

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**TOWNER COUNTY  
CANDO, NORTH DAKOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2010**



---

---

TOWNER COUNTY  
Cando, North Dakota

TABLE OF CONTENTS  
For the Year Ended December 31, 2010

---

	<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 Net Assets	10
Notes to the Financial Statements	11 - 22
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules	23 - 29
Notes to the Required Supplementary Information	30
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Fund Activity	31 - 32
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	33 - 34
Schedule of Findings and Questioned Costs	35 - 38

TOWNER COUNTY  
Cando, North Dakota

**COUNTY OFFICIALS**

December 31, 2010

Doug Berg  
Mike Weisz  
Scott Boe  
Ken Teubner  
David Lagien

Kent Haugen  
Kent Haugen  
Wayne Lingen  
Jolene Hoffert  
Jolene Hoffert  
Vaughn Klier  
Robert Ackre

Chairman  
Vice-chairman  
Commissioner  
Commissioner  
Commissioner

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

**STATE AUDITOR**

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



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

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

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of County Commissioners  
Towner County  
Cando, North Dakota

We were engaged to audit the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, Cando, North Dakota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of the discretely presented component units. These financial statements are the responsibility of Towner County's management. Our responsibility is to disclaim our opinions or express our opinions on these financial statements based on our audit.

In relation to the discretely presented component units, 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.

Towner County reported suspected fraudulent activity relating to treasurer's checks and a fictitious vendor. The complete extent of any potential fraudulent activity cannot be reasonably estimated. Further, evidence relating to the extent of any fraudulent activity is not available. Towner County's records do not permit the application of other auditing procedures.

Towner County did not provide reasoning or support for various correcting entries to the general ledger as of December 31, 2010. The correcting entries brought to management, which are stated in the accompanying financial statements, conclude to \$104,760 as of December 31, 2010. Further, evidence supporting the correcting entries is no longer available as of March 15, 2012. The County's records do not permit the application of other auditing procedures for correcting entries.

Towner County did not present bank reconciliations that had approval of the current county officials and were free of inconclusive transactions. The bank reconciliations included amounts unjustified by current officials and thus did not permit any applicable auditing procedures. The County's book balance cash can only be confirmed by conducting auditing procedures surrounding the bank reconciliations.

Since Towner County was not able to adequately support the amounts reported for governmental activities, each major fund, and the aggregate remaining fund information, and we were not able to apply other auditing procedures to satisfy ourselves as to the amounts reported in those reporting units, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on those financial statements.

**TOWNER COUNTY**

Independent Auditor's Report - Continued

---

In our opinion, the discretely presented component units' financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component units of Towner County, Cando, North Dakota, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012, on our consideration of Towner County, Cando, North Dakota'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.

The budgetary comparison information on pages 23 through 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the required supplementary information.

Towner County, Cando, North Dakota, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We were engaged to audit the financial statements that collectively comprise the Towner County, Cando, North Dakota, basic financial statements. The schedule of fund activity is presented for purposes of additional analysis and is not a required part of the basic financial statements. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the schedule of fund activity.



Robert R. Peterson  
State Auditor

March 15, 2012

TOWNER COUNTY  
Cando, North Dakota

STATEMENT OF NET ASSETS  
December 31, 2010

	Primary Government	Component Units	
	Governmental Activities	Water Resource District	Health District
<b>ASSETS</b>			
Cash and investments	\$ 1,714,768	\$ 84,940	\$ 61,570
Intergovernmental receivable	161,228	-	-
Special assessments receivable	-	2,406	-
Road receivables	124,640	-	-
Taxes receivable	95,910	4,609	880
Restricted Assets:			
Capital Assets (net of accumulated depreciation):			
Land	12,250	-	-
Buildings	37,907	-	-
Equipment and vehicles	1,276,817	-	-
Small equipment	9,240	-	-
Infrastructure	1,787,727	-	-
Construction in progress	38,569	-	-
Total Capital Assets	<u>\$ 3,162,510</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets	<u>\$ 5,259,056</u>	<u>\$ 91,955</u>	<u>\$ 62,450</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 200,826	\$ -	\$ -
Payroll liability	-	-	1,304
Interest payable	8,445	-	-
Long-Term Liabilities:			
Due Within One Year:			
Capital leases payable	109,834	-	-
Compensated absences payable	2,175	-	85
Due After One Year:			
Capital leases payable	265,765	-	-
Compensated absences payable	19,571	-	761
Total Liabilities	<u>\$ 606,616</u>	<u>\$ -</u>	<u>\$ 2,150</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,786,911	\$ -	\$ -
Restricted for:			
Public safety	15,044	-	-
Highways	1,109,874	-	-
Flood Repair	430,224	-	-
Health and welfare	1,175	-	60,300
Culture and recreation	24,368	-	-
Conservation of natural resources	29,336	91,955	-
Emergencies	51,916	-	-
Economic development	2	-	-
Unrestricted	<u>203,590</u>	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 4,652,440</u>	<u>\$ 91,955</u>	<u>\$ 60,300</u>

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

TOWNER COUNTY  
Cando, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Primary Governmental Activities	Component Units Water Resource District	Health District
<u>Primary Government:</u>							
<u>Governmental Activities:</u>							
General government	\$ 1,024,074	\$ 45,697	\$ 84,466	\$ -	\$ (893,911)		
Public safety	313,313	3,465	140,148	-	(169,700)		
Highways and bridges	567,725	380,929	283,537	30,550	127,291		
Flood repair	205,014	-	24,919	-	(180,095)		
Health and welfare	212,853	-	-	-	(212,853)		
Culture and recreation	12,062	-	-	-	(12,062)		
Conservation of natural resources	79,898	-	-	-	(79,898)		
Economic development	32,900	-	-	-	(32,900)		
Interest & fiscal charges on long-term debt	22,776	-	-	-	(22,776)		
Total Governmental Activities	<u>\$ 2,470,615</u>	<u>\$ 430,091</u>	<u>\$ 533,070</u>	<u>\$ 30,550</u>	<u>\$ (1,476,904)</u>		
<u>Component Units:</u>							
Water resource district	\$ 50,298	\$ -	\$ -	\$ -	\$ (50,298)	\$ -	
Health district	118,682	17,925	77,151	-	-	(23,606)	
Total Component Units	<u>\$ 168,980</u>	<u>\$ 17,925</u>	<u>\$ 77,151</u>	<u>\$ -</u>	<u>\$ (50,298)</u>	<u>\$ (23,606)</u>	
<u>General Revenues:</u>							
Taxes:							
Property taxes; levied for general purposes					\$ 336,820	\$ 60,322	\$ 14,163
Property taxes; levied for special purposes					1,222,864	-	-
Non restricted grants and contributions					257,867	-	-
Unrestricted investment earnings					19,010	-	1,206
Miscellaneous revenue					433,983	44	-
Total General Revenues					<u>\$ 2,270,544</u>	<u>\$ 60,366</u>	<u>\$ 15,369</u>
Change in Net Assets					<u>\$ 793,640</u>	<u>\$ 10,068</u>	<u>\$ (8,237)</u>
Net Assets - January 1					\$ 3,828,810	81,887	\$ 48,537
Prior Period Adjustment					29,990	-	20,000
Net Assets - January 1, as restated					<u>\$ 3,858,800</u>	<u>\$ 81,887</u>	<u>\$ 68,537</u>
Net Assets - December 31					<u>\$ 4,652,440</u>	<u>\$ 91,955</u>	<u>\$ 60,300</u>

