

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**PEMBINA COUNTY  
CAVALIER, NORTH DAKOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2011**



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PEMBINA COUNTY  
Cavalier, North Dakota

TABLE OF CONTENTS  
For the Year Ended December 31, 2011

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	<u>Page(s)</u>
County Officials	1
Independent Auditor's Report	2 - 3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet - Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Fiduciary Assets and Liabilities	10
Notes to the Financial Statements	11 - 24
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules	25 - 31
Notes to Required Supplementary Information	32
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Fund Activity	33 - 34
Schedule of Expenditures of Federal Awards	35 - 36
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	37 - 38
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	39 - 40
Schedule of Findings and Questioned Costs	41 - 42

PEMBINA COUNTY  
Cavalier, North Dakota

**COUNTY OFFICIALS**

December 31, 2011

Corene Vaughn	Commissioner - Chairperson
Andy Adamson	Commissioner - Vice Chairperson
Gary Nilsson	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

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INDEPENDENT AUDITOR'S REPORT

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Board of County Commissioners  
Pembina County  
Cavalier, North Dakota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund and aggregate remaining fund information of Pembina County, Cavalier, North Dakota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pembina County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pembina County, Cavalier, North Dakota, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that *budgetary comparison information* on pages 25 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, 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. 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.

**PEMBINA COUNTY**

Independent Auditor's Report - Continued

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Management has omitted 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.

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 (Circular A-133) are presented for purposes of additional analysis and are 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 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 fund activity arising from cash transactions is not fairly stated in all material respects in relation to the 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 financial statements taken as a whole.



Robert R. Peterson  
State Auditor

September 6, 2012

PEMBINA COUNTY  
Cavalier, North Dakota

STATEMENT OF NET ASSETS  
December 31, 2011

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Job Development Authority
<b>ASSETS:</b>			
Cash and investments	\$ 3,939,174	\$ 696,828	\$ 307,958
Accounts receivable	15,258	-	-
Intergovernmental receivable	557,161	-	-
Special assessments receivable	-	11,589	-
Road accounts receivable	54,612	-	-
Taxes receivable	72,200	3,592	2,602
Job development loans receivable (net of allowance)	-	-	221,290
Capital Assets (not being depreciated):			
Land	4,900	-	-
Construction in progress	304,600	-	-
Capital assets (being depreciated):			
Buildings	1,260,499	-	-
Equipment and vehicles	1,010,209	-	-
Infrastructure	1,827,379	2,869,223	-
Total Capital Assets	<u>\$ 4,407,587</u>	<u>\$ 2,869,223</u>	<u>\$ -</u>
Total Assets	<u>\$ 9,045,992</u>	<u>\$ 3,581,232</u>	<u>\$ 531,850</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 119,500	\$ -
Long-Term Liabilities:			
Due Within One Year:			
Capital leases payable	35,885	-	-
Lines of credit payable	80,000	582,096	-
Warrants payable	-	255,978	-
Compensated absences payable	10,302	-	-
Due After One Year:			
Compensated absences payable	92,714	-	-
Total Liabilities	<u>\$ 218,901</u>	<u>\$ 957,574</u>	<u>\$ -</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	\$ 4,371,702	\$ 2,287,127	\$ -
Restricted for:			
Debt Service	20,402	-	-
Public safety	21,685	-	-
Highways and bridges	1,709,780	-	-
Flood repair	625,220	-	-
Health and welfare	343,641	-	-
Culture and recreation	7,342	-	-
Conservation of natural resources	104,614	336,531	-
Emergencies	333,116	-	-
Economic development	-	-	310,560
Loans	-	-	221,290
Other purposes	421,338	-	-
Unrestricted	868,251	-	-
Total Net Assets	<u>\$ 8,827,091</u>	<u>\$ 2,623,658</u>	<u>\$ 531,850</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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines, Forfeits and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units	
					Governmental Activities	Water Resource District	Job Development Authority
<b>Primary Government:</b>							
General government	\$ 1,996,023	\$ 140,432	\$ 119,047	\$ -	\$ (1,736,544)		
Public safety	1,084,106	227,315	134,851	-	(721,940)		
Highways and bridges	1,737,540	114,977	1,291,637	-	(330,926)		
Flood repair	338,097	-	496,629	-	158,532		
Health and welfare	1,020,499	65,720	236,991	5,000	(712,788)		
Conserv. of natural resources	210,558	9,200	80	-	(201,278)		
Culture and recreation	19	-	-	-	(19)		
Economic development	27,295	-	-	-	(27,295)		
Interest and service charges	3,700	-	-	-	(3,700)		
<b>Total Governmental Activities</b>	<b>\$ 6,417,837</b>	<b>\$ 557,644</b>	<b>\$ 2,279,235</b>	<b>\$ 5,000</b>	<b>\$ (3,575,958)</b>		
<b>Component Units:</b>							
Water Resource District	\$ 1,870,613	\$ 3,361	\$ 748,000	\$ 808,074		\$ (311,178)	\$ -
Job Development Authority	73,342	-	2,117	-		-	(71,225)
<b>Total Component Units</b>	<b>\$ 1,943,955</b>	<b>\$ 3,361</b>	<b>\$ 750,117</b>	<b>\$ 808,074</b>		<b>\$ (311,178)</b>	<b>\$ (71,225)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes; levied for general purposes				\$ 834,053	\$ 159,147	\$ -	
Property taxes; levied for special purposes				2,232,578	-	114,512	
Property taxes; levied for debt service				78,154	-	-	
Property taxes; levied for drains/maintenance				-	910,860	-	
<b>State aid &amp; grants not restricted to specific programs:</b>							
State Aid Distribution and Grants				646,431	-	7,465	
Other State Shared Revenues				10,052	-	-	
Unrestricted investment earnings				38,383	1,398	-	
Miscellaneous revenue				712,603	45,470	1,800	
<b>Total General Revenues</b>				<b>\$ 4,552,254</b>	<b>\$ 1,116,875</b>	<b>\$ 123,777</b>	
<b>Change in Net Assets</b>				<b>\$ 976,296</b>	<b>\$ 805,697</b>	<b>\$ 52,552</b>	
Net Assets - January 1				\$ 7,900,244	\$ 1,622,520	\$ 479,196	
Prior Period Adjustment				(49,449)	195,441	102	
<b>Net Assets - January 1, as restated</b>				<b>\$ 7,850,795</b>	<b>\$ 1,817,961</b>	<b>\$ 479,298</b>	
<b>Net Assets - December 31</b>				<b>\$ 8,827,091</b>	<b>\$ 2,623,658</b>	<b>\$ 531,850</b>	

