

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

**TOWNER COUNTY
CANDO, NORTH DAKOTA**

FOR THE YEAR ENDED DECEMBER 31, 2011



TOWNER COUNTY
Cando, North Dakota

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TOWNER COUNTY
Cando, North Dakota

COUNTY OFFICIALS

December 31, 2011

Doug Berg
Mike Weisz
Scott Boe
Ken Teubner
David Lagien

Chairman
Vice-chairman
Commissioner
Commissioner
Commissioner

Joni Morlock
Joni Morlock
Wayne Lingen
Jolene Hoffert
Jolene Hoffert
Vaughn Klier
Robert Ackre

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

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
Fax (701) 328-1406



Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

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 were engaged to audit 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 year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of the discretely presented component units.

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 from material misstatement.

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

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

Basis for Disclaimer of Opinions

Towner County reported fraudulent activity relating to treasurer's checks and a fictitious vendor. The complete extent of the fraudulent activity cannot be reasonably determined. Towner County's lack of adequate records does not permit the application of other auditing procedures.

TOWNER COUNTY

Independent Auditor's Report - Continued

Towner County did not present bank reconciliations that had approval of the current county officials and were free of inconclusive transactions. The bank reconciliations included amounts current officials could not support.

Given these related problems current management could not provide us with required written representations needed for us to give unmodified opinions on the financial statements (other than the aggregate discretely presented component units).

Disclaimer of Opinions

Because of the emphasis of the matters described in the "Basis for Disclaimer of Opinions" paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions relating to governmental activities, each major fund, and the aggregate remaining fund information, and we were not able to apply other auditing procedures to satisfy ourselves as to the amounts reported in those reporting units, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on those financial statements.

Unmodified Opinion

In our opinion, the aggregate discretely presented component units financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component units of Towner County, Cando, North Dakota, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* and on pages 25-31 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* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of fund activity arising from cash transactions* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. With respect to the *schedule of fund activity arising from cash transactions* due to the aforementioned reasons the county opinions were disclaimed for the governmental activities, each major fund, and the aggregate remaining fund information, we are unable to issue an opinion on the supplementary information.

TOWNER COUNTY

Independent Auditor's Report - Continued

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013 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.



Robert R. Peterson
State Auditor

June 10, 2013

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF NET POSITION
December 31, 2011

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Health District
ASSETS			
Cash and investments	\$ 2,621,735	\$ 97,581	\$ 69,687
Intergovernmental receivable	560,600	-	512
Other current asset	-	-	512
Special assessments receivable	-	3,355	-
Road receivables	96,452	-	-
Taxes receivable	87,211	3,434	1,597
Capital Assets Not Being Depreciated:			
Land	12,250	-	-
Capital Assets (net of accumulated depreciation):			
Buildings	36,680	-	-
Equipment and vehicles	1,098,407	-	-
Small equipment	8,200	-	-
Infrastructure	1,776,803	-	-
Total Capital Assets	<u>\$ 2,932,340</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets	<u>\$ 6,298,338</u>	<u>\$ 104,370</u>	<u>\$ 72,308</u>
LIABILITIES			
Accounts payable	\$ 172,203	\$ -	\$ -
Payroll liability	-	-	838
Interest payable	5,006	-	-
Long-Term Liabilities:			
Due Within One Year:			
Capital leases payable	88,449	-	-
Compensated absences payable	2,930	-	87
Due After One Year:			
Capital leases payable	132,135	-	-
Compensated absences payable	26,371	-	783
Total Liabilities	<u>\$ 427,094</u>	<u>\$ -</u>	<u>\$ 1,708</u>
DEFERRED INFLOWS			
Taxes received in advance	\$ 523,676	\$ -	\$ -
NET POSITION			
Invested in capital assets, net of related debt	\$ 2,711,756	\$ -	\$ -
Restricted for:			
Public safety	777	-	-
Highways	1,463,375	-	-
Flood repair	670,644	-	-
Health and welfare	15,594	-	70,600
Culture and recreation	5,077	-	-
Conservation of natural resources	7,094	104,370	-
Emergencies	26,290	-	-
Other purposes	138,098	-	-
Unrestricted	308,863	-	-
Total Net Position	<u>\$ 5,347,568</u>	<u>\$ 104,370</u>	<u>\$ 70,600</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, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary	Component Units	
					Governmental Activities	Water Resource District	Health District
Primary Government:							
Governmental Activities:							
General government	\$ 961,760	\$ 41,218	\$ 54,697	\$ -	\$ (865,845)		
Public safety	279,149	45,886	4,918	-	(228,345)		
Highways and bridges	1,240,875	366,461	467,512	-	(406,902)		
Flood repair	263,819	-	584,052	-	320,233		
Health and welfare	203,319	-	-	-	(203,319)		
Culture and recreation	13,067	-	-	-	(13,067)		
Conservation of natural resources	89,928	-	25,037	-	(64,891)		
Emergency	54,156	-	-	-	(54,156)		
Economic development	7,545	-	-	-	(7,545)		
Interest & fiscal charges on long-term debt	17,416	-	-	-	(17,416)		
Total Governmental Activities	\$ 3,131,034	\$ 453,565	\$ 1,136,216	\$ -	\$ (1,541,253)		
Component Units:							
Water resource district	\$ 56,296	\$ 220	\$ -	\$ -	\$ -	\$ (56,076)	\$ (220)
Health district	133,888	22,755	78,244	-	-	-	(32,889)
Total Component Units	\$ 190,184	\$ 22,975	\$ 78,244	\$ -	\$ -	\$ (56,076)	\$ (33,109)
General Revenues:							
Taxes:							
Property taxes; levied for general purposes					\$ 343,478	\$ 68,491	\$ 41,885
Property taxes; levied for special purposes					1,300,635	-	-
State Grants/Aid - Unrestricted					343,264	-	-
Other Unrestricted Grant Income					23,976	-	-
Unrestricted Investment Earnings					12,372	-	-
Miscellaneous Revenue					246,446	-	-
Total General Revenues					\$ 2,270,171	\$ 68,491	\$ 41,885
Change in Net Position					\$ 728,918	\$ 12,415	\$ 8,996
Net Position - January 1					\$ 4,652,440	81,887	\$ 60,300
Prior Period Adjustment					(33,790)	-	1,304
Net Position - January 1, as restated					\$ 4,618,650	\$ 91,955	\$ 61,604
Net Position - December 31					\$ 5,347,568	\$ 104,370	\$ 70,600

