

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

**PEMBINA COUNTY
CAVALIER, NORTH DAKOTA**

FOR THE YEAR ENDED DECEMBER 31, 2012



PEMBINA COUNTY
Cavalier, North Dakota

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For the Year Ended December 31, 2012

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PEMBINA COUNTY
Cavalier, North Dakota

COUNTY OFFICIALS

December 31, 2012

Andy Adamson		Commissioner - Chairperson
Gary Nilsson		Commissioner - Vice Chairperson
Corene Vaughn	(January-November)	Commissioner
Laverne Doyle	(December)	Commissioner
Hugh Ralston		Commissioner
Hetty Walker		Commissioner
Linda Schlittenhard		County Auditor/Treasurer/Supt. of Schools
Kay Braget		County Clerk of Court/County Recorder
Brian Erovick		Sheriff
Barbara Whelan		Appointed Interim State's Attorney
Julie Doyle		Tax Director
Troy Kittelson		Highway Superintendent
Jill Pedersen		Disaster Emergency Director

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
Pembina County
Cavalier, 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 Pembina County, Cavalier, North Dakota, as of and for the year ended December 31, 2012, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pembina County, Cavalier, North Dakota, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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* on pages 25-30 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 Pembina County's basic financial statements. The *schedule of fund activity arising from cash transactions and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of fund activity arising from cash transactions and schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of fund activity arising from cash transactions is not fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of Pembina 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 Pembina County's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 30, 2013

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF NET POSITION
December 31, 2012

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Job Development Authority
ASSETS:			
Cash and Investments	\$ 4,285,544	\$ 647,261	\$ 352,548
Intergovernmental Receivable	1,172,313	-	-
Special Assessments Receivable	-	9,824	-
Road Accounts Receivable	55,641	-	-
Taxes Receivable	80,145	4,177	3,133
Job Development Loans Receivable (net of allowance)	-	-	232,639
Capital Assets (not being depreciated):			
Land	4,900	-	-
Capital Assets (being depreciated):			
Buildings	1,541,819	-	-
Equipment and Vehicles	980,585	-	-
Infrastructure	<u>1,775,022</u>	<u>2,699,428</u>	-
Total Capital Assets	<u>\$ 4,302,326</u>	<u>\$ 2,699,428</u>	<u>\$ -</u>
Total Assets	<u>\$ 9,895,969</u>	<u>\$ 3,360,690</u>	<u>\$ 588,320</u>
LIABILITIES:			
Accounts Payable	\$ 73,247	\$ -	\$ 15,300
Long-Term Liabilities:			
Due Within One Year:			
Loan Payable	90,000	-	-
Lines of Credit Payable	-	835,067	-
Warrants Payable	-	345,325	-
Compensated Absences Payable	10,452	204	-
Due After One Year:			
Compensated Absences Payable	<u>94,063</u>	<u>1,838</u>	<u>-</u>
Total Liabilities	<u>\$ 267,762</u>	<u>\$ 1,182,434</u>	<u>\$ 15,300</u>
NET POSITION:			
Net Investment in Capital Assets	\$ 4,302,326	\$ 1,864,361	\$ -
Restricted for:			
Debt Service	100,713	-	-
Public Safety	46,458	-	-
Highways and Bridges	2,528,307	-	-
Flood Repair	277,844	-	-
Health and Welfare	434,265	-	-
Culture and Recreation	4,943	-	-
Conservation of Natural Resources	166,450	313,895	-
Emergencies	373,278	-	-
Economic Development	-	-	340,381
Loans	-	-	232,639
Other Purposes	290,786	-	-
Unrestricted	<u>1,102,837</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>\$ 9,628,207</u>	<u>\$ 2,178,256</u>	<u>\$ 573,020</u>

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

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, Forfeits and Charges for Services	Operating Grants and Contributions	Primary Government	Component Units	
				Governmental Activities	Water Resource District	Job Development Authority
Primary Government:						
General Government	\$ 2,000,924	\$ 152,770	\$ 128,784	\$ (1,719,370)		
Public Safety	1,149,023	237,950	187,454	(723,619)		
Highways and Bridges	2,222,462	171,167	2,223,284	171,989		
Flood Repair	433,227	-	85,850	(347,377)		
Health and Welfare	1,057,575	64,304	252,979	(740,292)		
Conserv. of Natural Resources	134,657	-	31,489	(103,168)		
Culture and Recreation	3	-	-	(3)		
Economic Development	23,625	-	-	(23,625)		
Interest and Service Charges	1,310	-	-	(1,310)		
Total Governmental Activities	\$ 7,022,806	\$ 626,191	\$ 2,909,840	\$ (3,486,775)		
Component Units:						
Water Resource District	\$ 2,669,838	\$ -	\$ 1,200,206	\$ (1,469,632)	\$ -	
Job Development Authority	94,348	-	-	-	(94,348)	
Total Component Units	\$ 2,764,186	\$ -	\$ 1,200,206	\$ (1,469,632)	\$ (94,348)	
General Revenues:						
Taxes:						
Property taxes; levied for general purposes			\$ 825,890	\$ 168,867	\$ -	
Property taxes; levied for special purposes			2,156,539	-	118,428	
Property taxes; levied for debt service			79,785	-	-	
Property taxes; levied for drains/maintenance			-	825,216	-	
State Aid & Grants not restricted to specific programs			889,736	-	9,827	
Unrestricted Investment Earnings			-	884	-	
Miscellaneous Revenue			335,941	29,263	7,263	
Total General Revenues			\$ 4,287,891	\$ 1,024,230	\$ 135,518	
Change in Net Position			\$ 801,116	\$ (445,402)	\$ 41,170	
Net Position - January 1			\$ 8,827,091	\$ 2,623,658	\$ 531,850	
Net Position - December 31			\$ 9,628,207	\$ 2,178,256	\$ 573,020	