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

PEMBINA COUNTY  
Cavalier, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2011

	General	County Road and Bridge	Highway Funds	Farm to Market Road	Social Services	Social Service Levy	Flood Emergency Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ 691,793	\$ 348,947	\$ 743,750	\$ 443,475	\$ 2,064	\$ 86,081	\$ 403,270	\$ 1,219,794	\$ 3,939,174
Accounts receivable	15,258	-	-	-	-	-	-	-	15,258
Intergovernmental receivable	142,970	-	118,566	11,328	-	21,232	221,950	41,115	557,161
Road accounts receivable	-	54,612	-	-	-	-	-	-	54,612
Taxes receivable	18,229	2,423	-	8,979	-	12,804	-	29,765	72,200
<b>Total Assets</b>	<b>\$ 868,250</b>	<b>\$ 405,982</b>	<b>\$ 862,316</b>	<b>\$ 463,782</b>	<b>\$ 2,064</b>	<b>\$ 120,117</b>	<b>\$ 625,220</b>	<b>\$ 1,290,674</b>	<b>\$ 4,638,405</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<u>Liabilities:</u>									
Deferred revenue	\$ 18,229	\$ 57,035	\$ -	\$ 8,979	\$ -	\$ 12,804	\$ -	\$ 29,765	\$ 126,812
<u>Fund Balances:</u>									
<u>Restricted</u>									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,288	\$ 98,288
Highways and bridges	-	348,947	862,316	454,803	-	-	-	-	1,666,066
Flood repair & mitigation	-	-	-	-	-	-	625,220	-	625,220
Social services & health/welfare	-	-	-	-	2,064	107,313	-	243,260	352,637
Public safety	-	-	-	-	-	-	-	74,903	74,903
Conservation of natural resources	-	-	-	-	-	-	-	100,833	100,833
Emergency	-	-	-	-	-	-	-	332,479	332,479
Culture and recreation	-	-	-	-	-	-	-	6,861	6,861
Other purposes	-	-	-	-	-	-	-	420,052	420,052
<u>Unassigned:</u>	<u>850,021</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,767)</u>	<u>834,254</u>
<b>Total Fund Balances</b>	<b>\$ 850,021</b>	<b>\$ 348,947</b>	<b>\$ 862,316</b>	<b>\$ 454,803</b>	<b>\$ 2,064</b>	<b>\$ 107,313</b>	<b>\$ 625,220</b>	<b>\$ 1,260,909</b>	<b>\$ 4,511,593</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 868,250</b>	<b>\$ 405,982</b>	<b>\$ 862,316</b>	<b>\$ 463,782</b>	<b>\$ 2,064</b>	<b>\$ 120,117</b>	<b>\$ 625,220</b>	<b>\$ 1,290,674</b>	<b>\$ 4,638,405</b>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
December 31, 2011

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Total *Fund Balances* of Governmental Funds \$ 4,511,593

Amounts reported for governmental activities in the statement of net assets 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	\$ 8,218,458	
Less Accumulated Depreciation	<u>(3,810,871)</u>	
Net Capital Assets		4,407,587

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	\$ 72,200	
Road Department Accounts Receivable	<u>54,612</u>	126,812

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 assets. Balances at December 31, 2011 are:

Capital Leases Payable	\$ (35,885)	
Lines of Credit Payable	(80,000)	
Compensated Absences Payable	<u>(103,016)</u>	
Total Long-Term Liabilities		<u>(218,901)</u>

Net Assets of Governmental Activities \$ 8,827,091

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, 2011

	General	County Road and Bridge	Highway Funds	Farm to Market Road	Social Services	Social Service Levy	Flood Emergency Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>									
Taxes	\$ 872,065	\$ 116,175	\$ -	\$ 391,405	\$ -	\$ 563,810	\$ -	\$ 1,233,788	\$ 3,177,243
Intergovernmental	500,555	4,001	1,291,636	48,968	124,423	91,224	496,628	378,283	2,935,718
Charges for services	355,762	-	151,924	-	64,033	-	-	14,967	586,686
Licenses, permits and fees	7,905	-	-	-	-	-	-	-	7,905
Interest income	38,383	-	-	-	-	-	-	-	38,383
Miscellaneous	70,487	370,000	44,779	-	3,844	-	-	223,493	712,603
<b>Total Revenues</b>	<b>\$ 1,845,157</b>	<b>\$ 490,176</b>	<b>\$ 1,488,339</b>	<b>\$ 440,373</b>	<b>\$ 192,300</b>	<b>\$ 655,034</b>	<b>\$ 496,628</b>	<b>\$ 1,850,531</b>	<b>\$ 7,458,538</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	\$ 784,614	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,185,902	\$ 1,970,516
Public safety	834,962	-	-	-	-	-	-	194,580	1,029,542
Highways and bridges	-	223,150	1,138,066	346,393	-	-	-	(26,976)	1,680,633
Flood repair	-	-	-	-	-	-	338,097	-	338,097
Health and welfare	152,464	-	-	-	712,528	59,208	-	96,486	1,020,686
Culture and recreation	-	-	-	-	-	-	-	19	19
Conserv. of natural resources	-	-	-	-	-	-	-	185,474	185,474
Economic development	27,295	-	-	-	-	-	-	-	27,295
<b>Debt Service:</b>									
Principal	-	-	49,704	-	-	-	-	80,000	129,704
Interest and fiscal charges	-	-	3,343	-	-	-	-	357	3,700
<b>Total Expenditures</b>	<b>\$ 1,799,335</b>	<b>\$ 223,150</b>	<b>\$ 1,191,113</b>	<b>\$ 346,393</b>	<b>\$ 712,528</b>	<b>\$ 59,208</b>	<b>\$ 338,097</b>	<b>\$ 1,715,842</b>	<b>\$ 6,385,666</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 45,822</b>	<b>\$ 267,026</b>	<b>\$ 297,226</b>	<b>\$ 93,980</b>	<b>\$ (520,228)</b>	<b>\$ 595,826</b>	<b>\$ 158,531</b>	<b>\$ 134,689</b>	<b>\$ 1,072,872</b>
<b>Other Financing Sources (Uses):</b>									
Loan proceeds	\$ -	\$ -	\$ 80,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,000
Transfers in	-	-	-	-	506,000	-	-	2,214	508,214
Transfers out	(2,214)	-	-	-	-	(506,000)	-	-	(508,214)
<b>Total Other Financing Sources and Uses</b>	<b>\$ (2,214)</b>	<b>\$ -</b>	<b>\$ 80,000</b>	<b>\$ -</b>	<b>\$ 506,000</b>	<b>\$ (506,000)</b>	<b>\$ -</b>	<b>\$ 2,214</b>	<b>\$ 80,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 43,608</b>	<b>\$ 267,026</b>	<b>\$ 377,226</b>	<b>\$ 93,980</b>	<b>\$ (14,228)</b>	<b>\$ 89,826</b>	<b>\$ 158,531</b>	<b>\$ 136,903</b>	<b>\$ 1,152,872</b>
Fund Balances - January 1	\$ 806,413	\$ 81,921	\$ 485,090	\$ 360,823	\$ 16,292	\$ 17,487	\$ 466,689	\$ 1,131,944	\$ 3,366,659
Prior Period Adjustment	-	-	-	-	-	-	-	(7,938)	(7,938)
Fund Balance - Jan. 1, as restated	\$ 806,413	\$ 81,921	\$ 485,090	\$ 360,823	\$ 16,292	\$ 17,487	\$ 466,689	\$ 1,124,006	\$ 3,358,721
Fund Balances - December 31	\$ 850,021	\$ 348,947	\$ 862,316	\$ 454,803	\$ 2,064	\$ 107,313	\$ 625,220	\$ 1,260,909	\$ 4,511,593