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

TOWNER COUNTY
Cando, North Dakota
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	OASIS/ FICA	FEMA	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
<u>Assets:</u>									
Cash and investments	\$ 306,923	\$ 634,775	\$ 563,547	\$ 294,523	\$ 64,975	\$ 83,438	\$ 328,652	\$ 344,902	\$ 2,621,735
Intergovernmental receivable	121,064	-	-	39,271	-	-	400,265	-	560,600
Taxes receivable	16,812	9,061	20,612	-	10,665	10,929	-	19,132	87,211
Road receivables	-	-	96,452	-	-	-	-	-	96,452
Due from other funds	6,249	-	-	-	-	-	-	-	6,249
Total Assets and Deferred Outflows of Resources	\$ 451,048	\$ 643,836	\$ 680,611	\$ 333,794	\$ 75,640	\$ 94,367	\$ 728,917	\$ 364,034	\$ 3,372,247
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>									
<u>Liabilities:</u>									
Accounts payable	\$ -	\$ 56,218	\$ 8,758	\$ -	\$ 20,600	\$ 13,265	\$ 58,273	\$ 15,089	\$ 172,203
Due to other funds	-	-	-	-	-	-	-	6,249	6,249
Total Liabilities	\$ -	\$ 56,218	\$ 8,758	\$ -	\$ 20,600	\$ 13,265	\$ 58,273	\$ 21,338	\$ 178,452
<u>Deferred Inflows of Resources:</u>									
Taxes receivable	\$ 16,812	\$ 9,061	\$ 20,612	\$ -	\$ 10,665	\$ 10,929	\$ -	\$ 19,132	\$ 87,211
Road receivables	-	-	96,452	-	-	-	-	-	96,452
Taxes received in advance	101,783	62,242	87,057	-	57,693	81,601	-	133,300	523,676
Total Deferred Inflows of Resources	\$ 118,595	\$ 71,303	\$ 204,121	\$ -	\$ 68,358	\$ 92,530	\$ -	\$ 152,432	\$ 707,339
<u>Fund Balances:</u>									
<u>Restricted:</u>									
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,076	\$ 15,076
Highways and bridges	-	516,315	467,732	333,794	-	-	-	25,611	1,343,452
Flood repair	-	-	-	-	-	-	670,644	-	670,644
Health and welfare	-	-	-	-	-	-	-	4,161	4,161
Culture and recreation	-	-	-	-	-	-	-	4,418	4,418
Conservation of natural resources	-	-	-	-	-	-	-	1,481	1,481
Emergency	-	-	-	-	-	-	-	24,831	24,831
Other Purposes	-	-	-	-	-	-	-	120,935	120,935
Unassigned	332,453	-	-	-	(13,318)	(11,428)	-	(6,249)	301,458
Total Fund Balances	\$ 332,453	\$ 516,315	\$ 467,732	\$ 333,794	\$ (13,318)	\$ (11,428)	\$ 670,644	\$ 190,264	\$ 2,486,456
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 451,048	\$ 643,836	\$ 680,611	\$ 333,794	\$ 75,640	\$ 94,367	\$ 728,917	\$ 364,034	\$ 3,372,247

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, 2011

Total *Fund Balances* for Governmental Funds \$ 2,486,456

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

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

Cost of Capital Assets	\$ 4,252,413	
Less Accumulated Depreciation	<u>(1,320,073)</u>	
Net Capital Assets		2,932,340

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	\$ 87,211	
Road Department Accounts Receivable	<u>96,452</u>	183,663

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, 2011 are:

Capital Leases	\$ (220,584)	
Interest Payable	(5,006)	
Compensated Absences	<u>(29,301)</u>	
Total Long-Term Liabilities		<u>(254,891)</u>