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

PEMBINA COUNTY
Cavalier, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012

	General	County Road and Bridge	Highway Funds	Farm to Market Road	Social Services	Correctional Center	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Cash Equivalents	\$ 858,145	\$ 424,694	\$ 1,129,291	\$ 205,241	\$ 2,881	\$ -	\$ 1,665,292	\$ 4,285,544
Intergovernmental Receivable	235,922	-	885,185	-	-	-	51,206	1,172,313
Due from Other Funds	58,837	-	-	-	-	-	-	58,837
Road Accounts Receivable	-	55,641	-	-	-	-	-	55,641
Taxes Receivable	20,857	3,162	-	10,443	-	2,210	43,473	80,145
Total Assets	\$ 1,173,761	\$ 483,497	\$ 2,014,476	\$ 215,684	\$ 2,881	\$ 2,210	\$ 1,759,971	\$ 5,652,480
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ -	\$ -	\$ 73,247	\$ -	\$ -	\$ -	\$ -	\$ 73,247
Due to Other Funds	-	-	-	-	-	41,709	17,128	58,837
Total Liabilities	\$ -	\$ -	\$ 73,247	\$ -	\$ -	\$ 41,709	\$ 17,128	\$ 132,084
Deferred Inflows of Resources:								
Road Receivable	\$ -	\$ 55,641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,641
Taxes Receivable	20,857	3,162	-	10,443	-	2,210	43,473	80,145
Total Deferred Inflows of Resources	\$ 20,857	\$ 58,803	\$ -	\$ 10,443	\$ -	\$ 2,210	\$ 43,473	\$ 135,786
Total Liabilities and Deferred Inflows of Resources	\$ 20,857	\$ 58,803	\$ 73,247	\$ 10,443	\$ -	\$ 43,919	\$ 60,601	\$ 267,870
Fund Balances:								
Restricted								
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,616	\$ 98,616
Highways and Bridges	-	424,694	1,941,229	205,241	-	-	-	2,571,164
Flood Repair & Mitigation	-	-	-	-	-	-	277,844	277,844
Social Services & Health/Welfare	-	-	-	-	2,881	-	438,244	441,125
Public Safety	-	-	-	-	-	-	83,995	83,995
Conservation of Natural Resources	-	-	-	-	-	-	162,478	162,478
Emergency	-	-	-	-	-	-	372,544	372,544
Culture and Recreation	-	-	-	-	-	-	4,499	4,499
Other Purposes	-	-	-	-	-	-	278,278	278,278
Unassigned:	1,152,904	-	-	-	-	(41,709)	(17,128)	1,094,067
Total Fund Balances	\$ 1,152,904	\$ 424,694	\$ 1,941,229	\$ 205,241	\$ 2,881	\$ (41,709)	\$ 1,699,370	\$ 5,384,610
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,173,761	\$ 483,497	\$ 2,014,476	\$ 215,684	\$ 2,881	\$ 2,210	\$ 1,759,971	\$ 5,652,480

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

PEMBINA COUNTY
Cavalier, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2012

Total *Fund Balances* of Governmental Funds \$ 5,384,610

Amounts reported for governmental activities in the statement of net position are different because:

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

Cost of Capital Assets	\$ 8,342,371	
Less Accumulated Depreciation	<u>(4,040,045)</u>	
Net Capital Assets		4,302,326

Property taxes and road dept. 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	\$ 80,145	
Road Department Accounts Receivable	<u>55,641</u>	135,786

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, 2012 are:

Lines of Credit Payable	\$ (90,000)	
Compensated Absences Payable	<u>(104,515)</u>	
Total Long-Term Liabilities		<u>(194,515)</u>

Net Position of Governmental Activities \$ 9,628,207

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

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General	County Road and Bridge	Highway Funds	Farm to Market Road	Social Services	Correctional Center	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 823,263	\$ 121,456	\$ -	\$ 399,153	\$ -	\$ 80,886	\$ 1,629,511	\$ 3,054,269
Intergovernmental	856,948	5,184	2,179,990	38,110	131,104	255	587,985	3,799,576
Charges for Services	371,207	-	170,138	-	62,535	-	17,202	621,082
Licenses, Permits and Fees	4,080	-	-	-	-	-	-	4,080
Miscellaneous	70,002	-	47,651	-	1,050	195	217,043	335,941
Total Revenues	\$ 2,125,500	\$ 126,640	\$ 2,397,779	\$ 437,263	\$ 194,689	\$ 81,336	\$ 2,451,741	\$ 7,814,948
Expenditures:								
Current:								
General Government	\$ 782,670	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,193,359	\$ 1,976,029
Public Safety	878,771	-	-	-	-	124,369	95,350	1,098,490
Highways and Bridges	-	50,893	1,372,162	686,825	-	-	-	2,109,880
Flood Repair	-	-	-	-	-	-	433,227	433,227
Health and Welfare	137,551	-	-	-	748,872	-	182,942	1,069,365
Culture and Recreation	-	-	-	-	-	-	3	3
Conserv. of Natural Resources	-	-	-	-	-	-	204,117	204,117
Economic Development	23,625	-	-	-	-	-	-	23,625
Debt Service:								
Principal	-	-	35,885	-	-	-	80,000	115,885
Interest and Fiscal Charges	-	-	819	-	-	-	491	1,310
Total Expenditures	\$ 1,822,617	\$ 50,893	\$ 1,408,866	\$ 686,825	\$ 748,872	\$ 124,369	\$ 2,189,489	\$ 7,031,931
Excess (Deficiency) of Revenues Over Expenditures	\$ 302,883	\$ 75,747	\$ 988,913	\$ (249,562)	\$ (554,183)	\$ (43,033)	\$ 262,252	\$ 783,017
Other Financing Sources (Uses):								
Loan Proceeds	\$ -	\$ -	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ 90,000
Transfers in	75,000	-	-	-	555,000	-	75,000	705,000
Transfers out	(75,000)	-	-	-	-	-	(630,000)	(705,000)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ 90,000	\$ -	\$ 555,000	\$ -	\$ (555,000)	\$ 90,000
Net Change in Fund Balances	\$ 302,883	\$ 75,747	\$ 1,078,913	\$ (249,562)	\$ 817	\$ (43,033)	\$ (292,748)	\$ 873,017
Fund Balances - January 1	\$ 850,021	\$ 348,947	\$ 862,316	\$ 454,803	\$ 2,064	\$ 1,324	\$ 1,992,118	\$ 4,511,593
Fund Balances - December 31	\$ 1,152,904	\$ 424,694	\$ 1,941,229	\$ 205,241	\$ 2,881	\$ (41,709)	\$ 1,699,370	\$ 5,384,610

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

PEMBINA COUNTY
Cavalier, 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, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ 873,017

Amounts reported for governmental activities in the statement of activities are different because:

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

Current Year Capital Outlay	\$ 221,601	
Current Year Depreciation Expense	(286,036)	
Loss on Capital Assets	<u>(40,826)</u>	(105,261)

The issuance of debt decreases long-term liabilities, while the 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 payments exceeded debt proceeds.