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

TOWNER COUNTY  
Cando, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2010

	General	County Road & Bridge	Highway Tax Distribution	Farm to Market	Insurance Reserve	Emergency Poor	FEMA 2009	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>									
Cash and investments	\$ 26,935	\$ 382,440	\$ 136,008	\$ 554,385	\$ 43,637	\$ 9,118	\$ 306,090	\$ 256,155	\$ 1,714,768
Intergovernmental receivable	96,035	-	65,193	-	-	-	-	-	161,228
Road receivables	-	124,640	-	-	-	-	-	-	124,640
Taxes receivable	18,176	28,517	-	8,593	693	13,470	-	26,461	95,910
Due from other funds	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 141,146</b>	<b>\$ 535,597</b>	<b>\$ 201,201</b>	<b>\$ 562,978</b>	<b>\$ 44,330</b>	<b>\$ 22,588</b>	<b>\$ 306,090</b>	<b>\$ 282,616</b>	<b>\$ 2,096,546</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<u>Liabilities:</u>									
Accounts payable	\$ 4,905	\$ -	\$ 20,863	\$ 146,350	\$ -	\$ 14,289	\$ -	\$ 14,419	\$ 200,826
Retainages payable	-	-	-	-	-	-	-	-	-
Deferred revenue	18,176	153,157	-	8,593	693	13,470	-	26,461	220,550
Due to other funds	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>\$ 23,081</b>	<b>\$ 153,157</b>	<b>\$ 20,863</b>	<b>\$ 154,943</b>	<b>\$ 693</b>	<b>\$ 27,759</b>	<b>\$ -</b>	<b>\$ 40,880</b>	<b>\$ 421,376</b>
<u>Fund Balances:</u>									
Unreserved, reported in:									
General fund	\$ 118,065	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,065
Special revenue funds	-	382,440	180,338	408,035	43,637	(5,171)	306,090	241,736	1,557,105
<b>Total Fund Balances</b>	<b>\$ 118,065</b>	<b>\$ 382,440</b>	<b>\$ 180,338</b>	<b>\$ 408,035</b>	<b>\$ 43,637</b>	<b>\$ (5,171)</b>	<b>\$ 306,090</b>	<b>\$ 241,736</b>	<b>\$ 1,675,170</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 141,146</b>	<b>\$ 535,597</b>	<b>\$ 201,201</b>	<b>\$ 562,978</b>	<b>\$ 44,330</b>	<b>\$ 22,588</b>	<b>\$ 306,090</b>	<b>\$ 282,616</b>	<b>\$ 2,096,546</b>

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

---

---

TOWNER COUNTY  
Cando, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
December 31, 2010

---

Total *Fund Balances* for Governmental Funds \$ 1,675,170

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

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

Cost of Capital Assets	\$ 4,416,213	
Less Accumulated Depreciation	<u>(1,253,703)</u>	
Net Capital Assets		3,162,510

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

Property Taxes Receivable	\$ 95,910	
Road Department Accounts Receivable	<u>124,640</u>	220,550

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, 2010 are:

Capital Leases	\$ (375,599)	
Interest Payable	(8,445)	
Compensated Absences	<u>(21,746)</u>	
Total Long-Term Liabilities		<u>(405,790)</u>

Total Net Assets of Governmental Activities \$ 4,652,440

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

TOWNER COUNTY  
Cando, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	General	County Road & Bridge	Highway Tax Distribution	Farm to Market	Insurance Reserve	Emergency Poor	FEMA 2009	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>									
Taxes	\$ 340,600	\$ 469,744	\$ -	\$ 125,111	\$ 2,760	\$ 199,162	\$ -	\$ 433,120	\$ 1,570,497
Intergovernmental	305,620	32,960	283,537	-	-	149	24,918	143,753	790,937
Licenses, permits and fees	1,060	-	-	-	-	-	-	-	1,060
Charges for services	44,807	289,552	-	-	-	-	-	11,530	345,889
Fines and forfeitures	3,295	-	-	-	-	-	-	-	3,295
Interest income	15,242	-	-	3,768	-	-	-	-	19,010
Miscellaneous	354,680	79,301	-	-	-	-	-	2	433,983
<b>Total Revenues</b>	<b>\$ 1,065,304</b>	<b>\$ 871,557</b>	<b>\$ 283,537</b>	<b>\$ 128,879</b>	<b>\$ 2,760</b>	<b>\$ 199,311</b>	<b>\$ 24,918</b>	<b>\$ 588,405</b>	<b>\$ 3,164,671</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	\$ 736,427	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 287,116	\$ 1,023,543
Public safety	223,570	-	-	-	-	-	-	138,484	362,054
Highways and bridges	-	685,587	167,176	177,355	-	-	-	14,606	1,044,724
Flood repair	-	-	-	-	-	-	202,226	2,788	205,014
Health and welfare	8,718	-	-	-	-	204,482	-	-	213,200
Culture and recreation	-	-	-	-	-	-	-	12,062	12,062
Conserv. of natural resources	-	-	-	-	-	-	-	75,898	75,898
Economic development	32,900	-	-	-	-	-	-	-	32,900
<b>Debt Service:</b>									
Principal	13,232	25,794	57,678	-	-	-	-	-	96,704
Interest and fees	688	4,092	10,210	-	-	-	-	-	14,990
<b>Total Expenditures</b>	<b>\$ 1,015,535</b>	<b>\$ 715,473</b>	<b>\$ 235,064</b>	<b>\$ 177,355</b>	<b>\$ -</b>	<b>\$ 204,482</b>	<b>\$ 202,226</b>	<b>\$ 530,954</b>	<b>\$ 3,081,089</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 49,769</b>	<b>\$ 156,084</b>	<b>\$ 48,473</b>	<b>\$ (48,476)</b>	<b>\$ 2,760</b>	<b>\$ (5,171)</b>	<b>\$ (177,308)</b>	<b>\$ 57,451</b>	<b>\$ 83,582</b>
<b>Other Financing Sources (Uses):</b>									
Lease Proceeds	\$ -	\$ 123,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,314
<b>Net Change in Fund Balances</b>	<b>\$ 49,769</b>	<b>\$ 279,398</b>	<b>\$ 48,473</b>	<b>\$ (48,476)</b>	<b>\$ 2,760</b>	<b>\$ (5,171)</b>	<b>\$ (177,308)</b>	<b>\$ 57,451</b>	<b>\$ 206,896</b>
Fund Balances - January 1	\$ (52,127)	\$ 103,042	\$ 131,865	\$ 456,511	\$ 140,877	\$ (17,690)	\$ 483,398	\$ 222,398	\$ 1,468,274
Prior Period Adjustment	120,423	-	-	-	(100,000)	17,690	-	(38,113)	-
<b>Fund Balances - Jan. 1, as restated</b>	<b>\$ 68,296</b>	<b>\$ 103,042</b>	<b>\$ 131,865</b>	<b>\$ 456,511</b>	<b>\$ 40,877</b>	<b>\$ -</b>	<b>\$ 483,398</b>	<b>\$ 184,285</b>	<b>\$ 1,468,274</b>
<b>Fund Balances - December 31</b>	<b>\$ 118,065</b>	<b>\$ 382,440</b>	<b>\$ 180,338</b>	<b>\$ 408,035</b>	<b>\$ 43,637</b>	<b>\$ (5,171)</b>	<b>\$ 306,090</b>	<b>\$ 241,736</b>	<b>\$ 1,675,170</b>

