016-001 – LACK OF SEGREGATION OF DUTIES - COUNTY
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Condition:

Towner County has minimal employees in the auditor/treasurer offices responsible for all duties performed for the combined office. It appears that the county does not have segregation of duties for keeping the assets and liabilities separate from the posting to the general ledger.

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 Towner 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.

TOWNER COUNTY**Schedule of Findings and Questioned Costs - Continued**

Recommendation:

Due to the size, complexity and the economic realities of Towner County, it is presently not feasible to obtain proper separation of duties. We recommend that until it is feasible to hire more staff, that the duties be segregated to the extent possible to reduce the potential risk of loss.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the State Auditor's recommendation and will segregate duties to the best of my ability with current staff.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of Local Government Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
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