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

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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, 2011

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Net Change in *Fund Balances* - Total Governmental Funds \$ 1,152,872

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	\$ 183,129	
Current Year Depreciation Expense	(307,749)	
Loss on Capital Assets	<u>(29,982)</u>	(154,602)

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 assets. This is the amount by which debt payments exceeded debt proceeds.

Issuance of Debt - Loan	\$ (80,000)	
Repayment of Debt	<u>129,704</u>	49,704

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. (2,273)

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	\$ (32,458)	
Change in Road Accounts Receivable	<u>(36,947)</u>	<u>(69,405)</u>

Change in Net Assets of Governmental Activities \$ 976,296

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

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PEMBINA COUNTY  
Cavalier, North Dakota

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2011

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	<u>Agency Funds</u>
<u>Assets:</u>	
Cash and cash equivalents	<u>\$ 3,239,640</u>
<u>Liabilities:</u>	
Due to other governments	<u>\$ 3,239,640</u>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

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**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 assets 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.

*Social Service Levy Fund.* This fund accounts for the levy and collection of taxes for social service programs that are transferred to the social services fund. The major sources of revenues are a restricted tax levy and State/Federal grants/reimbursements.

*Flood Emergency Fund.* This is the County's fund used to account for Federal Homeland Security disaster funds received and used for repairs caused by natural disasters. The major sources of revenues are restricted State/Federal grants/reimbursements.

The County reports the following fund type:

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

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

*Government-wide and Fiduciary Fund Financial Statements.* The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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 assets 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:

<b>Assets</b>	<b>Years</b>
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:

<b>Assets</b>	<b>Years</b>
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 assets.

<b>Years of Service</b>	<b>Hours per Month</b>
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 assets 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 Assets Equity

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

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

**PEMBINA COUNTY**

Notes to the Financial Statements – Continued

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

Pembina County only has restricted and unassigned fund balances at December 31, 2011.

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

Restricted fund balances are shown by primary function on the balance sheet for public safety, highways & bridges, flood repair, health & welfare, culture & recreation, conservation of resources, emergencies, and other purposes (reported in the other governmental funds). Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3<sup>rd</sup> 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 Assets Equity:**

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.

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

Net assets equity in the statement of net assets is shown by primary function (as fund balance are shown) as fund balances are shown and is restricted for highways and bridges, public safety, flood repair, health & welfare, culture & recreation, conservation of resources, emergencies, and other purposes (health insurance, insurance reserve, veteran's service officer, and social security).

**PEMBINA COUNTY**

## Notes to the Financial Statements – Continued

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 2011 as follows:

	EXPENDITURES		
	Original Budget	Budget Amendment	Amended Budget
<b><u>Major Funds:</u></b>			
Road & Bridge	\$ 75,000	\$148,150	\$223,150
Flood Emergency	150,000	188,097	338,097
<b><u>Nonmajor Funds:</u></b>			
<b><u>Special Revenue Funds:</u></b>			
General Reserve	231,501	70,414	301,915
Insurance Reserve	95,000	18,677	113,677
Correctional Center	93,220	16,758	109,978
County Nurse Special Trust	200	402	602
Victim Witness	40,402	2,947	43,349
Bookmobile	50	19	69
County Agent Special Trust	-	4,911	4,911
County Loan	80,000	357	80,357

**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.

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.

**PEMBINA COUNTY**

Notes to the Financial Statements – Continued

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At year ended December 31, 2011, the county's carrying amount of deposits was \$6,903,387 and the bank balances totaled \$6,284,063. Of the bank balances, \$1,519,727 was deposited at the Bank of North Dakota, and \$2,217,140 was covered by Federal Depository Insurance. The remaining bank balances totaling \$4,066,923 were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2011, the water resource district's carrying amount of deposits was \$532,059 and the bank balances totaled \$549,974. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balances totaling \$299,975 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, 2011, 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.

**NOTE 5: ACCOUNTS RECEIVABLE**

Accounts receivable consists of money due the county at December 31, 2011. No allowance has been established for estimated uncollectible accounts receivable.