Issuance of Debt - Loan	\$ (90,000)	
Repayment of Debt	<u>115,885</u>	25,885

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. This consists of a net decrease in compensated absences.

(1,499)

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 following:

Change in Taxes Receivable	\$ 7,945	
Change in Road Accounts Receivable	<u>1,029</u>	<u>8,974</u>

Change in Net Position of Governmental Activities \$ 801,116

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

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES
FIDUCIARY FUNDS
December 31, 2012

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash and Cash Equivalents	<u>\$ 4,285,919</u>
<u>Liabilities:</u>	
Due to Other Governments	<u>\$ 4,285,919</u>

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

PEMBINA COUNTY
Cavalier, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pembina County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the county's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of Pembina 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 Pembina 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 Pembina County.

Based on these criteria, there are two discretely presented component units to be included within Pembina 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 separate columns to emphasize that they are legally separate from the county.

Pembina County Job Development Authority - The County's governing board appoints a voting majority of the members of the Pembina County Job Development Authority. The county has the authority to approve or modify the Job Development Authority's operational and capital budgets. The county's governing board must approve the tax levy established by the Job Development Authority. The Job Development Authority has the authority to issue bonded debt.

Pembina County Water Resource District - The County's governing board appoints a voting majority of the members of the Pembina 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.

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 Pembina County Auditor/Treasurer, Pembina County, 301 Dakota Street West, Cavalier, North Dakota, 58220.

B. Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, Pembina 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 nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's and the component units 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 nonmajor funds.

The county reports the following major governmental funds:

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

County Road and Bridge Fund. This fund accounts for repair and improvement of county roads and bridges that are legally restricted from taxes levied. The major sources of revenues are a restricted tax levy and State/Federal grants/reimbursements.

Highway Funds. This fund accounts for repair and improvement of highways that are legally restricted from state highway tax distribution. The major sources of revenues are a restricted tax levy and State/Federal grants/reimbursements.

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 sources of revenues are a restricted tax levy and State/Federal grants/reimbursements.

Social Services Fund. This fund accounts for the costs of providing social service benefits and programs to needy residents of the county. The major sources of revenues are restricted State/Federal grants/reimbursements.

Correctional Center Fund. This fund accounts for the operations of the County Correctional Center. 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. Nonexchange 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.

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.

PEMBINA 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	40
Machinery & Equipment	5 - 15
Vehicles	3 - 5
Office Equipment	3 - 5
Infrastructure	40

DISCRETELY PRESENTED COMPONENT UNIT:Pembina County Water Resource District:

Capital assets of the Pembina County Water Resource District, a discretely presented component unit of Pembina County, include equipment and infrastructure. Assets are reported in a discretely presented component unit column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

General infrastructure assets acquired prior to January 1, 2004 consisting of various drain and dam projects are not reported in the financial statements, as the District was required to prospectively report infrastructure assets beginning January 1, 2004 as a Phase III GASB 34 implementation entity. The District reported various infrastructure projects in progress at December 31, 2004 as construction in progress.

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

Assets	Years
Infrastructure	20
Equipment	5 - 7

F. Compensated Absences

Vacation leave is earned at the rate of one to two days per month depending on years of service. Employees are allowed to accrue a maximum of 30 days of vacation. Upon termination of employment, employees will be paid for vacation benefits that have accrued through the last day of the week. Sick leave benefits are earned at the rate of one day per month regardless of the years of service. An unlimited number of sick leave hours may be carried over. Employees that reach the Rule of 85 are paid accumulated sick leave, but terminated employees are not paid for accumulated sick leave. A liability for the vested portion of compensated absences for governmental funds is reported in the government-wide statement of net position.

Years of Service	Hours per Month
1 through 3 years	8
4 through 7 years	10
8 through 12 years	12
13 through 18 years	14
19 years and above	16

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 for the primary government and the Pembina County Water Resource District, a discretely presented component unit. Bond premiums, discounts and issuance costs, when applicable, are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 Pembina 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 funds, farm to market, social services, social services levy, and flood emergency fund) are disclosed in more detail in Note 1B.

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

On March 11, 2010 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, 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

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

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.

Continued on next page.....

PEMBINA COUNTY

Notes to the Financial Statements – Continued

CLASSIFICATION	DEFINITION	EXAMPLES
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance. (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Pembina County only has restricted and unassigned fund balances at December 31, 2012.

Restricted Fund Balances – consist of the following items at December 31, 2012:

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).

Special Revenue Funds – Restricted & Committed Fund Balances:

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
- Restricted tax levies – includes fund balances for various tax levies other than the general fund.
 - Restricted grants/reimbursements – primarily includes FEMA funds, other grant funds, and highway tax distribution.

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.

The County implemented the provisions of GASB 63 'Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position' during the year ended December 31, 2012. Prior to GASB 63, equity in the statement of net assets was reported in the applicable categories of net assets. Under the provisions of GASB 63, the net assets statement was changed to the statement of net position, and net assets equity was changed to net position. GASB 63 didn't change how net position is calculated into the 3 primary categories as outlined in further detail below.

Net investment in capital assets is reported for capital assets less accumulated depreciation, and less any related debt to purchase/finance the construction of those capital assets. These assets are not available for future spending.