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

TOWNER COUNTY  
Cando, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010

---

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$	206,896
---	----	---------

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

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

Current Year Capital Outlay	\$	691,426	
Capital Contribution		30,550	
Current Year Depreciation Expense		<u>(173,406)</u>	548,570

The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which debt repayment exceeded debt proceeds.

Repayment of Debt - Lease	\$	83,472	
Repayment of Debt - Loan		13,232	
Lease Issuance		<u>(123,314)</u>	(26,610)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Compensated Absences	\$	3,536	
Net Increase in Interest Payable		<u>(7,786)</u>	(4,250)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable and road receivables.

Net Decrease in Taxes Receivable	\$	(10,813)	
Net Increase in Road Department Receivables		<u>79,847</u>	<u>69,034</u>

Change in Net Assets of Governmental Activities	\$	<u><u>793,640</u></u>
---	----	-----------------------

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

---

---

TOWNER COUNTY  
Cando, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
December 31, 2010

---

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 982,129</u>
<u>LIABILITIES</u>	
Due to other governments	<u>\$ 982,129</u>

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

---

TOWNER COUNTY  
Condo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

The accompanying financial statements present the activities of Towner County. The county has considered all potential component units for which the county is financially accountable and other organizations for which the nature and significance of their relationships with the county such that exclusion would cause the county's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Towner County to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Towner County.

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

**COMPONENT UNITS**

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

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

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

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

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

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

Related Organizations - The County is accountable for the following legally separate entities because it appoints a voting majority to their governing boards. Although, the County is not financially accountable for these entities, as defined by GASB statement 14, the County did provide operating grants to them as follows:

	<b>2010</b>
Weed Control	\$75,898
County Park	12,034
Senior Citizens	36,692

**B. Basis of Presentation**

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

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

*Fund Financial Statements:* The fund financial statements provide information about the county's funds including its fiduciary funds. Separate statements for each fund category- *governmental* and *fiduciary*-are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The county reports the following major governmental funds:

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

*County Road and Bridge Fund.* This fund accounts for all financial resources related to highway maintenance, except those required to be accounted for in another fund.

*Highway Tax Distribution Fund.* This fund accounts for the Highway Tax Distribution revenue collected during the year and used for appropriate highway and road projects.

*Farm-to-Market Road Fund.* This fund accounts for repair and improvement of highways and bridges that are legally restricted from taxes levied.

*Insurance Reserve Fund.* This fund accounts for insurance resources related to the activities of the county.

*Emergency Poor Fund.* This fund accounts for the costs of providing social service benefits to needy residents of the county

## TOWNER COUNTY

### Notes to the Financial Statements - Continued

---

*FEMA 2009 Fund.* This fund accounts for the 2009 federal public assistance grants passed through the State to be used for the repair of roads in the county that were damaged from flooding.

The County reports the following fund type:

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

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

*Government-wide and Fiduciary Fund Financial Statements.* The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

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

#### D. Cash, Cash Equivalents and Investments

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

#### E. Capital Assets

##### **PRIMARY GOVERNMENT:**

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

General infrastructure assets acquired prior to January 1, 2004 consisting of various road and bridge network assets are not reported in the financial statements, as the County was required to prospectively report infrastructure assets beginning January 1, 2004 as a Phase III GASB 34 implementation entity. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized.

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

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

<b>Assets</b>	<b>Years</b>
Buildings	50
Equipment	5 - 20
Small Equipment	3 - 10
Infrastructure	50

F. Compensated Absences

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

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

H. Fund Balances / Net Assets Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, primarily for debt service. Restrictions of net assets on the government-wide statement of net assets primarily include certain functions legally restricted by specified tax levies.

I. Interfund Transactions

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

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

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

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 2: LEGAL COMPLIANCE - BUDGETS****BUDGET AMENDMENTS - COUNTY**

The board of county commissioners amended the county budget for 2010 as follows:

2010	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 988,513	\$35,989	\$1,024,502
Oasis and FICA	60,000	8,324	68,324
Health Insurance	132,750	14,742	147,492
County Road and Bridge	600,783	30,950	631,733
Veterans Service Officer	15,458	210	15,668
Totals	\$1,797,504	\$90,215	\$1,887,719

**NOTE 3: DEPOSITS**

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2010 the county's carrying amount of deposits was \$2,652,699 and the bank balances totaled \$2,731,748. Of the bank balances, \$758,051 was covered by Federal Depository Insurance. The remaining bank balances totaling \$1,973,697 were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2010, the Towner County Water Resource District's carrying amount of deposits was 84,940 and the bank balances totaled \$87,340 which was entirely covered by Federal Depository Insurance. At year ended December 31, 2010, the Towner County Public Health District's carrying amount of deposits was \$61,571 and the bank balances totaled \$61,798 which was entirely covered by Federal Depository Insurance.