**NOTE 6: ROAD ACCOUNTS RECEIVABLE**

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

**PEMBINA COUNTY**

Notes to the Financial Statements – Continued

**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 aid 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, 2011.

<b>Name/Business</b>	<b>Beg. Bal. 1-1-11</b>	<b>Adjustments</b>	<b>New Loans/ Additions</b>	<b>Payments</b>	<b>Ending Bal. 12-31-11</b>
Northern Valley Growers	\$ 4,000	\$ -	\$ -	\$ -	\$ 4,000
Main Street Café	274	-	-	-	274
QMAS	8,736	-	-	-	8,736
Sally Dog Grooming	600	-	-	600	-
Tarnel USA	1,297	-	-	-	1,297
John Carpenter	5,000	-	-	-	5,000
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	7,229	-	-	1,566	5,663
Hank's Corner Hardware	669	-	-	294	375
T & M Restaurant	928	-	-	17	911
T & M Restaurant	196	(6)	-	34	156
Dakota Valley Growers, LLP	14,481	108	-	312	14,277
Pete Marciniak Enterprises	24,092	-	-	1,731	22,361
HBS of ND LLC	78,847	-	-	-	78,847
Agrimaxx, Inc.	58,145	-	-	-	58,145
<b>Total Loans Receivable</b>	<b>\$234,477</b>	<b>\$ 102</b>	<b>\$ -</b>	<b>\$4,554</b>	<b>\$230,026</b>
<b>Allowance for Doubtful Loans</b>	<b>(8,736)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,736)</b>
<b>Total Net Loans Receivable</b>	<b>\$225,741</b>	<b>\$ 102</b>	<b>\$ -</b>	<b>\$4,554</b>	<b>\$221,290</b>

**NOTE 9: CAPITAL ASSETS**

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

<b>PRIMARY GOVERNMENT: Governmental Activities:</b>	<b>Balance 1-1-11</b>	<b>Adjustments</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-11</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 4,900	\$ -	\$ -	\$ -	\$ 4,900
Construction in Progress	304,600	-	-	-	304,600
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 309,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 309,500</b>
<i>Capital assets being depreciated:</i>					
Buildings	\$2,706,659	\$ -	\$ -	\$ -	\$2,706,659
Equipment	3,066,634	-	183,129	141,740	3,108,023
Infrastructure	2,094,276	-	-	-	2,094,276
<b>Total Capital Assets, Being Depreciated</b>	<b>\$7,867,569</b>	<b>\$ -</b>	<b>\$ 183,129</b>	<b>\$141,740</b>	<b>\$7,908,958</b>
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$1,385,440	\$ -	\$ 60,720	\$ -	\$1,446,160
Equipment	1,987,352	27,548	194,672	111,758	2,097,814
Infrastructure	214,540	-	52,357	-	266,897
<b>Total Accumulated Depreciation</b>	<b>\$3,587,332</b>	<b>\$ 27,548</b>	<b>\$ 307,749</b>	<b>\$111,758</b>	<b>\$3,810,871</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$4,280,237</b>	<b>\$(27,548)</b>	<b>\$(124,620)</b>	<b>\$ 29,982</b>	<b>\$4,098,087</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$4,589,737</b>	<b>\$(27,548)</b>	<b>\$(124,620)</b>	<b>\$ 29,982</b>	<b>\$4,407,587</b>

**PEMBINA COUNTY**

Notes to the Financial Statements – Continued

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

<b>Governmental Activities:</b>	<b>Amounts</b>
General Government	\$ 30,092
Public Safety	82,696
Highways and Bridges	182,832
Health and Welfare	1,334
Conservation of Natural Resource	10,795
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$307,749</b>

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, 2011:

<b>WATER RESOURCE DISTRICT</b>	<b>Balance</b>					<b>Balance</b>
<b>Governmental Activities:</b>	<b>1-1-11</b>	<b>Adjustments</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>12-31-11</b>
<i>Capital assets not being depreciated:</i>						
Construction in Progress	\$ 508,902	\$243,206	\$ 885,561	\$ -	\$(1,637,669)	\$ -
<i>Capital assets being depreciated:</i>						
Equipment	\$ 134,391	\$ -	\$ -	\$ -	\$ -	\$ 134,391
Infrastructure	1,758,213	-	-	-	1,637,669	3,395,882
<b>Total Capital Assets, Being Depreciated</b>	<b>\$1,892,604</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,637,669</b>	<b>\$3,530,273</b>
<i>Less Accumulated Depreciation for:</i>						
Equipment	\$ 134,391	\$ -	\$ 169,794	\$ -	\$ -	\$ 304,185
Infrastructure	356,865	-	-	-	-	356,865
<b>Total Accumulated Depreciation</b>	<b>\$ 491,256</b>	<b>\$ -</b>	<b>\$ 169,794</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 661,050</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$1,401,348</b>	<b>\$ -</b>	<b>\$(169,794)</b>	<b>\$ -</b>	<b>\$ 1,637,669</b>	<b>\$2,869,223</b>
<b>Total Capital Assets</b>	<b>\$1,910,250</b>	<b>\$243,206</b>	<b>\$ 715,767</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$2,869,223</b>

Depreciation expense totaling \$169,794 was charged to the conservation of natural resources function for the year ended December 31, 2011.

**NOTE 10: LONG-TERM DEBT**

Primary Government:

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

<b>Governmental Activities:</b>	<b>Balance</b>				<b>Balance</b>	<b>Due Within</b>
	<b>1-1-11</b>	<b>Adjustment</b>	<b>Increases</b>	<b>Decreases</b>	<b>12-31-11</b>	<b>One Year</b>
Leases Payable	\$ 85,589	\$ -	\$ -	\$ 49,704	\$ 35,885	\$ 35,885
Loan Payable	80,000	-	80,000	80,000	80,000	80,000
Compensated Absences	100,433	310	2,273	-	103,016	10,302
<b>Total Governmental Activities</b>	<b>\$266,022</b>	<b>\$310</b>	<b>\$82,273</b>	<b>\$129,704</b>	<b>\$218,901</b>	<b>\$126,187</b>

**Capital Leases** - The primary government has entered into lease agreements in prior years as lessee for financing the acquisition of a Sterling Truck, JD Excavator (total principal cost of \$232,888). These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The \$35,589 county lease payable is due in 2012 with interest owed of \$819.