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Restrictions of net position in the statement of net position is shown by primary function (as fund balances are shown) and are restricted for public safety, highways & bridges, health & welfare, culture & recreation, conservation of natural resources, capital projects, emergencies, economic development, and other general government 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 (sheriff’s grants and state reimbursements). 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

The board of county commissioners amended the county budget for 2012 as follows:

	Original Budget	Budget Amendment	Amended Budget
<u>Major Funds:</u>			
Highway Fund	\$1,289,100	\$ 41,503	\$1,330,603
Correctional Center	96,220	28,148	124,368
<u>Nonmajor Funds:</u>			
<u>Special Revenue Funds:</u>			
County Nurse Special Trust	300	60	360
Sheriff’s Trust Fund	-	8,544	8,544
Flood Emergency	150,000	283,227	433,227
Tobacco Funds	38,786	5,061	43,847
Bookmobile	-	3	3
County Agent Special Trust	-	7,605	7,605
County Loan	80,370	121	80,491

NOTE 3: DEPOSITS

In accordance with North Dakota Statutes, Pembina 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.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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, 2012, the county's carrying amount of deposits was \$8,074,664 and the bank balances totaled \$8,009,154. Of the bank balances, \$1,959,696 was deposited at the Bank of North Dakota, \$1,254,811 was covered by Federal Depository Insurance, and \$500,000 was covered by the National Credit Union Administration. The remaining bank balances totaling \$4,294,646 were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2012, the water resource district's carrying amount of deposits was \$647,261 and the bank balances totaled \$802,905. Of the bank balances, \$409,016 was covered by Federal Depository Insurance. The remaining bank balances totaling \$393,889 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

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

As of December 31, 2012, the county had certificates of deposit totaling \$1,565,000, 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.

NOTE 4: TAXES RECEIVABLE

The taxes receivable represents the past three 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.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 5: DUE TO / FROM OTHER FUNDS

The due to other funds reported in the other governmental funds represent the amount of negative cash at year-end that was covered by the general fund (\$58,837) in the correctional center fund (\$41,709), WIC fund (\$2,678), and homeland security fund (\$14,450).

NOTE 6: ROAD ACCOUNTS RECEIVABLE

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

NOTE 7: 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 revenue sharing, and other state and federal grants.

NOTE 8: JOB DEVELOPMENT LOANS RECEIVABLE

The Job Development Authority, a discretely presented component unit of Pembina County, provides loans to businesses for either start-up costs or expansion costs. The Development Authority receives applications from various businesses within the community and either approves or denies the applications based on majority board decision. The Authority had the following activity in loans outstanding for the year ended December 31, 2012.

Name/Business	Beginning Balance 1-1-12	New Loans/ Additions	Payments	Ending Balance 12-31-12
Northern Valley Growers	\$ 4,000	\$ -	\$ -	\$ 4,000
Main Street Café	274	-	-	274
QMAS	8,736	-	-	8,736
Tarnel USA	1,297	-	-	1,297
John Carpenter	5,000	-	947	4,053
Barber Business Properties	1,485	-	-	1,485
Border Town Wire Products	3,224	-	-	3,224
Valley Crete Products	25,275	-	-	25,275
La Tea Da	5,663	-	1,446	4,217
Hank's Corner Hardware	375	-	277	98
T & M Restaurant	911	-	911	-
T & M Restaurant	156	-	156	-
Dakota Valley Growers, LLP	14,277	-	3,727	10,550
Pete Marciniak Enterprises	22,361	-	1,648	20,713
HBS of ND LLC	78,847	-	-	78,847
Sweet Pro Feeds	-	11,000	-	11,000
Red River Repair	-	10,000	539	9,461
Agrimaxx, Inc.	58,145	-	-	58,145
Allowance for Doubtful Loans	(8,736)	-	-	(8,736)
Total Net Loans Receivable	\$221,290	\$21,000	\$9,651	\$232,639

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 9: DEFERRED INFLOWS OF RESOURCES

Pembina County early implemented provisions of GASB 65 “Items Previously Reported as Assets and Liabilities” during the year ended December 31, 2012. Prior to GASB 63, the offset to taxes receivable was reported as a liability in the balance sheet, but is now reported as a deferred inflow of resources under the provisions of GASB 65.

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes and the road accounts receivable 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 and road accounts receivable are measurable but not available.

NOTE 10: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2012:

PRIMARY GOVERNMENT: Governmental Activities:	Balance 1-1-12	Increases	Decreases	Transfers	Balance 12-31-12
<i>Capital assets not being depreciated:</i>					
Land	\$ 4,900	\$ -	\$ -	\$ -	\$ 4,900
Construction in Progress	304,600	46,210	-	(350,810)	-
Total Capital Assets, Not Being Depreciated	\$ 309,500	\$ 46,210	\$ -	\$(350,810)	\$ 4,900
<i>Capital assets being depreciated:</i>					
Buildings	\$2,706,659	\$ -	\$ -	\$ 350,810	\$3,057,469
Equipment	3,108,023	175,391	97,688	-	3,185,726
Infrastructure	2,094,276	-	-	-	2,094,276
Total Capital Assets, Being Depreciated	\$7,908,958	\$ 175,391	\$97,688	\$ 350,810	\$8,337,471
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$1,446,160	\$ 69,490	\$ -	\$ -	\$1,515,650
Equipment	2,097,814	164,189	56,862	-	2,205,141
Infrastructure	266,897	52,357	-	-	319,254
Total Accumulated Depreciation	\$3,810,871	\$ 286,036	\$56,862	\$ -	\$4,040,045
Total Capital Assets Being Depreciated, Net	\$4,098,087	\$(110,645)	\$40,826	\$ 350,810	\$4,297,426
Governmental Activities Capital Assets, Net	\$4,407,587	\$ (64,435)	\$40,826	\$ -	\$4,302,326

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

Governmental Activities:	Amounts
General Government	\$ 38,411
Public Safety	67,785
Highways and Bridges	174,178
Health and Welfare	2,152
Conservation of Natural Resource	3,510
Total Depreciation Expense - Governmental Activities	\$286,036

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Pembina County Water Resource District:

The following is a summary of changes in capital assets for the Pembina County Water Resource District, a discretely presented component unit of Pembina County, for the year ended December 31, 2012:

WATER RESOURCE DISTRICT Governmental Activities:	Balance 1-1-12	Increases	Decreases	Transfers	Balance 12-31-12
<i>Capital assets not being depreciated:</i>					
Construction in Progress	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Capital assets being depreciated:</i>					
Equipment	\$ 134,391	\$ -	\$ -	\$ -	\$ 134,391
Infrastructure	3,395,882	-	-	-	3,395,882
Total Capital Assets, Being Depreciated	\$3,530,273	\$ -	\$ -	\$ -	\$3,530,273
<i>Less Accumulated Depreciation for:</i>					
Equipment	\$ 304,185	\$ -	\$ -	\$ -	\$ 304,185
Infrastructure	356,865	169,795	-	-	526,660
Total Accumulated Depreciation	\$ 661,050	\$ 169,795	\$ -	\$ -	\$ 830,845
Total Capital Assets Being Depreciated, Net	\$2,869,223	\$(169,795)	\$ -	\$ -	\$2,699,428
Total Capital Assets	\$2,869,223	\$(169,795)	\$ -	\$ -	\$2,699,428

Depreciation expense totaling \$169,795 was charged to the conservation of natural resources function for the year ended December 31, 2012.

NOTE 11: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to December 31, 2012 and chargeable to the appropriations for the years then ended, but paid for subsequent to that date.

NOTE 12: LONG-TERM DEBT

Primary Government:

Changes in Long-Term Liabilities - During the year ended December 31, 2012; the following changes occurred in governmental activities long-term liabilities for the primary government:

Governmental Activities:	Balance 1-1-12	Increases	Decreases	Balance 12-31-12	Due Within One Year
Leases Payable	\$ 35,885	\$ -	\$ 35,885	\$ -	\$ -
Loan Payable	80,000	90,000	80,000	90,000	90,000
Compensated Absences	103,016	1,499	-	104,515	10,452
Total Governmental Activities	\$218,901	\$91,499	\$115,885	\$194,515	\$100,452

Loan Payable - The \$90,000 county loan payable is due in one payment in 2012 with total interest owed of \$491.

DISCRETELY PRESENTED COMPONENT UNIT:

Pembina County Water Resource District:

During the year ended December 31, 2012, the following changes occurred in the long-term liabilities of the Water Resource District:

Governmental Activities:	Balance 1-1-12	Increases	Decreases	Balance 12-31-12	Due Within One Year
Warrants Payable	\$255,977	\$387,160	\$297,812	\$ 345,325	\$ 345,325
Lines of Credit Payable	582,097	589,906	336,936	835,067	835,067
Compensated Absences	-	2,042	-	2,042	204
Total Governmental Activities	\$838,074	\$979,108	\$634,748	\$1,182,434	\$1,180,596

PEMBINA COUNTY

Notes to the Financial Statements – Continued

WRD Lines of Credit Payable:

\$200,000 Line of Credit from Choice Financial Bank for Drain #72, no set payment schedule, interest at 5.15%.	\$ 68,864
\$297,406 Line of Credit from United Valley Bank, no set payment schedule, interest at 4.0-4.25%.	297,406
\$163,988 Line of Credit from Choice Financial Bank for Walhalla Drain #2, no set payment schedule, interest at 4.25%.	52,988
\$93,414 Line of Credit from Choice Financial Bank for Walhalla Drain #3, no set payment schedule, interest at 4.25%.	19,195
\$154,614 Line of Credit from Choice Financial Bank for Renwick Dam, no set payment schedule, interest at 4.15%.	14,614
\$400,000 Line of Credit from KodaBank, no set payment schedule, interest at 1.75%.	<u>400,000</u>
Total Water Resource District Lines of Credit Payable	<u>\$835,067</u>

There are no set payment schedules for the warrants and lines of credit payable, thus the future debt payments separated into principal and interest portions for the next five years individually and five year increments thereafter are not disclosed. Most, if not all is due within one year and is reported as such in the financial statements.

NOTE 13: CONDUIT DEBT

From time to time, the county has issued 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 and bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans and bonds, ownership of the acquired facilities transfers to the private-sector entity served by the loan issuance. 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, 2012, there is one Community Development Block Grant Loan outstanding (Dakota Valley Growers), with a principal amount payable of \$113,184.

NOTE 14: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements of the governmental activities for the year ended December 31, 2012:

Fund	Transfers In	Transfers Out
<u>Major Funds:</u>		
General Fund	\$ 75,000	\$ 75,000
Social Services Fund	555,000	-
Social Services Levy		
<u>Nonmajor Funds</u>		
General Reserve/Building Fund	75,000	75,000
Social Service Levy	-	555,000
Total Transfers	<u>\$705,000</u>	<u>\$705,000</u>

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 15: PENSION PLAN

Pembina County contributes to the North Dakota Public Employee's Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefits and contributions provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E. Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 5% of their annual salary and the county is required to contribute 6.26% of the employee's salary that consists of 5.26% for employee retirement and 1% for retiree health benefits fund. The county has agreed to pay 100% of the member assessments in lieu of a salary increase. The contributions requirements of the plan members and the county are established and may be amended by the State legislature. The county's contributions to NDPERS for the years ended December 31, 2012, 2011 and 2010 were \$197,859, \$187,880, and \$168,878, respectively, which consisted of the employer and employee shares for each year.

NOTE 16: RISK MANAGEMENT

Pembina 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. Pembina 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 two million dollars per occurrence for general liability and automobile and \$1,567,469 for public assets (mobile equipment and portable property).

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

Pembina County has workers compensation with the Workforce, Safety and Insurance. The water resource district purchases commercial insurance for employee health and accident insurance.

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 17: JOINT VENTURES

Under authorization of state statutes, the Pembina County Water Resource District joined the Maple River Water Resource District, Rush River Water Resource District, Southeast Cass Water Resource District, North Cass Water Resource District, and the water resource districts of Pembina County, Traill County, Grand Forks County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for water management districts located within the Red River Valley, known as the Red River Valley Joint Water Resource Board, the agreement was established for the mutual advantage of the governments. Each government appoints one member of the board of directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined as no provision is made for this in the joint venture agreement and each government's contribution depends on where the Red River Joint Water Resource Board projects are being undertaken.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2012, which is the most current audited information available.