Total Net Position of Governmental Activities \$ 5,347,568

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, 2011

	General	Farm to Market	County Road & Bridge	Highway Tax Distribution	County Emergency Poor	OASIS/ FICA	FEMA	Other Governmental Funds	Total Governmental Funds
Revenues:									
Taxes	\$ 344,842	\$ 191,966	\$ 291,305	\$ -	\$ 186,294	\$ 249,073	\$ -	\$ 389,332	\$ 1,652,812
Intergovernmental	379,035	115	43,487	467,512	110	151	584,052	28,995	1,503,457
Licenses, permits and fees	890	-	-	-	-	-	-	-	890
Charges for services	42,670	-	394,649	-	-	-	-	42,747	480,066
Fines and forfeitures	796	-	-	-	-	-	-	-	796
Interest income	11,049	1,323	-	-	-	-	-	-	12,372
Miscellaneous	144,741	-	101,705	-	-	-	-	-	246,446
Total Revenues	\$ 924,023	\$ 193,404	\$ 831,146	\$ 467,512	\$ 186,404	\$ 249,224	\$ 584,052	\$ 461,074	\$ 3,896,839
Expenditures:									
Current:									
General government	\$ 478,012	\$ -	\$ -	\$ -	\$ -	\$ 318,192	\$ -	\$ 158,833	\$ 955,037
Public safety	203,216	-	-	-	-	-	-	52,817	256,033
Highways and bridges	-	85,124	687,887	186,192	-	-	-	89,520	1,048,723
Flood repair	-	-	-	-	-	-	263,819	-	263,819
Health and welfare	8,873	-	-	-	194,552	-	-	-	203,425
Culture and recreation	-	-	-	-	-	-	-	13,067	13,067
Conserv. of natural resources	-	-	-	-	-	-	-	85,928	85,928
Emergency	-	-	-	-	-	-	-	54,156	54,156
Economic development	7,545	-	-	-	-	-	-	-	7,545
Debt Service:									
Principal	10,650	-	51,191	115,124	-	-	-	-	176,965
Interest and fees	1,339	-	6,776	12,740	-	-	-	-	20,855
Total Expenditures	\$ 709,635	\$ 85,124	\$ 745,854	\$ 314,056	\$ 194,552	\$ 318,192	\$ 263,819	\$ 454,321	\$ 3,085,553
Excess (Deficiency) of Revenues Over Expenditures	\$ 214,388	\$ 108,280	\$ 85,292	\$ 153,456	\$ (8,148)	\$ (68,968)	\$ 320,233	\$ 6,753	\$ 811,286
Fund Balances - January 1	\$ 118,065	\$ 408,035	\$ 382,440	\$ 180,338	\$ (5,170)	\$ 57,540	\$ 350,411	\$ 183,511	\$ 1,675,170
Fund Balances - December 31	\$ 332,453	\$ 516,315	\$ 467,732	\$ 333,794	\$ (13,318)	\$ (11,428)	\$ 670,644	\$ 190,264	\$ 2,486,456

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, 2011

Net Change in *Fund Balances* - Total Governmental Funds \$ 811,286

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

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

Current Year Depreciation Expense (166,180)

The net effect of miscellaneous transactions involving capital assets is to decrease net capital assets. (52,150)

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 repayment exceeded debt proceeds.

Repayment of Debt - Lease 176,965

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 Decrease in Compensated Absences \$ (7,555)
Net Increase in Interest Payable 3,439 (4,116)

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 increase in taxes receivable and road receivables.

Net Change in Taxes Receivable \$ (8,699)
Net Change in Road Department Receivables (28,188) (36,887)

Change in Net Position of Governmental Activities \$ 728,918

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

TOWNER COUNTY
Cando, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS

December 31, 2011

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 799,558</u>
<u>LIABILITIES</u>	
Due to other governments	<u>\$ 799,558</u>

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

TOWNER COUNTY
Condo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, as defined by GASB statement 14, the County did provide operating grants to them as follows:

	2011
Weed Control	\$85,928
County Park	13,095
Senior Citizens	25,563

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 Road 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 revenue 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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

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.

OASIS/FICA Fund. This fund accounts for the costs of social security costs of the county. The major source of revenue is a restricted tax levy.

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.

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.

TOWNER COUNTY

Notes to the Financial Statements – Continued

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.

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

Assets	Years
Land/Land Improve.	Indefinite
Buildings	30 – 50
Vehicles & Mach.	5 – 10
Furniture & Equip.	5 – 10
Infrastructure	10 – 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, when applicable, are recognized in the current period since the amounts are not material.

H. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. 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 funds (highway, bridge replacement, 15 mill road, social services, FEMA disaster reimbursement, and job development authority) are disclosed in more detail in Note 1B.

TOWNER COUNTY

Notes to the Financial Statements – Continued

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between **[12.5]** percent and **[15]** percent shall be replenished over a period not to exceed 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 three years
- Deficiency resulting in a minimum fund balance of less than **[10]** percent shall be replenished over a period not to exceed five years

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, 2011.

Restricted Fund Balances – consist of the following items at December 31, 2011:

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 other purposes (reported in the other governmental funds). 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).

TOWNER COUNTY

Notes to the Financial Statements – Continued

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.

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, public safety, flood repair, health & welfare, culture & recreation, conservation of resources, emergencies, and other purposes (health insurance, insurance reserve, veteran's service officer, and social security).

Unrestricted net position is primarily unrestricted amounts related to the general fund, as well as amounts shown for negative funds (highway fund). The unrestricted net position is available to meet the district's ongoing obligations.

I. Interfund Transactions

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

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

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS - COUNTY

The board of county commissioners amended the county budget for 2011 as follows:

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
<u>Special Revenue Funds:</u>			
County Road and Bridge	\$530,206	\$206,891	\$737,097
Highway Tax	128,391	90,680	219,071
OASIS/FICA	244,000	60,927	304,927
Special Road & Bridge	60,000	29,520	89,520
County Emergency Poor	190,602	8,488	199,090
Emergency	25,000	44,156	69,156
Weed Control	77,000	8,912	85,912

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 3: 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, 2011 the county's carrying amount of deposits was \$3,414,067 and the bank balances totaled \$3,422,624. Of the bank balances, \$2,143,103 was covered by Federal Depository Insurance. The remaining bank balances totaling \$1,279,521 were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2011, the Towner County Water Resource District's carrying amount of deposits was \$97,581 and the bank balances totaled \$97,881, which was entirely covered by Federal Depository Insurance. At year ended December 31, 2011, the Towner County Public Health District's carrying amount of deposits was \$69,688 and the bank balances totaled \$70,696, which was entirely 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, 2011, Towner County and Towner County Health District had certificates of deposit totaling \$880,685 and \$21,206, respectively, all of which were considered deposits.

Concentration of Credit Risk:

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 4: TAXES RECEIVABLE

The taxes receivable represents the past four 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 5: ROAD ACCOUNTS RECEIVABLE

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

NOTE 6: 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 7: DUE TO OTHER FUNDS & DUE FROM OTHER FUNDS

Due to and due from other funds on the governmental funds modified accrual balance sheet represents the amount of cash borrowed by nonmajor Stone Garden Grant Fund totaling \$6,249 covered by the General Fund

NOTE 8: TAXES RECEIVED IN ADVANCE / DEFERRED INFLOWS

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes, road accounts receivable, 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 paid in advance in the deferred inflows of resources in the government wide statement of net position consist of prepaid taxes collected prior to December 31, 2011 but not earned until January 2012 when they are properly apportioned.