**PEMBINA COUNTY**

Notes to the Financial Statements – Continued

**Loan Payable** - The \$80,000 county loan payable is due in one payment in 2011 with total interest owed of \$491.

**DISCRETELY PRESENTED COMPONENT UNIT:**

Pembina County Water Resource District:

During the year ended December 31, 2011, the following changes occurred in the long-term liabilities of the Water Resource District:

<b>Governmental Activities:</b>	<b>Balance 1-1-11</b>	<b>Adjustment</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-11</b>	<b>Due Within One Year</b>
Warrants Payable	\$251,364	\$(96,402)	\$170,690	\$ 69,675	\$255,977	\$255,977
Lines of Credit Payable	589,009	-	181,666	188,578	582,097	582,097
<b>Total Governmental Activities</b>	<b>\$840,373</b>	<b>\$(96,402)</b>	<b>\$352,356</b>	<b>\$258,253</b>	<b>\$838,074</b>	<b>\$838,074</b>

**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%.	\$ 90,865
\$210,026 Line of Credit from United Valley Bank, no set payment schedule, interest at 4.0-4.25%.	197,088
\$163,988 Line of Credit from Choice Financial Bank for Walhalla Drain #2, no set payment schedule, interest at 4.25%.	91,636
\$93,414 Line of Credit from Choice Financial Bank for Walhalla Drain #3, no set payment schedule, interest at 4.25%.	47,894
\$154,614 Line of Credit from Choice Financial Bank for Renwick Dam, no set payment schedule, interest at 4.15%.	<u>154,614</u>
<b>Total Water Resource District Lines of Credit Payable</b>	<b><u>\$582,097</u></b>

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.

**NOTE 11: 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, 2011, there is one Community Development Block Grant Loan outstanding (Dakota Valley Growers), with a principal amount payable of \$120,825.

**PEMBINA COUNTY**

## Notes to the Financial Statements – Continued

**NOTE 12: 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, 2011:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Major Funds:</b>		
General Fund	\$ -	\$ 2,214
Social Services Fund	506,000	-
Social Services Levy	-	506,000
<b>Nonmajor Fund:</b>		
WIC	2,214	-
<b>Total Transfers</b>	<b>\$508,214</b>	<b>\$508,214</b>

**NOTE 13: 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, 2011, 2010 and 2009 were \$187,880, \$168,878, and \$168,643, respectively, equal to the required contributions for each year.

**NOTE 14: 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**

## Notes to the Financial Statements – Continued

Pembina County has workers compensation with the Workforce, Safety and Insurance. The water resource district purchases commercial insurance for employee health and accident insurance. The County pays the entire health insurance premium for a single employee and all but \$189.76 per month for a married employee.

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

**NOTE 15: 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, 2011, which is the most current audited information available.

	<b>Red River Joint Water Resource District</b>
Total Assets	\$4,972,670
Total Liabilities	447,210
Total Equity	\$4,525,460
Revenues	\$1,440,397
Expenditures	897,230
Net Increase in Fund Balance	\$ 543,167

**NOTE 16: DEFICIT CASH FUND BALANCES**

At December 31, 2011, the following funds had deficit cash fund balances.

<b>County Funds</b>	<b>Balance</b>
WIC	\$ (3,097)
Homeland Security Funds	(15,769)

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

**NOTE 17: OPEN CONSTRUCTION COMMITMENT**

Pembina County had one open construction commitment as of December 31, 2011 as follows:

<b>Project</b>	<b>Original Contract</b>	<b>Total Completed</b>	<b>Remaining Balance</b>	<b>Retainage</b>
Gleason Construction	\$324,900	\$287,554	\$37,346	\$ -

**PEMBINA COUNTY**

## Notes to the Financial Statements – Continued

**NOTE 18: PRIOR PERIOD ADJUSTMENT**

There were prior period adjustments for the period ending December 31, 2010 for Governmental Activities involving adjustments to the net capital assets, compensated absences, taxes receivable to remove agency funds, and to the beginning fund balance to remove agency funds from the reported government funds.

<b>Governmental Activities (County):</b>	<b>Amounts</b>
Beginning Net Assets, as previously reported	\$7,900,244
<b>Adjustments to restate the January 1, 2011 Net Assets:</b>	
Capital Assets net adjustment	(27,548)
Compensated Absence net adjustment	(310)
Taxes Receivable net adjustment to remove agency funds	(13,653)
Fund Balance net adjustment to remove agency funds	(7,938)
Net Assets January 1, as restated	<u>\$7,850,795</u>

<b>Governmental Funds (County):</b>	<b>Other Governmental Funds</b>
Beginning Fund Balance	\$1,131,944
<b>Adjustments to restate the January 1, 2011 fund balance:</b>	
Fund Balance net adjustment to remove agency funds	(7,938)
Fund Balance, January 1, as restated	<u>\$1,124,006</u>

Prior period errors were noted for the period ending December 31, 2010 for the Water Resource District involving adjustments to accounts payable, net capital assets, and warrants payable.

<b>Governmental Activities (WRD):</b>	<b>Governmental Wide</b>
Net Assets Equity as previously reported	\$1,622,520
<b>Adjustments to restate the January 1, 2010 net assets equity for the following:</b>	
Accounts Payable adjustment	(144,167)
Capital Assets net adjustment	243,206
Warrant Payable net adjustment	96,402
Net Assets Equity January 1, 2010 as restated	<u>\$1,817,961</u>

A prior period error was noted for the period ending December 31, 2010 for the Job Development Authority involving Loans Receivable.

<b>Governmental Activities (JDA):</b>	<b>Governmental Wide</b>
Net Assets Equity as previously reported	\$479,196
<b>Adjustments to restate the January 1, 2010 net assets equity for the following:</b>	
Loan Receivable net adjustment	102
Net Assets Equity January 1, 2010 as restated	<u>\$479,298</u>

PEMBINA COUNTY  
Cavalier, North Dakota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 809,561	\$ 809,561	\$ 872,065	\$ 62,504
Intergovernmental	382,641	382,641	500,555	117,914
Charges for services	2,950	2,950	355,762	352,812
Licenses, permits and fees	409,828	409,828	7,905	(401,923)
Interest income	-	-	38,383	38,383
Miscellaneous	46,650	46,650	70,487	23,837
Total Revenues	<u>\$ 1,651,630</u>	<u>\$ 1,651,630</u>	<u>\$ 1,845,157</u>	<u>\$ 193,527</u>
<u>Expenditures:</u>				
Current:				
General government	\$ 810,184	\$ 810,184	\$ 784,614	\$ 25,570
Public safety	927,191	927,191	834,962	92,229
Health and welfare	162,533	162,533	152,464	10,069
Economic development	24,982	24,982	27,295	(2,313)
Total Expenditures	<u>\$ 1,924,890</u>	<u>\$ 1,924,890</u>	<u>\$ 1,799,335</u>	<u>\$ 125,555</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (273,260)</u>	<u>\$ (273,260)</u>	<u>\$ 45,822</u>	<u>\$ 319,082</u>
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ -	\$ -	\$ (2,214)	\$ (2,214)
Net Change in Fund Balances	<u>\$ (273,260)</u>	<u>\$ (273,260)</u>	<u>\$ 43,608</u>	<u>\$ 316,868</u>
Fund Balances - January 1	<u>\$ 806,413</u>	<u>\$ 806,413</u>	<u>\$ 806,413</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 533,153</u></u>	<u><u>\$ 533,153</u></u>	<u><u>\$ 850,021</u></u>	<u><u>\$ 316,868</u></u>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUNDS  
For the Year Ended December 31, 2010