**TOWNER COUNTY**

Notes to the Financial Statements - Continued

---

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, 2010, Towner County had certificates of deposit totaling \$876,855 all of which were considered deposits.

As of December 31, 2010, the Towner County Health District had certificates of deposit totaling \$21,206 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 four years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable because any defaults will be covered by enforcement of the liens.

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

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

Most property owners choose to pay property taxes on or before February 15 and receive the 5% discount on the property taxes.

**NOTE 5: ROAD ACCOUNTS RECEIVABLE**

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

**NOTE 6: INTERGOVERNMENTAL RECEIVABLE**

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

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 7: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2010 for the primary government:

<b>Primary Government:</b>	<b>Balance January 1</b>	<b>Adjust.</b>	<b>Balance Restated</b>	<b>Increases</b>	<b>Transfers</b>	<b>Balance December 31</b>
<b>Governmental Activities:</b>						
<i>Capital assets not being depreciated:</i>						
Land	\$ 12,250	\$ -	\$ 12,250	\$ -	\$ -	\$ 12,250
Construction in Progress	97,489	-	97,489	428,808	(487,727)	38,570
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 109,739</b>	<b>\$ -</b>	<b>\$ 109,739</b>	<b>\$428,808</b>	<b>\$(487,727)</b>	<b>\$ 50,820</b>
<i>Capital assets being depreciated:</i>						
Buildings	\$ 392,500	\$ -	\$ 392,500	\$ -	\$ -	\$ 392,500
Equipment	1,683,963	-	1,683,963	293,168	-	1,977,131
Small Equipment	54,626	-	54,626	-	-	54,626
Infrastructure	1,453,409	-	1,453,409	-	487,727	1,941,136
<b>Total Capital Assets, Being Depreciated</b>	<b>\$3,584,498</b>	<b>\$ -</b>	<b>\$3,584,498</b>	<b>\$293,168</b>	<b>\$487,727</b>	<b>\$4,365,393</b>
<i>Less Accumulated Depreciation for:</i>						
Buildings	\$ 353,366	\$ -	\$ 353,366	\$ 1,227	\$ -	\$ 354,593
Equipment	607,694	(29,990)	577,704	122,610	-	700,314
Small Equipment	44,346	-	44,346	1,040	-	45,386
Infrastructure	104,881	-	104,881	48,528	-	153,409
<b>Total Accumulated Depreciation</b>	<b>\$1,110,287</b>	<b>\$(29,990)</b>	<b>\$1,080,297</b>	<b>\$173,405</b>	<b>\$ -</b>	<b>\$1,253,702</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$2,474,211</b>	<b>\$ 29,990</b>	<b>\$2,504,201</b>	<b>\$119,763</b>	<b>\$487,727</b>	<b>\$3,111,691</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$2,583,950</b>	<b>\$ 29,990</b>	<b>\$2,613,940</b>	<b>\$548,571</b>	<b>\$ -</b>	<b>\$3,162,511</b>

Depreciation expense was charged to functions/programs of the county as follows for the year ended December 31, 2010:

<b>Governmental Activities:</b>	<b>2010</b>
General Government	\$ 1,040
Public Safety	11,190
Conservation of Natural Resources	4,000
Highways and Bridges	157,175
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$173,405</b>

**NOTE 8: ACCOUNTS PAYABLE**

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

**NOTE 9: LEASES PAYABLE**

**Capital Leases** - Towner County has entered into a new lease agreement for the audit period. The lease was for a 2010 Caterpillar Motor Grader. This lease agreement qualifies as capital lease for accounting purposes.

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 10: LONG-TERM DEBT**Primary Government:

**Changes in Long-Term Liabilities** - During the year ended December 31, 2010; the following changes occurred in governmental activities long-term liabilities for the primary government:

	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
Leases Payable	\$335,757	\$123,314	\$ 83,472	\$375,599	\$109,834
Loans Payable	13,232	-	13,232	-	-
Compensated Absences - *	25,282	-	3,536	21,746	2,175
<b>Total Governmental Activities</b>	<b>\$374,271</b>	<b>\$123,314</b>	<b>\$100,240</b>	<b>\$397,345</b>	<b>\$112,009</b>

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

Outstanding governmental activities debt at December 31, 2010 is comprised of the following individual issues:

**Leases Payable:**

\$128,227 Lease from Caterpillar for a 2005 Dozer. Payments are \$28,080 annually through 2013; interest at approximately 6%.	\$ 76,826
\$133,990 Lease from Caterpillar for a 140M Motor Grader. Payments are \$29,888 annually through 2013; interest at 3.75%.	83,334
\$178,466 Lease from Caterpillar for a 140H Motor Grader. Payments are \$39,808 annually through 2013; interest at 5%.	92,125
\$123,314 Lease from Caterpillar for a 140M Motor Grader. Payments are \$27,312 annually through 2015; interest at 3.45%.	<u>123,314</u>
<b>Total Lease Payable</b>	<b><u>\$375,599</u></b>

Debt service requirements on government activity long-term debt at December 31, 2010 are as follows:

<b>Year Ending December 31</b>	<b>Leases Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2011	\$109,834	\$15,251
2012	114,130	10,955
2013	99,748	6,470
2014	25,497	1,815
2015	26,389	923
<b>Totals</b>	<b>\$375,599</b>	<b>\$35,414</b>

**TOWNER COUNTY**

Notes to the Financial Statements - Continued

---

**NOTE 11: PENSION PLAN**

**North Dakota Public Employees' Retirement System**

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

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Towner County. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

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

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. Towner County has implemented a salary reduction agreement and is currently contributing the employees share. Towner County is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Towner County's required and actual contributions to NDPERS for the fiscal years ended December 31, 2010, 2009, and 2008 were \$38,771, \$32,270, and \$30,356, respectively.

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

**NOTE 12: RISK MANAGEMENT**

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

**TOWNER COUNTY**

## Notes to the Financial Statements - Continued

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Towner County pays an annual premium to NDRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRF is limited to losses of one million dollars per occurrence for general liability and automobile and \$1,802,015 for public assets (mobile equipment and portable property).

Towner County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Towner County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Towner County with blanket fidelity bond coverage in the amount of \$1,700,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

**NOTE 13: DEFICIT CASH FUND BALANCES**

At December 31, 2010 the following funds had deficit fund balances:

	<b>Balance</b>
Health Insurance	\$ (51,260)
Stone Garden Grant	(7,001)

**NOTE 14: CONDUIT DEBT OBLIGATIONS**

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

As of December 31, 2010, there was one community development block grant loan outstanding, with an aggregate principal amount payable of \$153,920.