	Red River Joint Water Resource District
Total Assets	\$6,082,576
Total Liabilities	37,515
Total Net Position	\$6,045,061
Revenues	\$2,105,063
Expenditures	585,461
Net Increase in Net Position	\$1,519,602

NOTE 18: DEFICIT CASH FUND BALANCES

At December 31, 2012, the following funds had deficit cash fund balances.

County Funds	Balance
Correctional Center Levy	\$(41,709)
WIC	(2,678)
Homeland Security Funds	(14,450)

It is anticipated that future grant reimbursements, program fees, tax revenues and/or transfers from the general fund will alleviate the deficit fund balances.

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 822,951	\$ 822,951	\$ 823,263	\$ 312
Intergovernmental	426,546	426,546	856,948	430,402
Charges for services	413,954	413,954	371,207	(42,747)
Licenses, permits and fees	3,050	3,050	4,080	1,030
Interest income	10,000	10,000	-	(10,000)
Miscellaneous	42,110	42,110	70,002	27,892
Total Revenues	\$ 1,718,611	\$ 1,718,611	\$ 2,125,500	\$ 406,889
<u>Expenditures:</u>				
Current:				
General government	\$ 859,550	\$ 859,550	\$ 782,670	\$ 76,880
Public safety	897,095	897,095	878,771	18,324
Health and welfare	161,766	161,766	137,551	24,215
Economic development	25,200	25,200	23,625	1,575
Total Expenditures	\$ 1,943,611	\$ 1,943,611	\$ 1,822,617	\$ 120,994
Excess (Deficiency) of Revenues Over Expenditures	\$ (225,000)	\$ (225,000)	\$ 302,883	\$ 527,883
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 75,000	\$ 75,000
Transfers out	-	-	(75,000)	(75,000)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balances	\$ (225,000)	\$ (225,000)	\$ 302,883	\$ 527,883
Fund Balances - January 1	\$ 850,021	\$ 850,021	\$ 850,021	\$ -
Fund Balances - December 31	\$ 625,021	\$ 625,021	\$ 1,152,904	\$ 527,883

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUNDS
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 100	\$ 100	\$ 121,456	\$ 121,356
Intergovernmental	2,500	2,500	5,184	2,684
Total Revenues	\$ 2,600	\$ 2,600	\$ 126,640	\$ 124,040
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 100,000	\$ 100,000	\$ 50,893	\$ 49,107
Excess (Deficiency) of Revenues Over Expenditures	\$ (97,400)	\$ (97,400)	\$ 75,747	\$ 173,147
Fund Balances - January 1	\$ 348,947	\$ 348,947	\$ 348,947	\$ -
Fund Balances - December 31	\$ 251,547	\$ 251,547	\$ 424,694	\$ 173,147

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY FUNDS
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 775,500	\$ 775,500	\$ 2,179,990	\$ 1,404,490
Charges for services	24,000	24,000	170,138	146,138
Miscellaneous	301,000	301,000	47,651	(253,349)
Total Revenues	\$ 1,100,500	\$ 1,100,500	\$ 2,397,779	\$ 1,297,279
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 1,289,100	\$ 1,330,603	\$ 1,372,162	\$ (41,559)
Debt Service:				
Principal	-	-	35,885	(35,885)
Interest	-	-	819	(819)
Total Expenditures	\$ 1,289,100	\$ 1,330,603	\$ 1,408,866	\$ (78,263)
Excess (Deficiency) of Revenues Over Expenditures	\$ (188,600)	\$ (230,103)	\$ 988,913	\$ 1,219,016
<u>Other Financing Sources (Uses):</u>				
Loan proceeds	\$ -	\$ -	\$ 90,000	\$ 90,000
Net Change in Fund Balances	\$ (188,600)	\$ (230,103)	\$ 1,078,913	\$ 1,309,016
Fund Balances - January 1	\$ 862,316	\$ 862,316	\$ 862,316	\$ -
Fund Balances - December 31	\$ 673,716	\$ 632,213	\$ 1,941,229	\$ 1,309,016

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
FARM TO MARKET ROAD FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 460,000	\$ 460,000	\$ 399,153	\$ (60,847)
Intergovernmental	25,000	25,000	38,110	13,110
Total Revenues	<u>\$ 485,000</u>	<u>\$ 485,000</u>	<u>\$ 437,263</u>	<u>\$ (47,737)</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 870,000</u>	<u>\$ 870,000</u>	<u>\$ 686,825</u>	<u>\$ 183,175</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (385,000)</u>	<u>\$ (385,000)</u>	<u>\$ (249,562)</u>	<u>\$ 135,438</u>
Fund Balances - January 1	<u>\$ 454,803</u>	<u>\$ 454,803</u>	<u>\$ 454,803</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 69,803</u>	<u>\$ 69,803</u>	<u>\$ 205,241</u>	<u>\$ 135,438</u>

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 141,800	\$ 141,800	\$ 131,104	\$ (10,696)
Charges for services	82,300	82,300	62,535	(19,765)
Miscellaneous	-	-	1,050	1,050
Total Revenues	<u>\$ 224,100</u>	<u>\$ 224,100</u>	<u>\$ 194,689</u>	<u>\$ (29,411)</u>
<u>Expenditures:</u>				
Current:				
Health and welfare	<u>\$ 820,148</u>	<u>\$ 820,148</u>	<u>\$ 748,872</u>	<u>\$ 71,276</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (596,048)</u>	<u>\$ (596,048)</u>	<u>\$ (554,183)</u>	<u>\$ 41,865</u>
<u>Other Financing Sources (Uses):</u>				
Transfers in	<u>\$ 603,189</u>	<u>\$ 603,189</u>	<u>\$ 555,000</u>	<u>\$ (48,189)</u>
Net Change in Fund Balances	<u>\$ 7,141</u>	<u>\$ 7,141</u>	<u>\$ 817</u>	<u>\$ (6,324)</u>
Fund Balances - January 1	<u>\$ 2,064</u>	<u>\$ 2,064</u>	<u>\$ 2,064</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 9,205</u></u>	<u><u>\$ 9,205</u></u>	<u><u>\$ 2,881</u></u>	<u><u>\$ (6,324)</u></u>