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 71,907	\$ 71,907	\$ 116,175	\$ 44,268
Intergovernmental	2,500	2,500	4,001	1,501
Miscellaneous	-	-	370,000	370,000
Total Revenues	<u>\$ 74,407</u>	<u>\$ 74,407</u>	<u>\$ 490,176</u>	<u>\$ 415,769</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 75,000	\$ 223,150	\$ 223,150	\$ -
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (593)</u>	<u>\$ (148,743)</u>	<u>\$ 267,026</u>	<u>\$ 415,769</u>
Fund Balances - January 1	<u>\$ 81,921</u>	<u>\$ 81,921</u>	<u>\$ 81,921</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 81,328</u>	<u>\$ (66,822)</u>	<u>\$ 348,947</u>	<u>\$ 415,769</u>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE  
FARM TO MARKET ROAD FUND  
For the Year Ended December 31, 2011

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 409,533	\$ 409,533	\$ 391,405	\$ (18,128)
Intergovernmental	25,000	25,000	48,968	23,968
Total Revenues	<u>\$ 434,533</u>	<u>\$ 434,533</u>	<u>\$ 440,373</u>	<u>\$ 5,840</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 850,000</u>	<u>\$ 850,000</u>	<u>\$ 346,393</u>	<u>\$ 503,607</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (415,467)</u>	<u>\$ (415,467)</u>	<u>\$ 93,980</u>	<u>\$ 509,447</u>
Fund Balances - January 1	<u>\$ 360,823</u>	<u>\$ 360,823</u>	<u>\$ 360,823</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ (54,644)</u>	<u>\$ (54,644)</u>	<u>\$ 454,803</u>	<u>\$ 509,447</u>

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, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 776,500	\$ 776,500	\$ 1,291,636	\$ 515,136
Charges for services	19,000	19,000	151,924	132,924
Miscellaneous	58,500	58,500	44,779	(13,721)
<b>Total Revenues</b>	<b>\$ 854,000</b>	<b>\$ 854,000</b>	<b>\$ 1,488,339</b>	<b>\$ 634,339</b>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 1,215,500	\$ 1,215,500	\$ 1,138,066	\$ 77,434
Debt Service:				
Principal	-	-	49,704	(49,704)
Interest	-	-	3,343	(3,343)
<b>Total Expenditures</b>	<b>\$ 1,215,500</b>	<b>\$ 1,215,500</b>	<b>\$ 1,191,113</b>	<b>\$ 24,387</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (361,500)	\$ (361,500)	\$ 297,226	\$ 658,726
<u>Other Financing Sources (Uses):</u>				
Loan proceeds	\$ 105,000	\$ 105,000	\$ 80,000	\$ (25,000)
<b>Net Change in Fund Balances</b>	<b>\$ (256,500)</b>	<b>\$ (256,500)</b>	<b>\$ 377,226</b>	<b>\$ 633,726</b>
Fund Balances - January 1	\$ 485,090	\$ 485,090	\$ 485,090	\$ -
<b>Fund Balances - December 31</b>	<b>\$ 228,590</b>	<b>\$ 228,590</b>	<b>\$ 862,316</b>	<b>\$ 633,726</b>

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, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 144,400	\$ 144,400	\$ 124,423	\$ (19,977)
Charges for services	51,900	51,900	64,033	12,133
Miscellaneous	-	-	3,844	3,844
<b>Total Revenues</b>	<b>\$ 196,300</b>	<b>\$ 196,300</b>	<b>\$ 192,300</b>	<b>\$ (4,000)</b>
<u>Expenditures:</u>				
Current:				
Health and welfare	\$ 870,608	\$ 870,608	\$ 712,528	\$ 158,080
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (674,308)</b>	<b>\$ (674,308)</b>	<b>\$ (520,228)</b>	<b>\$ 154,080</b>
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 603,189	\$ 603,189	\$ 506,000	\$ (97,189)
<b>Net Change in Fund Balances</b>	<b>\$ (71,119)</b>	<b>\$ (71,119)</b>	<b>\$ (14,228)</b>	<b>\$ 56,891</b>
Fund Balances - January 1	\$ 16,292	\$ 16,292	\$ 16,292	\$ -
<b>Fund Balances - December 31</b>	<b>\$ (54,827)</b>	<b>\$ (54,827)</b>	<b>\$ 2,064</b>	<b>\$ 56,891</b>

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

PEMBINA COUNTY  
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICE LEVY FUND  
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 543,605	\$ 543,605	\$ 563,810	\$ 20,205
Intergovernmental	-	-	91,224	91,224
<b>Total Revenues</b>	<b>\$ 543,605</b>	<b>\$ 543,605</b>	<b>\$ 655,034</b>	<b>\$ 111,429</b>
<u>Expenditures:</u>				
Current:				
Health and welfare	\$ 75,814	\$ 75,814	\$ 59,208	\$ 16,606
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 467,791</b>	<b>\$ 467,791</b>	<b>\$ 595,826</b>	<b>\$ 128,035</b>
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ (533,886)	\$ (533,886)	\$ (506,000)	\$ 27,886
<b>Net Change in Fund Balances</b>	<b>\$ (66,095)</b>	<b>\$ (66,095)</b>	<b>\$ 89,826</b>	<b>\$ 155,921</b>
Fund Balances - January 1	\$ 17,487	\$ 17,487	\$ 17,487	\$ -
<b>Fund Balances - December 31</b>	<b>\$ (48,608)</b>	<b>\$ (48,608)</b>	<b>\$ 107,313</b>	<b>\$ 155,921</b>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

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

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 148,000	\$ 148,000	\$ 496,628	\$ 348,628
Miscellaneous	2,000	2,000	-	(2,000)
Total Revenues	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 496,628</u>	<u>\$ 346,628</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 150,000	\$ 338,097	\$ 338,097	\$ -
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (188,097)</u>	<u>\$ 158,531</u>	<u>\$ 346,628</u>
Fund Balances - January 1	<u>\$ 466,689</u>	<u>\$ 466,689</u>	<u>\$ 466,689</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 466,689</u>	<u>\$ 278,592</u>	<u>\$ 625,220</u>	<u>\$ 346,628</u>

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

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PEMBINA COUNTY  
Cavalier, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2011

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**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.