TOWNER COUNTY

Notes to the Financial Statements – Continued

NOTE 9: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2011 for the primary government:

Governmental Activities:	Balance January 1	Increases	Decreases	Transfers	Balance December 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 12,250	\$ -	\$ -	\$ -	\$ 12,250
Construction in Progress	38,570	-	-	(38,570)	-
Total Capital Assets, Not Being Depreciated	\$ 50,820	\$ -	\$ -	\$(38,570)	\$ 12,250
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 392,500	\$ -	\$ -	\$ -	\$ 392,500
Equipment	1,962,330	-	149,000	-	1,813,330
Small Equipment	54,626	-	-	-	54,626
Infrastructure	1,941,136	-	-	38,570	1,979,706
Total Capital Assets, Being Depreciated	\$4,350,592	\$ -	\$149,000	\$ 38,570	\$4,240,162
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 354,593	\$ 1,227	\$ -	\$ -	\$ 355,820
Equipment	697,354	114,420	96,850	-	714,924
Small Equipment	45,386	1,040	-	-	46,426
Infrastructure	153,409	49,493	-	-	202,902
Total Accumulated Depreciation	\$1,250,742	\$ 166,180	\$ 96,850	\$ -	\$1,320,072
Total Capital Assets Being Depreciated, Net	\$3,099,850	\$(166,180)	\$ 52,150	\$ 38,570	\$2,920,090
Governmental Activities-Capital Assets, Net	\$3,150,670	\$(166,180)	\$ 52,150	\$ -	\$2,932,340

Depreciation expense was charged to functions/programs of the county as follows for the year ended December 31, 2011:

Governmental Activities:	
General Government	\$ 2,267
Public Safety	11,190
Highways	148,723
Conservation of Natural Resources	4,000
Total Depreciation Expense - Governmental Activities	\$166,180

NOTE 10: 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 11: LONG-TERM DEBT

Primary Government:

Changes in Long-Term Liabilities - During the year ended December 31, 2011; the following changes occurred in governmental activities long-term liabilities for the primary government:

Governmental Activities:	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Leases Payable	\$397,549	\$ -	\$176,965	\$220,584	\$88,449
Compensated Absences *	21,746	7,555	-	29,301	2,930
Total Governmental Activities	\$419,295	\$7,555	\$176,965	\$249,885	\$91,379

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

TOWNER COUNTY

Notes to the Financial Statements – Continued

Outstanding governmental activities debt at December 31, 2011 is comprised of the following individual issues:

Leases Payable:

\$128,227 Lease from Caterpillar for a 2005 Dozer. Payments are \$28,080 annually through 2013; interest at approximately 6%.	\$ 52,397
\$133,990 Lease from Caterpillar for a 140M Motor Grader. Payments are \$29,888 annually through 2013; interest at 3.75%.	56,572
\$123,314 Lease from Caterpillar for a 140M Motor Grader. Payments are \$27,312 annually through 2015; interest at 3.45%.	100,315
\$35,967 Lease from Municipal Finance for a 2010 Ford Expedition. Payments are 11,909 annually through 2012; interest at 3.75%.	<u>11,300</u>
Total Lease Payable	<u>\$220,584</u>

Debt service requirements on government activity long-term debt at December 31, 2011 are as follows:

Year Ending December 31	Capital Leases
2012	\$ 97,268
2013	85,280
2014	27,312
2015	27,312
Total Payments	\$237,172
Less: amount representing interest	(16,588)
Present value of minimum lease payments	<u>\$220,584</u>

Operating Leases:

The County has two operating leases as of December 31, 2011 which includes a postage machine and a motor grader. Payments made on the leases in 2011 totaled \$29,605. The incremental rental payment amortization is as follows:

Year Ending December 31	Operating Leases
2012	\$ 29,605
2013	26,650
2014	26,650
2015	26,650
Total Payments	<u>\$109,555</u>

NOTE 12: PENSION PLAN**North Dakota Public Employees' Retirement System**

Towner County participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

TOWNER COUNTY

Notes to the Financial Statements – Continued

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Towner County. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. Towner County has implemented a salary reduction agreement and is currently contributing the employees share. Towner County is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Towner County's required and actual contributions to NDPERS for the fiscal years ended December 31, 2011, 2010, and 2009 were \$62,048, \$68,254, and \$56,940, respectively. The County paid for both its share and the employee's share during 2009, 2010, and 2011.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 13: 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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Towner County pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence for general liability and automobile and \$1,885,265 for public assets (mobile equipment and portable property).

TOWNER COUNTY

Notes to the Financial Statements – Continued

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 \$1,700,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

NOTE 14: DEFICIT CASH FUND BALANCES

At December 31, 2011 the following fund had a deficit cash and fund balance:

	Balance
Stone Garden Grant	(\$6,250)

At December 31, 2011 the following funds had a deficit fund balance:

	Balance
County Poor Relief	(\$13,318)
OASIS/FICA	(11,428)

NOTE 15: 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, 2011, there was one community development block grant loan outstanding, with an aggregate principal amount payable of \$146,403.