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
CORRECTIONAL CENTER FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 81,220	\$ 81,220	\$ 80,886	\$ (334)
Intergovernmental	-	-	255	255
Miscellaneous	-	-	195	195
Total Revenues	\$ 81,220	\$ 81,220	\$ 81,336	\$ 116
<u>Expenditures:</u>				
Current:				
Public Safety	\$ 96,220	\$ 124,369	\$ 124,369	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ (15,000)	\$ (43,149)	\$ (43,033)	\$ 116
Fund Balances - January 1	\$ 1,324	\$ 1,324	\$ 1,324	\$ -
Fund Balances - December 31	\$ (13,676)	\$ (41,825)	\$ (41,709)	\$ 116

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

PEMBINA COUNTY
Cavalier, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2012, Pembina County had the following fund expenditures in excess of budgeted amounts:

Overspent Funds:	Budget	Actual	Overspent
<u>Major Fund:</u>			
Highway Fund	\$1,330,603	\$1,408,866	\$(78,263)
<u>Nonmajor Funds:</u>			
<u>Special Revenue Funds</u>			
Hazardous Chemicals	8,000	9,296	(1,296)

PEMBINA COUNTY
Cavalier, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2012

	Balance 1-1-12	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-12
Major Funds:							
General Fund	\$ 691,792.87	\$ 2,047,805.81	\$ 75,000.00	\$ -	\$ 75,000.00	\$ 1,822,616.61	\$ 916,982.07
Special Revenue Funds:							
County Road & Bridge	\$ 348,947.40	\$ 126,640.22	\$ -	\$ -	\$ -	\$ 50,893.44	\$ 424,694.18
Highway Funds	743,749.78	1,631,158.97	-	90,000.00	-	1,335,617.77	1,129,290.98
Farm to Market Road	443,475.05	448,590.42	-	-	-	686,824.61	205,240.86
Social Service	2,064.14	194,688.86	555,000.00	-	-	748,872.23	2,880.77
Correctional Center Levy	1,323.93	81,335.05	-	-	-	124,367.92	(41,708.94)
Total Major Special Revenue Funds	\$ 1,539,560.30	\$ 2,482,413.52	\$ 555,000.00	\$ 90,000.00	\$ -	\$ 2,946,575.97	\$ 1,720,397.85
Total Major Funds	\$ 2,231,353.17	\$ 4,530,219.33	\$ 630,000.00	\$ 90,000.00	\$ 75,000.00	\$ 4,769,192.58	\$ 2,637,379.92
Nonmajor Funds:							
General Fund Reserve & Bldg Imp	\$ 92,742.96	\$ 160,621.74	\$ 75,000.00	\$ -	\$ 75,000.00	\$ 199,922.78	\$ 53,441.92
Comprehensive Health Fund	231,329.14	480,684.28	-	-	-	387,404.73	324,608.69
County Loan Fund (Debt Service)	98,288.49	80,818.77	-	-	-	80,490.96	98,616.30
WIC	(3,097.95)	40,246.07	-	-	-	39,826.02	(2,677.90)
Emergency	332,478.82	40,065.68	-	-	-	-	372,544.50
Bookmobile	0.94	1.64	-	-	-	2.58	-
County Agent	8,418.55	95,884.40	-	-	-	83,949.03	20,353.92
Veteran's Service	6,860.03	19,321.27	-	-	-	22,709.01	3,472.29
OASIS & Social Security	124,138.17	249,427.10	-	-	-	301,999.39	71,565.88
Technology/OASIS	55,919.31	78,640.96	-	-	-	83,084.13	51,476.14
Health OASIS	13,586.21	100,759.10	-	-	-	100,000.00	14,345.31
Advertising	22,959.89	12,491.71	-	-	-	15,725.00	19,726.60
Insurance Reserve	51,152.66	73,108.83	-	-	-	88,868.77	35,392.72
Weed Control	74,303.09	152,256.72	-	-	-	109,806.16	116,753.65
Social Service Levy	86,081.32	622,995.46	-	-	555,000.00	76,380.97	77,695.81
Abandoned Cemetery	13,693.74	0.02	-	-	-	300.00	13,393.76
Sheriff Special Trust	48,869.17	13,853.98	-	-	-	13,961.94	48,761.21
Document Preservation	5,619.34	10,049.06	-	-	-	4,730.06	10,938.34
County Agent Special Trust	12,492.51	5,960.91	-	-	-	7,824.90	10,628.52
County Nurse Special Trust	150.00	310.00	-	-	-	360.00	100.00
Hazardous Chem. Preparedness	16,515.15	8,596.20	-	-	-	9,295.81	15,815.54
Flood Emergency Fund	403,270.43	307,800.48	-	-	-	433,227.25	277,843.66
Victim Witness	8,194.79	45,382.31	-	-	-	38,371.05	15,206.05
Asset Forfeiture Account	12,375.71	500.00	-	-	-	4,905.69	7,970.02
Tobacco Funds	7,247.96	41,239.22	-	-	-	43,846.31	4,640.87
Homeland Security Funds	(15,769.14)	43,691.79	-	-	-	42,372.89	(14,450.24)
Hazard Mitigation (Reg. Council)	-	125.00	-	-	-	125.00	-
Total Nonmajor Funds	\$ 1,707,821.29	\$ 2,684,832.70	\$ 75,000.00	\$ -	\$ 630,000.00	\$ 2,189,490.43	\$ 1,648,163.56
Total Governmental Funds	\$ 3,939,174.46	\$ 7,215,052.03	\$ 705,000.00	\$ 90,000.00	\$ 705,000.00	\$ 6,958,683.01	\$ 4,285,543.48
Agency Funds:							
State Funds	\$ 355.33	\$ 46,741.49	\$ -	\$ -	\$ -	\$ 46,410.96	\$ 685.86
Township Road Fund	-	718,110.07	-	-	-	718,110.07	-
County Library	77.49	44,512.91	-	-	-	44,419.71	170.69
County Fair	105.51	67,274.12	-	-	-	67,145.85	233.78
Pembina County Water Resource	281.17	170,085.18	-	-	-	169,742.84	623.51
Historical Society Fund	17.58	11,211.83	-	-	-	11,190.48	38.93
Senior Citizen Fund w/ Faith In Action	139.12	114,560.54	-	-	-	114,387.92	311.74
Ambulance	351.35	219,481.18	-	-	-	219,053.21	779.32
Red River Water Resource	70.16	80,569.22	-	-	-	80,336.71	302.67
Airport	393.60	76,046.40	-	-	-	75,965.97	474.03
Pembina Co Soil Conservation Dist.	121.44	78,773.98	-	-	-	78,590.71	304.71
Investment Interest	1,265.38	22,134.32	-	-	-	21,106.37	2,293.33
Restitution Special Trust	2,534.76	430.00	-	-	-	527.99	2,436.77
State's Attorney Trust Fund	1,715.83	-	-	-	-	-	1,715.83

Continued on next page.....