PEMBINA COUNTY  
Cavalier, North Dakota

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

	Balance 1-1-11	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-11
<b>Major Funds:</b>							
General Fund & E-911	\$ 620,428.42	\$ 1,872,912.85	\$ -	\$ -	\$ 2,214.06	\$ 1,799,334.34	\$ 691,792.87
<b>Special Revenue Funds:</b>							
County Road & Bridge	\$ 81,921.29	\$ 490,176.35	\$ -	\$ -	\$ -	\$ 223,150.24	\$ 348,947.40
Highway Funds	401,709.58	1,475,691.05	-	80,000.00	-	1,213,650.85	743,749.78
Farm to Market Road	387,082.30	429,044.80	-	-	-	372,652.05	443,475.05
Social Service	2,417.24	206,175.33	506,000.00	-	-	712,528.43	2,064.14
Social Service Levy	17,486.93	633,802.38	-	-	506,000.00	59,207.99	86,081.32
Flood Emergency Fund	466,689.08	274,678.57	-	-	-	338,097.22	403,270.43
Total Major Special Revenue Funds	\$ 1,357,306.42	\$ 3,509,568.48	\$ 506,000.00	\$ 80,000.00	\$ 506,000.00	\$ 2,919,286.78	\$ 2,027,588.12
Total Major Funds	\$ 1,977,734.84	\$ 5,382,481.33	\$ 506,000.00	\$ 80,000.00	\$ 508,214.06	\$ 4,718,621.12	\$ 2,719,380.99
<b>Nonmajor Funds:</b>							
General Fund Reserve & Bldg Imp	\$ 182,129.80	\$ 212,528.32	\$ -	\$ -	\$ -	\$ 301,915.16	\$ 92,742.96
Comprehensive Health Fund	145,736.54	473,599.80	-	-	-	388,007.20	231,329.14
County Loan Fund (Debt Service)	98,576.47	80,068.73	-	-	-	80,356.71	98,288.49
WIC	(4,671.48)	39,582.45	2,214.06	-	-	40,222.98	(3,097.95)
Emergency	331,454.03	1,902.02	-	-	-	877.23	332,478.82
Bookmobile	4.60	15.09	-	-	-	18.75	0.94
County Agent	2,240.74	94,471.60	-	-	-	88,293.79	8,418.55
Veteran's Service	6,222.11	22,478.05	-	-	-	21,840.13	6,860.03
OASIS & Social Security	103,810.04	293,958.65	-	-	-	273,630.52	124,138.17
Technology/OASIS	24,356.92	98,174.48	-	-	-	66,612.09	55,919.31
Health OASIS	4,479.59	114,106.62	-	-	-	105,000.00	13,586.21
Advertising	25,595.55	11,871.34	-	-	-	14,507.00	22,959.89
Insurance Reserve	60,625.85	104,203.71	-	-	-	113,676.90	51,152.66
Weed Control	63,371.97	100,402.49	-	-	-	89,471.37	74,303.09
Correctional Center Levy	19,686.87	91,615.11	-	-	-	109,978.05	1,323.93
Abandoned Cemetery	13,693.74	-	-	-	-	-	13,693.74
Sheriff Special Trust	44,627.07	9,219.82	-	-	-	4,977.72	48,869.17
Document Preservation	1,913.35	9,200.26	-	-	-	5,494.27	5,619.34
County Agent Special Trust	11,798.78	5,604.59	-	-	-	4,910.86	12,492.51
County Nurse Special Trust	125.00	752.00	-	-	-	727.00	150.00
Hazardous Chem. Preparedness	6,240.85	18,027.28	-	-	-	7,752.98	16,515.15
Victim Witness	(2,056.12)	53,600.00	-	-	-	43,349.09	8,194.79
Asset Forfeiture Account	12,375.71	-	-	-	-	-	12,375.71
Tobacco Funds	4,439.25	36,505.03	-	-	-	33,696.32	7,247.96
Homeland Security Funds	(8,245.39)	20,873.19	-	-	-	28,396.94	(15,769.14)
Hazard Mitigation (Reg. Council)	-	125.00	-	-	-	125.00	-
Total Nonmajor Funds	\$ 1,148,531.84	\$ 1,892,885.63	\$ 2,214.06	\$ -	\$ -	\$ 1,823,838.06	\$ 1,219,793.47
Total Governmental Funds	\$ 3,126,266.68	\$ 7,275,366.96	\$ 508,214.06	\$ 80,000.00	\$ 508,214.06	\$ 6,542,459.18	\$ 3,939,174.46
<b>Agency Funds:</b>							
State Funds	\$ 356.13	\$ 43,917.23	\$ 5,200.00	\$ -	\$ 5,200.00	\$ 43,918.03	\$ 355.33
Township Road Fund	-	440,291.60	-	-	-	440,291.60	-
County Library	50.83	43,929.01	-	-	-	43,902.35	77.49
County Fair	73.76	64,347.25	-	-	-	64,315.50	105.51
Pembina County Water Resource	196.65	164,635.56	-	-	-	164,551.04	281.17
Historical Society Fund	12.02	10,723.33	-	-	-	10,717.77	17.58
Senior Citizen Fund	93.26	104,721.14	-	-	-	104,675.28	139.12
Ambulance	242.99	210,892.80	-	-	-	210,784.44	351.35
Red River Water Resource	47.34	40,087.29	-	-	-	40,064.47	70.16
Airport	248.22	72,292.84	-	-	-	72,147.46	393.60
Pembina Co Soil Conservation Dist.	79.64	66,925.08	-	-	-	66,883.28	121.44
Investment Interest	522.24	39,126.55	-	-	-	38,383.41	1,265.38