NOTE 16: PRIOR PERIOD ADJUSTMENTCounty:

The prior period adjustments shown in the statement of activities was due to adjusting capital assets (cost and accumulated depreciation), as well as capital lease payable. The adjustment to beginning net position is as follows for the year beginning January 1, 2011:

Governmental Activities (County):	Amounts
Beginning Net Position, as previously reported	\$4,652,440
Adjustments to restate the January 1, 2011 Net Assets:	
Net adjustment to capital assets	(11,840)
Adjustment to capital lease payable	(21,950)
Net Position January 1, as restated	<u>\$4,618,650</u>

TOWNER COUNTY

Notes to the Financial Statements – Continued

Health District:

The prior period adjustment shown in the statement of activities was due to the adjustment for an error in reporting payroll liabilities in the previous year. The adjustment to beginning net position is as follows for the year beginning January 1, 2011:

Governmental Activities (TC Public Health District):	Amounts
Beginning Net Position, as previously reported	\$60,300
Adjustments to restate the January 1, 2011 Net Assets:	
Adjustment for errors in payroll liabilities	1,304
Net Position January 1, as restated	\$61,604

NOTE 17: FRAUD

On or about March 2010 to March 2011 the Towner County Deputy Auditor and Deputy Treasurer were involved in a scheme to embezzle money. The pair developed a fraudulent company in which \$30,215.10 was paid out of the Treasurer's checkbook (included in this amount were payments directly to the deputy auditor as well) and \$22,813.16 was paid out of the regular checking account. In order to accomplish this, several documents were tampered with including bank statements, bank reconciliations, daily and monthly treasurer reports, check blanks and check registers. They also created chaos in the general ledger to cover the embezzlement by creating corrections and adjustments for which there were no invoices or documentation. In 2012, both parties plead guilty to theft of property felonies and were sentenced.

NOTE 18: SUBSEQUENT EVENT

The matter referred in Note 17 was in litigation as of the December 31, 2011 report date. The concluding dispositions took place on June 12, 2012 and July 10, 2012 which resulted in the sentencing of the former employees.

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 340,008	\$ 340,008	\$ 344,842	\$ 4,834
Intergovernmental	275,130	275,130	379,035	103,905
Licenses, permits and fees	760	760	890	130
Charges for services	21,200	21,200	42,670	21,470
Fines and forfeitures	4,000	4,000	796	(3,204)
Interest income	10,000	10,000	11,049	1,049
Miscellaneous	66,000	66,000	144,741	78,741
Total Revenues	\$ 717,098	\$ 717,098	\$ 924,023	\$ 206,925
<u>Expenditures:</u>				
Current:				
General government	\$ 637,026	\$ 658,202	\$ 478,012	\$ 180,190
Public safety	198,117	212,930	203,216	9,714
Health and welfare	10,604	10,604	8,873	1,731
Conservation of natural resources	4,600	4,600	-	4,600
Economic development	-	-	7,545	(7,545)
Debt Service:				
Principal	-	-	10,650	(10,650)
Interest	-	-	1,339	(1,339)
Total Expenditures	\$ 850,347	\$ 886,336	\$ 709,635	\$ 176,701
Excess (Deficiency) of Revenues Over Expenditures	\$ (133,249)	\$ (169,238)	\$ 214,388	\$ 383,626
Fund Balances - January 1	\$ 118,065	\$ 118,065	\$ 118,065	\$ -
Fund Balances - December 31	\$ (15,184)	\$ (51,173)	\$ 332,453	\$ 383,626

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 199,292	\$ 199,292	\$ 191,966	\$ (7,326)
Intergovernmental	50	50	115	65
Interest	2,000	2,000	1,323	(677)
Total Revenues	<u>\$ 201,342</u>	<u>\$ 201,342</u>	<u>\$ 193,404</u>	<u>\$ (7,938)</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 435,000</u>	<u>\$ 435,000</u>	<u>\$ 85,124</u>	<u>\$ 349,876</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (233,658)</u>	<u>\$ (233,658)</u>	<u>\$ 108,280</u>	<u>\$ 341,938</u>
Fund Balances - January 1	<u>\$ 408,035</u>	<u>\$ 408,035</u>	<u>\$ 408,035</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 174,377</u></u>	<u><u>\$ 174,377</u></u>	<u><u>\$ 516,315</u></u>	<u><u>\$ 341,938</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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 295,364	\$ 295,364	\$ 291,305	\$ (4,059)
Intergovernmental	25,200	25,200	43,487	18,287
Charges for services	174,000	174,000	394,649	220,649
Miscellaneous	15,000	15,000	101,705	86,705
Total Revenues	\$ 509,564	\$ 509,564	\$ 831,146	\$ 321,582
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 530,206	678,322	\$ 687,887	\$ (9,565)
Debt Service:				
Principal	52,000	52,000	51,191	809
Interest	6,775	6,775	6,776	(1)
Total Expenditures	\$ 588,981	\$ 737,097	\$ 745,854	\$ (8,757)
Excess (Deficiency) of Revenues Over Expenditures	\$ (79,417)	\$ (227,533)	\$ 85,292	\$ 312,825
Fund Balances - January 1	\$ 382,440	\$ 382,440	\$ 382,440	\$ -
Fund Balances - December 31	\$ 303,023	\$ 154,907	\$ 467,732	\$ 312,825

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

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 244,182	\$ 244,182	\$ 467,512	\$ 223,330
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 128,391	\$ 219,071	\$ 186,192	\$ 32,879
Debt Service:				
Principal	115,850	115,850	115,124	726
Interest	-	-	12,740	(12,740)
Total Expenditures	\$ 244,241	\$ 334,921	\$ 314,056	\$ 20,865
Excess (Deficiency) of Revenues Over Expenditures	\$ (59)	\$ (90,739)	\$ 153,456	\$ 244,195
Fund Balances - January 1	\$ 180,338	\$ 180,338	\$ 180,338	\$ -
Fund Balances - December 31	\$ 180,279	\$ 89,599	\$ 333,794	\$ 244,195