**NOTE 15: TRANSFERS & BEGINNING BALANCES**

Towner County did not transfer funds during 2010. The County did transfer funds prior to closing the general ledger software from the fiscal year 2009 and after the year end reports, the account history file, and the daily cash sheet were finalized and saved for audit purposes from the 2009 audit period. The following is the transfers that were made prior to the general ledger closeout:

<b>Fund</b>	<b>2009 Fund Bal. Ending Audit</b>	<b>2009 Transfers</b>	<b>2009 Fund Balance Beginning Client</b>
General	\$(120,483)	\$ 120,423	\$ (60)
Insurance Reserve	140,877	(100,000)	40,877
Special Road and Bridge	(6,131)	6,131	-
Emergency	93,140	(64,894)	28,246
Health Insurance	(20,652)	20,652	-
Emergency Poor	(17,690)	17,690	-

**TOWNER COUNTY**

Notes to the Financial Statements - Continued

**NOTE 16: PRIOR PERIOD ADJUSTMENT**

The prior period adjustments shown in the statement of activities and in the statement of revenues, expenditures and changes in fund balance were due to adjusting accumulated depreciation, as well as including beginning balance adjustments (net zero effect on overall governmental fund balances) included the funds noted in Note 16. The Towner County Public Health Unit did not include a CD that they held starting in 2009 which led to an adjustment in beginning fund balance for the current audit period. The adjustments to beginning net assets equity and fund balances are as follows for the year beginning January 1, 2010:

	<b>Amounts</b>
Net Assets Equity as previously reported	\$3,828,810
<b>Adjustments to restate the January 1, 2010 net assets equity for the following:</b>	
Net adjustment to Capital Assets	29,990
Net Assets Equity January 1, 2010 as restated	<u>\$3,858,800</u>
	<b>Amounts</b>
Fund Balance as previously reported	\$1,468,274
<b>Adjustments to restate the January 1, 2010 Fund Balance:</b>	
Net adjustment for various fund's beginning balance	-
Net Fund Balance January 1, 2010 as restated	<u>\$1,468,274</u>

The Towner County Public Health Unit did not include a CD that they held in their fund level balance sheet starting in 2009 which led to an adjustment in beginning fund balance for the current audit period. The adjustments to beginning net assets equity and fund balances are as follows for the year beginning January 1, 2010

<b>Towner County Health District</b>	<b>Amounts</b>
Net Assets Equity as previously reported	\$48,537
<b>Adjustments to restate the January 1, 2010 net assets equity for the following:</b>	
Addition of a CD to Cash Balance	20,000
Net Assets Equity January 1, 2010 as restated	<u>\$68,537</u>
<b>Towner County Public Health District</b>	<b>Amounts</b>
Fund Balance as previously reported	\$48,537
<b>Adjustments to restate the January 1, 2010 Fund Balance:</b>	
Addition of a CD to Cash Balance	20,000
Net Fund Balance January 1, 2010 as restated	<u>\$68,537</u>

**NOTE 17: BUDGET TO ACTUAL RECONCILIATION**

The county entered into a lease for the purchase of 140M Motor Grader. The lease proceeds and corresponding highway expenditures were reported on the statement of revenues, expenditures and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule for the county roads – Highway Tax Fund. The county did not budget for these funds and these transactions were not recorded on the county's general ledger. The differences are as follows:

<b>Highway Tax Fund:</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Expenditures	\$715,473	\$(123,314)	\$592,159
Lease Proceeds	123,314	(123,314)	-

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

---

**NOTE 18: SUBSEQUENT EVENT**

Towner County is reporting potential fraudulent activity in the years of 2010 thru 2011 involving staff members. This matter is litigation as of the December 31, 2010 report date. The potential fraud was related to treasurer checks that totaling \$30,215 in the two years that were allegedly fraudulently written to an employee and a fictitious vendor. Additionally, one large invoice totaling \$22,813 was written from the general checking account to a supposed fictitious vendor. This occurred in 2011. It is anticipated that this matter should be resolved during the first half of 2012.

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 308,081	\$ 308,081	\$ 340,600	\$ 32,519
Intergovernmental	255,100	255,100	305,620	50,520
Licenses, permits and fees	760	760	1,060	300
Charges for services	18,500	18,500	44,807	26,307
Fines and forfeitures	4,000	4,000	3,295	(705)
Interest income	40,000	40,000	15,242	(24,758)
Miscellaneous	67,000	67,000	354,680	287,680
<b>Total Revenues</b>	<b>\$ 693,441</b>	<b>\$ 693,441</b>	<b>\$ 1,065,304</b>	<b>\$ 371,863</b>
<u>Expenditures:</u>				
Current:				
General government	\$ 730,670	\$ 751,846	\$ 736,427	\$ 15,419
Public safety	223,303	238,116	223,570	14,546
Health and welfare	9,940	9,940	8,718	1,222
Conservation of natural resources	4,600	4,600	-	4,600
Economic development	20,000	20,000	32,900	(12,900)
Debt Service:				
Principal	-	-	13,232	(13,232)
Interest	-	-	688	(688)
<b>Total Expenditures</b>	<b>\$ 988,513</b>	<b>\$ 1,024,502</b>	<b>\$ 1,015,535</b>	<b>\$ 8,967</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>\$ (295,072)</b>	<b>\$ (331,061)</b>	<b>\$ 49,769</b>	<b>\$ 380,830</b>
Fund Balances - January 1	\$ (52,127)	\$ (52,127)	\$ (52,127)	-
Prior Period Adjustment	120,423	120,423	120,423	-
Fund Balances - January 1, as restated	<b>\$ 68,296</b>	<b>\$ 68,296</b>	<b>\$ 68,296</b>	<b>\$ -</b>
Fund Balances - December 31	<b>\$ (226,776)</b>	<b>\$ (262,765)</b>	<b>\$ 118,065</b>	<b>\$ 380,830</b>

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

TOWNER COUNTY  
Cando, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 291,084	\$ 291,084	\$ 469,744	\$ 178,660
Intergovernmental	24,120	24,120	32,960	8,840
Charges for services	130,000	130,000	289,552	159,552
Miscellaneous	1,500	1,500	79,301	77,801
Total Revenues	<u>\$ 446,704</u>	<u>\$ 446,704</u>	<u>\$ 871,557</u>	<u>\$ 424,853</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 600,783	631,733	\$ 562,273	\$ 69,460
Debt Service:				
Principal	-	-	25,794	(25,794)
Interest	-	-	4,092	(4,092)
Total Expenditures	<u>\$ 600,783</u>	<u>\$ 631,733</u>	<u>\$ 592,159</u>	<u>\$ 39,574</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (154,079)</u>	<u>\$ (185,029)</u>	<u>\$ 279,398</u>	<u>\$ 464,427</u>
Fund Balances - January 1	<u>\$ 103,042</u>	<u>\$ 103,042</u>	<u>\$ 103,042</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ (51,037)</u>	<u>\$ (81,987)</u>	<u>\$ 382,440</u>	<u>\$ 464,427</u>