PEMBINA COUNTY  
Cavalier, North Dakota

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

	Balance 1-1-11	Receipts	Transfers In	Debt Proceeds	Transfers Out	Disbursements	Balance 12-31-11
<b>CONTINUED....</b>							
<u>Agency Funds (Continued):</u>							
Restitution Special Trust	\$ 2,345.76	\$ 439.00	\$ -	\$ -	\$ -	\$ 250.00	\$ 2,534.76
State's Attorney Trust Fund	1,715.83	-	-	-	-	-	1,715.83
Game and Fish Fund	4,906.85	39,033.60	-	-	-	39,578.00	4,362.45
Advance Tax Fund	50.47	26,113.49	-	-	-	26,046.48	117.48
Protest Fund	1,799.21	12,032.35	-	-	-	8,008.04	5,823.52
Township Funds	974.04	769,131.49	-	-	-	768,950.93	1,154.60
Fire District Funds	199.27	80,564.45	-	-	-	80,540.44	223.28
City Funds	17,674.46	1,609,248.91	-	-	-	1,612,799.87	14,123.50
School Funds	8,500.74	5,457,109.38	-	-	-	5,454,694.41	10,915.71
Drain Funds	93.82	795,728.17	-	-	-	795,074.82	747.17
Prepaid Taxes	2,469,599.50	3,194,743.84	-	-	-	2,469,599.50	3,194,743.84
<b>Total Agency Funds</b>	<b>\$ 2,509,783.03</b>	<b>\$ 13,286,034.36</b>	<b>\$ 5,200.00</b>	<b>\$ -</b>	<b>\$ 5,200.00</b>	<b>\$ 12,556,177.12</b>	<b>\$ 3,239,640.27</b>
<b>Total Primary Government</b>	<b>\$ 5,636,049.71</b>	<b>\$ 20,561,401.32</b>	<b>\$ 513,414.06</b>	<b>\$ 80,000.00</b>	<b>\$ 513,414.06</b>	<b>\$ 19,098,636.30</b>	<b>\$ 7,178,814.73</b>
<b>Job Development Authority</b>	<b>\$ 249,761.53</b>	<b>\$ 131,538.80</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 73,341.93</b>	<b>\$ 307,958.40</b>
<b>Total Reporting Entity</b>	<b>\$ 5,885,811.24</b>	<b>\$ 20,692,940.12</b>	<b>\$ 513,414.06</b>	<b>\$ 80,000.00</b>	<b>\$ 513,414.06</b>	<b>\$ 19,171,978.23</b>	<b>\$ 7,486,773.13</b>

PEMBINA COUNTY  
Cavalier, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011

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	\$ 9,199
State and Community Highway Safety	20.600	1,453
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	3,558
<u>Passed through the State Department Emergency Management:</u>		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	6,156
Total U.S. Department of Transportation		<u>\$ 20,366</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Passed through the State Department of Human Services:</u>		
Promoting Safe & Stable Families	93.556	\$ 4,326
Temporary Assistance for Needy Families	93.558	37,469
Child Support Enforcement	93.563	430
Adoption Assistance	93.659	359
Children's Health Insurance Program	93.767	1,116
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3,402
Stephanie Tubbs Jones Child Welfare Services Program	93.645	169
Foster Care-Title IV-E	93.658	27,810
Maternal & Child Health Services Block Grant to the States	93.994	651
Total Department of Health and Human Services		<u>\$ 75,732</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	\$ 12,231
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Passed through the State Department Emergency Management:</u>		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	\$ 6,156
Emergency Management Performance Grants	97.042	48,661
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	*** 97.036	524,979
Homeland Security Grant	97.067	21,537
Total U.S. Department of Homeland Security		<u>\$ 601,333</u>
<u>U.S. DEPARTMENT OF COMMERCE:</u>		
<u>Passed through the State Department Emergency Management:</u>		
Public Safety Interoperable Communications Grant Program	11.555	\$ 1,456

Continued on next page....

PEMBINA COUNTY  
Cavalier, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<b>CONTINUED....</b>		
<u>U.S. DEPARTMENT OF ENERGY:</u>		
<u>Passed through the State Department of Commerce:</u>		
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	\$ 109,760
Total Expenditure of Federal Awards		<u>\$ 820,878</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, 2011. 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 assets 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  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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*

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Board of County Commissioners  
Pembina County  
Cavalier, North Dakota

We have audited the financial statements of the governmental activities, the 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, 2011, which collectively comprise Pembina County's financial statements and have issued our report thereon dated September 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pembina County's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pembina County's internal control over financial reporting.

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 or corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying *schedule of findings and questioned costs* that we consider to be significant deficiencies in internal control over financial reporting [2011-01]. 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 charges with governance.

**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*.

We noted certain matters that we reported to management of Pembina County in a separate letter dated September 6, 2012.

Pembina County's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. We did not audit Pembina County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of County Commissioners, others within the county, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

September 6, 2012

STATE AUDITOR

ROBERT R. PETERSON  
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Fax (701) 328-1406



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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Independent Auditor's Report

Board of County Commissioners  
Pembina County  
Cavalier, North Dakota

**Compliance**

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 each of Pembina County's major federal programs for the year ended December 31, 2011. Pembina County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pembina County's management. Our responsibility is to express an opinion on Pembina County's compliance based on our audit.

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. Our audit does not provide a legal determination of Pembina County's compliance with those requirements.

In our opinion, Pembina County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

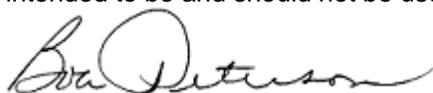
**Internal Control Over Compliance**

Management of Pembina County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pembina County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of County Commissioners, others within the county, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

September 6, 2012

PEMBINA COUNTY  
Cavalier, North Dakota

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

**Section I - Summary of Auditor's Results**

Financial Statements

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

Internal Control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ No
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No
Reportable conditions identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes	_____ <u>X</u> No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes      _____ No

**PEMBINA COUNTY**

Schedule of Findings and Questioned Costs – Continued

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**Section II - Financial Statement Findings**

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**2011-01 – LACK OF SEGREGATION OF DUTIES – Water Resource District**

**Condition:**

The Pembina County Water Resource District has one secretary/treasurer responsible for the accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

**Effect:**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the water resource district's financial condition.

**Cause:**

Due to the size, complexity and the economic realities of each water resource district, it is presently not feasible to obtain proper separation of duties.

**Criteria:**

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

**Recommendation:**

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

**Views of Responsible Officials / Planned Corrective Actions:**

The Pembina County Water Resource District acknowledges the increased risk and agrees that it is not feasible to obtain proper separation of duties. All expenditures are approved through motion of the board and all bills reviewed.

**Section III - Federal Award Findings and Questioned Costs**

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No matters were reported.