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 190,652	\$ 190,652	\$ 186,294	\$ (4,358)
Intergovernmental	100	100	110	10
Total Revenues	<u>\$ 190,752</u>	<u>\$ 190,752</u>	<u>\$ 186,404</u>	<u>\$ (4,348)</u>
<u>Expenditures:</u>				
Current:				
Health and Welfare	<u>\$ 190,602</u>	<u>\$ 190,602</u>	<u>\$ 194,552</u>	<u>\$ (3,950)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ (8,148)</u>	<u>\$ (8,298)</u>
Fund Balances - January 1	<u>\$ (5,170)</u>	<u>\$ (5,170)</u>	<u>\$ (5,170)</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ (5,020)</u></u>	<u><u>\$ (5,020)</u></u>	<u><u>\$ (13,318)</u></u>	<u><u>\$ (8,298)</u></u>

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

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
OASIS/FICA
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 8	\$ 261,397	\$ 249,073	\$ (12,324)
Intergovernmental	12	50	151	101
Total Revenues	<u>\$ 20</u>	<u>\$ 261,447</u>	<u>\$ 249,224</u>	<u>\$ (12,223)</u>
<u>Expenditures:</u>				
Current:				
General Government	<u>\$ 244,000</u>	<u>\$ 304,927</u>	<u>\$ 318,192</u>	<u>\$ (13,265)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$(243,980)</u>	<u>\$ (43,480)</u>	<u>\$ (68,968)</u>	<u>\$ (25,488)</u>
Fund Balances - January 1	<u>\$ 57,540</u>	<u>\$ 57,540</u>	<u>\$ 57,540</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$(186,440)</u>	<u>\$ 14,060</u>	<u>\$ (11,428)</u>	<u>\$ (25,488)</u>

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

TOWNER COUNTY
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE
2006 FEMA FUND
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 584,052	\$ 584,052
<u>Expenditures:</u>				
Current:				
Flood Repair	\$ -	\$ -	\$ 263,819	\$ (263,819)
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ 320,233	\$ 320,233
Fund Balances - January 1	\$ 350,411	\$ 350,411	\$ 350,411	\$ -
Fund Balances - December 31	<u>\$ 350,411</u>	<u>\$ 350,411</u>	<u>\$ 670,644</u>	<u>\$ 320,233</u>

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

TOWNER COUNTY
Cando, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

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: EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2011, Towner County had the following fund expenditures in excess of budgeted amounts:

	Budget	Actual	Excess
<u>Special Revenue Funds:</u>			
Road & Bridge	\$737,097	\$745,854	\$ (8,757)
OASIS/FICA	304,927	318,192	(13,265)
FEMA	-	263,819	(263,819)
Stone Garden Grant	-	24,285	(24,285)

TOWNER COUNTY
Cando, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

	Balance 1-1-11	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-11
Major Funds:						
General Fund- 1000	\$ 26,934.63	\$ 1,000,777.87	\$ -	\$ -	\$ 714,540.27	\$ 313,172.23
Special Revenue Funds:						
Farm to Market - 2110	\$ 554,385.04	\$ 255,645.65	\$ -	\$ -	\$ 175,256.09	\$ 634,774.60
County Road and Bridge - 2130	382,440.10	918,202.24	-	-	737,095.76	563,546.58
Highway Taxes - 2150	136,008.32	493,434.86	-	-	334,919.86	294,523.32
Emergency Poor - 2220	9,118.14	244,097.00	-	-	188,240.36	64,974.78
Oasis and FICA - 2930	57,540.12	330,825.11	-	-	304,926.80	83,438.43
FEMA Fund	350,410.52	183,786.22	-	-	205,545.46	328,651.28
Total Special Revenue Funds	\$ 1,489,902.24	\$ 2,425,991.08	\$ -	\$ -	\$ 1,945,984.33	\$ 1,969,908.99
Total Major Funds	\$ 1,516,836.87	\$ 3,426,768.95	\$ -	\$ -	\$ 2,660,524.60	\$ 2,283,081.22
Special Revenue Funds (Non-Major):						
Special Road and Bridge - 2140	\$ 60,464.15	\$ 54,667.77	\$ -	\$ -	\$ 89,519.60	\$ 25,612.32
Stonegarden Grant - 2240	(7,000.94)	25,036.75	-	-	24,285.40	(6,249.59)
Emergency - 2910	51,916.35	53,488.04	-	-	54,155.74	51,248.65
Veterans Service Officer - 2920	8,489.45	16,030.39	-	-	15,673.59	8,846.25
Health Insurance - 2935	(51,260.04)	144,290.14	-	-	56,154.50	36,875.60
Advertising - 2940	8,127.74	2,323.48	-	-	2,284.21	8,167.01
Insurance Reserve - 2945	43,637.09	86,779.25	-	-	27,721.74	102,694.60
County Agent - 2960	12,869.31	81,720.32	-	-	56,998.81	37,590.82
Weed Control - 2970-2971	16,572.40	97,707.46	-	-	85,927.56	28,352.30
Regional Correctional Center - 2980	39,518.27	14,038.26	-	-	27,834.89	25,721.64
County Park - 2990	14,596.81	18,292.20	-	-	13,095.04	19,793.97
Total Special Revenue Funds (Non-Major)	\$ 197,930.59	\$ 594,374.06	\$ -	\$ -	\$ 453,651.08	\$ 338,653.57
Total Governmental Funds	\$ 1,714,767.46	\$ 4,021,143.01	\$ -	\$ -	\$ 3,114,175.68	\$ 2,621,734.79
Agency Funds:						
Displaced Homemaker -8003	\$ (1,850.00)	\$ 210.00	\$ -	\$ -	\$ (1,640.00)	\$ -
Domestic Violence - 8006	34.00	210.00	-	-	34.00	210.00
Historical Society - 8009	30.65	10,408.30	-	-	7,611.07	2,827.88
Sheriffs Special - 8084	290.74	-	-	-	-	290.74
County Agent Special - 8086	924.03	5,567.66	-	-	1,490.32	5,001.37
County Agent Pesticide - 8087	4,469.38	1,878.00	-	-	1,646.02	4,701.36
Hazardous Chemicals - 8085	2,189.38	287.50	-	-	-	2,476.88
State General - 8020	810.00	-	-	-	810.00	-
Job Development - 2919	1.58	35,495.85	-	-	25,951.18	9,546.25
Hospital - 2995	6,011.74	93,162.51	-	-	67,482.56	31,691.69
County Health District - 2925	91.64	58,785.12	-	-	41,168.94	17,707.82
Civil Legal Service - 8007	3,525.00	-	-	-	3,525.00	-
Senior Citizens - 8001	99.12	30,735.23	-	-	25,563.44	5,270.91
Unrealized Tax Revenue	929,215.04	-	-	-	929,215.04	-
Payroll Deduction - 8095	-	-	-	-	(37,023.34)	37,023.34
Estimated Taxes - 8016	(42.02)	11,217.83	-	-	11,216.05	(40.24)
Clerk of Court Special - 8081	1,440.70	(1.00)	-	-	1,439.70	-
State Fines - 8010	1,221.00	-	-	-	1,221.00	-
Attorney Application Fee - 8011	4,518.59	-	-	-	4,518.59	-
State Tax - 8002	10,214.35	29,421.87	-	-	34,752.34	4,883.88
County Airport - 2950	64.30	17,478.19	-	-	12,977.01	4,565.48
Document Preservation - 8083	7,967.40	4,455.14	-	-	2,666.50	9,756.04
Ambulance General - 8013	96.75	11,668.31	-	-	9,901.26	1,863.80