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

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
HIGHWAY TAX FUND  
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 252,611	\$ 252,611	\$ 283,537	\$ 30,926
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 252,600	\$ 252,600	\$ 167,176	\$ 85,424
Debt Service:				
Principal	-	-	57,678	(57,678)
Interest	-	-	10,210	(10,210)
Total Expenditures	\$ 252,600	\$ 252,600	\$ 235,064	\$ 17,536
Excess (Deficiency) of Revenues Over Expenditures	\$ 11	\$ 11	\$ 48,473	\$ 48,462
Fund Balances - January 1	\$ 131,865	\$ 131,865	\$ 131,865	-
Fund Balances - December 31	\$ 131,876	\$ 131,876	\$ 180,338	\$ 48,462

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

---

---

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
FARM TO MARKET ROAD FUND  
For the Year Ended December 31, 2010

---

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>				
Taxes	\$ 126,635	\$ 126,635	\$ 125,111	\$ (1,524)
Interest	3,000	3,000	3,768	768
Total Revenues	<u>\$ 129,635</u>	<u>\$ 129,635</u>	<u>\$ 128,879</u>	<u>\$ (756)</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 177,355</u>	<u>\$ 222,645</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (270,365)</u>	<u>\$ (270,365)</u>	<u>\$ (48,476)</u>	<u>\$ 221,889</u>
Fund Balances - January 1	<u>\$ 456,511</u>	<u>\$ 456,511</u>	<u>\$ 456,511</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 186,146</u>	<u>\$ 186,146</u>	<u>\$ 408,035</u>	<u>\$ 221,889</u>

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

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
INSURANCE RESERVE FUND  
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 8	\$ 8	\$ 2,760	\$ 2,752
Intergovernmental	12	12	-	(12)
<b>Total Revenues</b>	<b>\$ 20</b>	<b>\$ 20</b>	<b>\$ 2,760</b>	<b>\$ 2,740</b>
<u>Expenditures:</u>				
Current:				
General Government	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (49,980)</b>	<b>\$ (49,980)</b>	<b>\$ 2,760</b>	<b>\$ 52,740</b>
Fund Balances - January 1	\$ 140,877	\$ 140,877	\$ 140,877	\$ -
Prior Period Adjustment	(100,000)	(100,000)	(100,000)	-
Fund Balances - January 1, as restated	\$ 40,877	\$ 40,877	\$ 40,877	\$ -
<b>Fund Balances - December 31</b>	<b>\$ (9,103)</b>	<b>\$ (9,103)</b>	<b>\$ 43,637</b>	<b>\$ 52,740</b>

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

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
EMERGENCY POOR FUND  
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 203,348	\$ 203,348	\$ 199,162	\$ (4,186)
Intergovernmental	-	-	149	149
Total Revenues	<u>\$ 203,348</u>	<u>\$ 203,348</u>	<u>\$ 199,311</u>	<u>\$ (4,037)</u>
<u>Expenditures:</u>				
Current:				
Health and welfare	\$ 193,665	\$ 193,665	\$ 204,482	\$ (10,817)
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 9,683</u>	<u>\$ 9,683</u>	<u>\$ (5,171)</u>	<u>\$ (14,854)</u>
Fund Balances - January 1	\$ (17,690)	\$ (17,690)	\$ (17,690)	-
Prior Period Adjustment	17,690	17,690	17,690	-
Fund Balances - January 1, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 9,683</u>	<u>\$ 9,683</u>	<u>\$ (5,171)</u>	<u>\$ (14,854)</u>

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

---

---

TOWNER COUNTY  
Cando, North Dakota

BUDGETARY COMPARISON SCHEDULE  
2006 FEMA FUND  
For the Year Ended December 31, 2010

---

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 24,918	\$ 24,918
<u>Expenditures:</u>				
Current:				
Flood Repair	\$ -	\$ -	\$ 202,226	\$ (202,226)
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ (177,308)	\$ (177,308)
Fund Balances - January 1	\$ 483,398	\$ 483,398	\$ 483,398	\$ -
Fund Balances - December 31	<u>\$ 483,398</u>	<u>\$ 483,398</u>	<u>\$ 306,090</u>	<u>\$ (177,308)</u>

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

---

TOWNER COUNTY  
Cando, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2010

---

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

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

**NOTE 2: EXPENDITURES IN EXCESS OF BUDGET**

During fiscal year 2010, Towner County had the following fund expenditures in excess of budgeted amounts:

<b>Overspent Funds:</b>	<b>Budget</b>	<b>Actual</b>	<b>Overspent</b>
FEMA 2009	\$ -	\$202,226	\$(202,226)
Emergency Poor	193,665	204,482	(10,817)
FEMA 2004	-	1,042	(1,042)
FEMA 2005	-	1,746	(1,746)
Stone Garden Grant	-	106,397	(106,397)

TOWNER COUNTY  
Cando, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
For the Year Ended December 31, 2010