PEMBINA COUNTY
Cavalier, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2012

	Balance 1-1-12	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-12
CONTINUED....							
<u>Agency Funds (Continued):</u>							
Game and Fish Fund	\$ 4,362.45	\$ 39,043.85	\$ -	\$ -	\$ -	\$ 36,239.00	\$ 7,167.30
Advance Tax Fund	117.48	52,783.32	-	-	-	52,862.32	38.48
Protest Fund	5,823.52	9,933.76	-	-	-	-	15,757.28
Township Funds	1,154.60	854,757.68	-	-	-	852,596.49	3,315.79
Fire District Funds	223.28	84,313.83	-	-	-	84,009.84	527.27
City Funds	14,123.50	1,537,473.08	-	-	-	1,496,518.30	55,078.28
School Funds	10,915.71	5,492,219.26	-	-	-	5,480,863.58	22,271.39
Drain Funds	747.17	805,627.54	-	-	-	797,868.73	8,505.98
Prepaid Taxes	3,194,743.84	4,162,886.16	-	-	-	3,194,743.84	4,162,886.16
Total Agency Funds	<u>\$3,239,640.27</u>	<u>\$14,688,969.72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,642,690.89</u>	<u>\$4,285,919.10</u>
Total Primary Government	<u>\$7,178,814.73</u>	<u>\$21,904,021.75</u>	<u>\$ 705,000.00</u>	<u>\$ 90,000.00</u>	<u>\$ 705,000.00</u>	<u>\$20,601,373.90</u>	<u>\$8,571,462.58</u>
Job Development Authority	<u>\$ 307,958.40</u>	<u>\$ 144,637.71</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,048.44</u>	<u>\$ 352,547.67</u>
Total Reporting Entity	<u><u>\$7,486,773.13</u></u>	<u><u>\$22,048,659.46</u></u>	<u><u>\$ 705,000.00</u></u>	<u><u>\$ 90,000.00</u></u>	<u><u>\$ 705,000.00</u></u>	<u><u>\$20,701,422.34</u></u>	<u><u>\$8,924,010.25</u></u>

PEMBINA COUNTY
Cavalier, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>		
<u>Passed Through the State Department of Transportation:</u>		
Highway Planning & Construction	20.205	\$ 56,782
State and Community Highway Safety	20.600	5,356
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	5,312
<u>Passed through the State Department Emergency Management</u>		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>6,534</u>
Total U.S. Department of Transportation		<u>\$ 73,984</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Passed Through State Department of Human Services:</u>		
Promoting Safe & Stable Families	93.556	\$ 1,112
Temporary Assistance for Needy Families	93.558	28,069
Child Support Enforcement	93.563	664
Adoption Assistance	93.659	562
Children's Health Insurance Program	93.767	937
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3,128
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,845
Foster Care-Title IV-E	93.658	26,242
Maternal & Child Health Services Block Grant to the States	93.994	<u>810</u>
Total U.S. Department of Health and Human Services		<u>\$ 63,369</u>
<u>U.S. DEPARTMENT OF AGRICULTURE FOOD AND NUTRITION SERVICE:</u>		
<u>Passed Through State Department of Human Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>\$ 45</u>
<u>U.S. DEPARTMENT OF JUSTICE:</u>		
<u>Passed through the State Attorney General's Office:</u>		
Edward Byrne Memorial Formula Grant Program	16.738	<u>\$ 7,189</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Passed through the State Department Emergency Management</u>		
Emergency Management Performance Grants	97.042	\$ 39,256
Hazard Mitigation Grant	97.039	248
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	*** 97.036	382,259
Homeland Security Grant	97.067	<u>97,691</u>
Total U.S. Department of Homeland Security		<u>\$ 519,454</u>
Total Expenditure of Federal Award:		<u><u>\$ 664,041</u></u>

*** - Major program

NOTE 1: BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pembina County under programs of the federal government for the year ended December 31, 2012. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of Pembina County, it is not intended to and does not present the financial position or changes in net position of Pembina County

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribe Governments, wherein certain types of expenditures are allowable or are limited as to reimbursement.

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

**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
Pembina County
Cavalier, 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 Pembina County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Pembina County's basic financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

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

PEMBINA 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 Pembina 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*.

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.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 30, 2013

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

Board of County Commissioners
Pembina County
Cavalier, North Dakota

Report on Compliance for Each Major Federal Programs

We have audited Pembina County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Pembina County's major federal program for the year ended December 31, 2012. Pembina County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Pembina County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pembina County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Pembina County's compliance.

Opinion on Each Major Federal Program

In our opinion, Pembina County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

PEMBINA COUNTY

Report on Compliance for Each Major Federal Programs; Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 - Continued

Report on Internal Control Over Compliance

Management of Pembina County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pembina County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pembina County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Pembina County as of and for the years ended December 31, 2012, and have issued our report thereon dated October 30, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 30, 2013

PEMBINA COUNTY
Cavalier, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

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

Federal Awards

Internal control over major programs:

Material weakness identified?	_____ Yes	_____ <u>X</u> None noted
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None noted
Type of auditor's report issued on compliance for major programs?	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes	_____ <u>X</u> None noted

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and B programs:

\$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

No matters reported

Section III - Federal Award Findings and Questioned Costs

No matters reported.