Continued on Next Page.....

TOWNER COUNTY
Cando, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

	Balance 1-1-11	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-11
CONTINUED...						
Ambulance North	\$ 215.61	\$ 26,973.25	\$ -	\$ -	\$ 24,447.51	\$ 2,741.35
Soil Conservation General - 8015	99.76	33,262.62	-	-	25,438.22	7,924.16
Soil Conservation INS RES	12.18	3,649.71	-	-	2,645.28	1,016.61
State Administration	(7,277.27)	-	-	-	(7,277.27)	-
Game and Fish	2,713.00	31,816.50	-	-	19,985.00	14,544.50
Game and Fish Trust Fund	46,959.91	1,292.35	-	-	-	48,252.26
Total Cities	6,057.47	445,938.59	-	-	390,350.48	61,645.58
Total City Park	330.94	92,996.66	-	-	81,328.93	11,998.67
Total School Districts	(16,802.21)	1,938,840.11	-	-	1,529,863.99	392,173.91
Total Townships	(22,404.92)	554,489.34	-	-	469,372.22	62,712.20
Total Lake Basin	45.94	24,908.67	-	-	19,580.20	5,374.41
Water Resource District	352.30	73,418.84	-	-	56,069.30	17,701.84
Water Resource Dist. #1 Mesa (Badger Coulee)	51.89	6,030.13	-	-	6,082.02	-
Water Resource Dist. #2 Teddy (Hurricane Lake)	(3,299.34)	-	-	-	(3,299.34)	-
Water Resource District 1 2006 Hidden Island	-	101.48	-	-	101.48	-
Water Resource District-old	(4,142.25)	-	-	-	(4,142.25)	-
Water Resource District #2	-	3,259.18	-	-	3,102.97	156.21
Water Resource District #3	160.92	4,238.15	-	-	3,761.24	637.83
Total Rural Fire District	339.70	104,000.05	-	-	73,401.19	30,938.56
Horizon (2972&2973)	-	4,473.47	-	-	510.62	3,962.85
Paid Under Protest	7,393.38	-	-	-	7,393.38	-
Total Agency Funds	\$ 982,130.38	\$ 3,660,669.61	\$ -	\$ -	\$ 3,843,241.85	\$ 799,558.14
Total Primary Government	\$ 2,696,897.84	\$ 7,681,812.62	\$ -	\$ -	\$ 6,957,417.53	\$ 3,421,292.93
<u>Component Units:</u>						
Water Resource District	\$ 84,939.86	\$ 68,936.79	\$ -	\$ -	\$ 56,295.55	\$ 97,581.10
Health District	61,570.25	142,167.55	-	-	133,864.17	69,873.63
Total Component Units	\$ 146,510.11	\$ 211,104.34	\$ -	\$ -	\$ 190,159.72	\$ 167,454.73
Total Reporting Entity	\$ 2,843,407.95	\$ 7,892,916.96	\$ -	\$ -	\$ 7,147,577.25	\$ 3,588,747.66

STATE AUDITOR

ROBERT R. PETERSON
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

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
Bismarck, North Dakota

We were engaged to audit 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, Cando, North Dakota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements and have issued our report dated June 10, 2013. We audited the accompanying financial statements of the aggregate discretely presented component units. We were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions relating to for governmental activities, each major fund, and the aggregate remaining fund information, and we were not able to apply other auditing procedures to satisfy ourselves as to the amounts reported in those reporting units, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on those financial statements. 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.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses [2011-02, 2011-03, 2011-04, and 2011-05].

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a significant deficiency [2011-01].

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 is required to be reported under *Government Auditing Standards*.

Towner County's Response to Findings

Towner County's response to the findings 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 basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Robert R. Peterson
State Auditor

June 10, 2013

TOWNER COUNTY
Cando, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Disclaimer
Discretely Presented Component Units	Unmodified
Major Funds	Disclaimer
Aggregate Remaining Fund Information	Disclaimer

Internal Control over financial reporting:

Material weaknesses identified? X Yes No

Significant deficiencies identified not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

Section II - Financial Statement Findings

2011-01 – LACK OF SEGREGATION OF DUTIES - COUNTY

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.

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.