	Balance 1-1-10	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-10
<b>Major Funds:</b>						
General Fund- 1000	\$ (60.00)	\$ 1,038,534.44	\$ -	\$ -	\$ 1,011,539.81	\$ 26,934.63
<b>Special Revenue Funds:</b>						
County Road and Bridge - 2130	\$ 142,614.89	\$ 871,558.17	\$ -	\$ -	\$ 631,732.96	\$ 382,440.10
Highway Taxes - 2150	91,335.08	267,095.71	-	-	222,422.47	136,008.32
Farm to Market - 2110	465,543.59	128,878.69	-	-	40,037.24	554,385.04
Emergency Poor - 2220	-	199,311.24	-	-	190,193.10	9,118.14
FEMA 2009 - 8004	483,397.93	24,918.65	-	-	202,226.30	306,090.28
Insurance Reserve - 2945	40,876.86	2,760.23	-	-	-	43,637.09
Total Special Revenue Funds	\$ 1,223,768.35	\$ 1,494,522.69	\$ -	\$ -	\$ 1,286,612.07	\$ 1,431,678.97
Total Major Funds	\$ 1,223,708.35	\$ 2,533,057.13	\$ -	\$ -	\$ 2,298,151.88	\$ 1,458,613.60
<b>Special Revenue Funds (Non-Major):</b>						
Special Road and Bridge - 2140	\$ -	\$ 85,957.90	\$ -	\$ -	\$ 25,493.75	\$ 60,464.15
Emergency - 2910	28,245.92	23,670.43	-	-	-	51,916.35
Job Development - 2919	-	1.58	-	-	-	1.58
Veterans Service Officer - 2920	5,872.88	18,184.51	-	-	15,567.94	8,489.45
Oasis and FICA - 2930	1,927.14	123,937.00	-	-	68,324.02	57,540.12
Advertising - 2940	7,464.88	2,267.91	-	-	1,605.05	8,127.74
County Agent - 2960	3,018.66	63,980.88	-	-	54,130.23	12,869.31
Health Insurance - 2935	-	96,227.34	-	-	147,487.38	(51,260.04)
County Park - 2990	12,773.91	13,856.44	-	-	12,033.54	14,596.81
Regional Correctional Center - 2980	38,798.94	18,414.75	-	-	17,695.42	39,518.27
Weed Control - 2970-2971	33,223.54	59,246.96	-	-	75,898.10	16,572.40
2004 FEMA - 8004	1,042.70	-	-	-	1,042.00	0.70
2005 FEMA - 8004	23,649.65	-	-	-	1,746.24	21,903.41
FEMA 2006 - 8004	22,416.13	-	-	-	-	22,416.13
Stonegarden Grant - 2240	(19,624.76)	119,020.78	-	-	106,396.96	(7,000.94)
Total Special Revenue Funds (Non-Major)	\$ 158,809.59	\$ 624,766.48	\$ -	\$ -	\$ 527,420.63	\$ 256,155.44
Total Non-Major Funds	\$ 158,809.59	\$ 624,766.48	\$ -	\$ -	\$ 527,420.63	\$ 256,155.44
Total Governmental Funds	\$ 1,382,517.94	\$ 3,157,823.61	\$ -	\$ -	\$ 2,825,572.51	\$ 1,714,769.04
<b>Agency Funds:</b>						
Displaced Homemaker - 8003	\$ (835.00)	\$ 425.00	\$ -	\$ -	\$ 1,440.00	\$ (1,850.00)
Domestic Violence - 8006	34.00	385.00	-	-	385.00	34.00
Historical Society - 8009	-	7,525.11	-	-	7,494.46	30.65
Sheriffs Special - 8084	290.74	-	-	-	-	290.74
County Agent Special - 8086	890.09	819.88	-	-	785.94	924.03
County Agent Pesticide - 8087	4,034.24	2,419.40	-	-	1,984.26	4,469.38
Hazardous Chemicals - 8085	2,189.38	-	-	-	-	2,189.38
State General - 8020	1,265.00	4,335.00	-	-	4,790.00	810.00
Hospital - 2995	7,978.95	65,489.82	-	-	67,457.03	6,011.74
County Health District - 2925	-	13,086.74	-	-	12,995.10	91.64
Civil Legal Service - 8007	2,580.00	945.00	-	-	-	3,525.00
Senior Citizens - 8001	-	32,790.78	-	-	32,691.66	99.12
Unrealized Tax Revenue	937,962.17	929,215.04	-	-	937,962.17	929,215.04
Payroll Deduction - 8095	290,897.62	-	-	-	290,897.62	-
Estimated Taxes - 8016	(42.00)	3,785.28	-	-	3,785.30	(42.02)
Clerk of Court Special - 8081	1,440.70	-	-	-	-	1,440.70
State Fines - 8010	2,422.00	10,237.00	-	-	11,438.00	1,221.00
Attorney Application Fee - 8011	4,193.59	325.00	-	-	-	4,518.59
State Tax - 8002	(3,307.94)	13,522.29	-	-	-	10,214.35
County Airport - 2950	1,716.46	13,437.07	-	-	15,089.23	64.30
Document Preservation - 8083	6,196.40	2,555.00	-	-	784.00	7,967.40
Ambulance General - 8013	-	39,579.00	-	-	39,482.25	96.75

*Continued on Next Page.....*

TOWNER COUNTY  
Cando, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
For the Year Ended December 31, 2010

	Balance 1-1-10	Receipts	Transfer In	Transfer Out	Disbursements	Balance 12-31-10
CONTINUED...						
Ambulance North	\$ -	\$ 25,305.55	\$ -	\$ -	\$ 25,089.94	\$ 215.61
Soil Conservation General - 8015	(307.02)	24,679.45	-	-	24,272.67	99.76
Soil Conservation INS RES	(439.24)	2,566.24	-	-	2,114.82	12.18
State Administration	(6,163.27)	6,103.66	-	-	7,217.66	(7,277.27)
Game and Fish	12,179.00	13,658.00	-	-	23,124.00	2,713.00
Game and Fish Trust Fund	41,054.00	5,905.91	-	-	-	46,959.91
Total Cities	(2,559.87)	451,423.00	-	-	442,805.66	6,057.47
Total City Park	-	86,253.65	-	-	85,922.71	330.94
Total School Districts	(40,068.73)	1,635,767.94	-	-	1,612,501.42	(16,802.21)
Total Townships	(11,392.82)	308,639.51	-	-	319,651.61	(22,404.92)
Total Lake Basin	-	17,920.89	-	-	17,874.95	45.94
Water Resource District	307.02	51,280.75	-	-	51,235.47	352.30
Water Resource District #1 Mesa(Badger Coulee	439.24	1,313.74	-	-	1,701.09	51.89
Water Resource District #2 Teddy(Hurricane Lake)	(3,299.34)	-	-	-	-	(3,299.34)
Water Resource District 1 2006 Hidden Island	3.08	-	-	-	3.08	-
Water Resource District 2 2006	(2,934.75)	4,293.03	-	-	1,358.28	-
Water Resource District-old	(4,142.25)	-	-	-	-	(4,142.25)
Water Resource District #2	(93.54)	2,790.22	-	-	2,696.68	-
Water Resource District #3	(795.37)	3,595.30	-	-	2,639.01	160.92
Total Rural Fire District	-	64,542.13	-	-	64,202.43	339.70
Paid Under Protest	13,283.49	15,896.76	-	-	21,786.87	7,393.38
<b>Total Agency Funds</b>	<b>\$ 1,254,976.03</b>	<b>\$ 3,862,813.14</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,135,660.37</b>	<b>\$ 982,128.80</b>
<b>Total Primary Government</b>	<b>\$ 2,637,493.97</b>	<b>\$ 7,020,636.75</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,961,232.88</b>	<b>\$ 2,696,897.84</b>
<u>Component Units:</u>						
Water Resource District	\$ 76,103.71	\$ 59,134.54	\$ -	\$ -	\$ 50,298.39	\$ 84,939.86
Health District	69,085.92	109,564.45	-	-	117,080.12	61,570.25
<b>Total Component Units</b>	<b>\$ 145,189.63</b>	<b>\$ 168,698.99</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 167,378.51</b>	<b>\$ 146,510.11</b>
<b>Total Reporting Entity</b>	<b>\$ 2,782,683.60</b>	<b>\$ 7,189,335.74</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,128,611.39</b>	<b>\$ 2,843,407.95</b>