TOWNER COUNTY

Schedule of Findings and Questioned Costs - Continued

2011-02 – REVIEW OF TREASURER’S CHECKS - COUNTY

Condition:

Per review of treasurer’s checks written during the 2011 year, three checks amounting to \$9,201.00 were written out of the Treasurer’s account to a fictitious vendor that were not proper. In the prior year, a review of treasurer’s checks written during the 2010 year, ten checks amounting to \$21,014.10 were written out of the Treasurer’s account to an employee and a fictitious vendor.

Effect:

The three checks in 2011 were written to a fictitious vendor (Serendity Inc.) In the prior year the same issue existed and three out of the ten checks written to a county employee and the other seven to a vendor (Serendity Inc.) that were not recognized as a legitimate vendor by the county auditor or the county board. The lack of adequate supporting documentation indicates a potential risk of fraud.

Cause:

This is due to client having a weak entity-level controls and ‘relaxed’ internal controls surrounding expenditures, especially over treasurer’s checks and not understanding the necessity of obtaining adequate support for each expenditure made.

Criteria:

Strong/effective internal controls over properly reporting and processing expenditures from treasurer’s account require obtaining and maintaining invoices or other appropriate documentation to support the reason for the expenditure. Strong/effective entity-level controls require proper review of expenditures by management and ultimately the board of commissioners.

Recommendation:

We recommend that a designated official, independent of the check signer, review treasurer checks to ensure that they are accurate and appropriate.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the recommendation. Treasurers check book is kept in the possession of the Auditor/Treasurer. A check is not written without a claim voucher signed by the dept. head. The Commissioners review the claim vouchers. The account is reconciled by the Deputy Treasurer.

2011-03 – CORRECTING ENTRY SUPPORTING DOCUMENTATION - COUNTY

Condition:

Per review of the 2011 account history, there were numerous correcting entries with no support or reasoning for the correction in the general ledger. The correcting entries were from various funds and were in the form of revenues and expenditures. The correcting entries that were called into question totaled approximately \$2.6 million, which is material to the government wide statements.

Effect:

The correcting entries present substantial doubt whether or not they are a misrepresentation of a material fact for the purpose of the financial statements.

Cause:

This is due to client having a weak entity-level controls and ‘relaxed’ internal controls surrounding the general ledger entry process and not understanding the necessity of obtaining adequate support for correcting entries.

Criteria:

Strong/effective internal controls over properly reporting and processing of general ledger entries require appropriate documentation to support all entries into the general ledger. Strong/effective entity-level controls require proper review of general ledger entries by management and ultimately the board of commissioners.

TOWNER COUNTY

Schedule of Findings and Questioned Costs - Continued

Recommendation:

We recommend that all correcting entries are made by appropriate officials and adequate supporting documentation is maintained on hand so that correcting entries can be proven to be proper and accurate.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the recommendation. Previous management did not understand the purpose of obtaining adequate support on correcting entries. Current management, as of May 2011, has the training, knowledge and experience necessary to understand and document corrective entries.

2011-04 – BOARD APPROVAL OF BILLS - COUNTY

Condition:

Towner County paid an employee inappropriately and a fictitious vendor a total known amount of \$53,028 during the 2010 and 2011 calendar years. The amount is comprised of \$21,014 during calendar year 2010 and \$32,014 during calendar year 2011.

Effect:

The payments made to the employee and fictitious vendor resulted in misappropriation of County Assets and a loss of public funds (which was still in litigation as of December 31, 2011).

Cause:

There is a lack of entity level controls surrounding expenditures. The lack of consistent approval of expenditures in the minutes results in an increase in risk of loss and reputation of Towner County due to either error or fraud.

Criteria:

The general duties under NDCC 11-11-11 state "*the board of county commissioners shall superintend the fiscal affairs of the county and shall supervise the conduct of the respective county officers*". Proper internal control surrounding expenditures includes approval of invoices to decrease the potential risk of loss, whether due to error or fraud.

Recommendation:

We recommend that the Towner County board review invoices and a detailed listing of all the bills paid including a review of treasurer checks written. Proper approval should include signatures from a member of the board on each invoice to ensure payments are all proper and accurate.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the recommendations. The Auditor/Treasurer prepares a list of expenditures each month for board review. The Commissioners also look at the invoices and the Vice-Chairman signs each invoice. Also, one Commissioner is required to sign all checks along with the Auditor/Treasurer.

2011-05 – BANK STATEMENT RECONCILIATIONS - COUNTY

Condition:

Per review of March 2011 bank statements received from the client, the original statement had been tampered with to hide a fraudulent check that was written. Also, reconciliation of bank balances and bank balances did not agree at year end. Unexplained adjustments were made to make the bank balances reconcile to the book balances.

Effect:

The bank reconciliations are not accurate and cannot be relied upon. The bank statements used in the preparation of the reconciliations were forged, including the omitting of transactions.

Cause:

Since the bank reconciliation preparer is the same person who receives and files the bank statements, there was opportunity for the individual to replace the original statements with falsified statements. Also, the lack of review of bank reconciliations by someone other than the preparer allowed for forgery of bank statements and inaccurate bank reconciliations.

TOWNER COUNTY

Schedule of Findings and Questioned Costs - Continued

Criteria:

Controls surrounding reconciliation of bank statements to the book balance should include a segregation of duties between the person who receives/opens the original bank statements and the preparer of the reconciliations. Also, completed bank reconciliations should be reviewed by someone other than the preparer for accuracy.

Recommendation:

We recommend that Towner County when feasible, segregate the duties of receiving bank statements from the duties of preparing bank reconciliations. Also, an individual other than the preparer should review the bank reconciliations for accuracy and propriety.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the recommendations. Auditor/Treasurer gets mail and opens the Bank Statements. Deputy Treasurer prepares the reconciliation. Auditor/Treasurer reviews the reconciliations.