STATE AUDITOR

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



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

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

---

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

---

Board of County Commissioners  
Towner County  
Cando, North Dakota

We were engaged to audit the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, Cando, North Dakota, as of and for the year ended December 31, 2010, which collectively comprise Towner County's basic financial statements and have issued our report thereon dated March 15, 2012. We disclaimed an opinion on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. We conducted our audit of the discretely presented component units 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**

Management of Towner County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Towner County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Towner County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Towner County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected or corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses [2010-02, 2010-03 and 2010-04].

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs identified* to be significant deficiencies [2010-01, 2010-05 and 2010-06].

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Towner County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of findings and questioned costs* as items 2010-02 and 2010-04. The subsequent event relating to the alleged fraud that occurred, is in litigation as of the report date, and is found in Note 19 of the *notes to the financial statements*.

We noted certain matters that we reported to the management of Towner County in a separate letter dated March 15, 2012.

Towner County's response to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. We did not audit Towner County's responses 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, and others within the county, and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson  
State Auditor

March 15, 2012

TOWNER COUNTY  
Cando, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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

Financial Statements

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

Internal control over financial reporting:

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

**Section II - Financial Statement Findings**

**2010-01 – LACK OF SEGREGATION OF DUTIES - COUNTY**

**Condition:**

Towner County has three employees in the auditor/treasurer offices responsible for all duties performed for the combined office. We noted that the county didn't have adequate segregation of duties for keeping the assets and liabilities separate from posting to the general ledger.

**Effect:**

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the County's financial condition, whether due to error or fraud.

**Cause:**

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

**Criteria:**

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

**Recommendation:**

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

**TOWNER COUNTY**

Schedule of Findings and Questioned Costs - Continued

---

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

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

**2010-02 – REVIEW OF TREASURER CHECKS - COUNTY**

**Condition:**

Per review of treasurer's checks written during 2010, ten checks amounting to \$21,014.10 were written from the Treasurer's account to an employee and a fictitious vendor (both in litigation) that were not proper.

**Effect:**

Three of the ten checks were written to a county employee and the other seven to a vendor (Serendity Inc.) that is not a legitimate vendor of the county. The lack of adequate supporting documentation indicates a potential risk of fraud.

**Cause:**

Weak entity-level controls and 'relaxed' internal controls surrounding expenditures especially over treasurer's checks and not understanding the necessity of obtaining adequate support for each expenditure made.

**Criteria:**

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

**Recommendation:**

We recommend that a designated official independent of a treasurer's check signer review treasurer checks to ensure that they are accurate and appropriate. We further recommend that all county expenditures for legitimate county purposes are accompanied by adequate supporting documentation.

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

I agree with the recommendation. The treasurer's check book is now being kept in the Auditor/Treasurer's office. All checks are written and signed by the Auditor/Treasurer and require a claim voucher which are shown to the Board of Commissioners. The account is reconciled by the Deputy Treasurer.

**2010-03 – CORRECTING ENTRY SUPPORTING DOCUMENTATION - COUNTY**

**Condition:**

Per review of the 2010 account history, numerous correcting entries with no supporting documentation or reasoning for the correction in the general ledger were noted. The correcting entries that were called to question had a sum total of \$104,760.04 during 2010.

**Effect:**

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

**Cause:**

Weak entity-level controls and 'relaxed' internal controls surrounding the general ledger entry process were the primary cause of the supported correcting entries, as well as not understanding the necessity of obtaining adequate support for correcting entries.

## TOWNER COUNTY

### Schedule of Findings and Questioned Costs - Continued

---

#### **Criteria:**

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

#### **Recommendation:**

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

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

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

### **2010-04 – BOARD APPROVAL OF BILLS - COUNTY**

---

#### **Condition:**

Towner County paid an employee inappropriately and a fictitious vendor a total amount \$53,028.26 during the 2010-2011. This is currently in litigation. The amount comprises of \$21,014.10 during 2010 and \$32,014.16 during 2011.

#### **Effect:**

The payments made to the employee and fictitious vendor resulted in misappropriation of County Assets and a loss of public funds (which is still in litigation).

#### **Cause:**

There was a lack of adequate management and entity-level controls surrounding expenditures. The lack of consistent approval of expenditures in the minutes results in an increase in potential risk of loss and reputation of Towner County, whether due to error or fraud.

#### **Criteria:**

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

#### **Recommendation:**

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

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

I agree with the recommendations. The Board was approving expenditures in 2010. The problem that arose is that the fictitious expenditures never made it to the Board of Commissioners to be approved. Starting in May of 2011, checks are being signed by the County Auditor and one (1) County Commissioner. Also, all invoices are being presented to the Board of Commissioners in numbered order (so they can tell if something is missing).

### **2010-05 – LACK OF SEGREGATION OF DUTIES – WRD**

---

#### **Condition:**

The Towner County WRD has one Secretary-Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

**TOWNER COUNTY**

Schedule of Findings and Questioned Costs - Continued

---

**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, whether due to error or fraud.

**Cause:**

Due to the client's size, complexity, organizational structure and the economic realities the Water Resource District faces, it is presently not economically feasible to have more than one person responsible for the accounting functions.

**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:**

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:**

I agree with the recommendation. Our small board reviews and approves every bill and the secretary treasurer reports all income. Also we have a treasurer's report at every meeting.

**2010-06 – LACK OF SEGREGATION OF DUTIES – HEALTH DISTRICT**

**Condition:**

The Towner County Health District has one Secretary-Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in 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 Health District's financial condition, whether due to error or fraud.

**Cause:**

Due to the client's size, complexity, organizational structure and the economic realities the Health District faces, it is presently not economically feasible to have more than one person responsible for the accounting functions.

**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 Health District.

**Recommendation:**

We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

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

While we agree that duties aren't adequately segregated, as of this time, Towner County Public Health District is unable to hire the additional staff needed to properly segregate duties.