

North Dakota Office of the State Auditor Division of Local Government

Pembina County

Audit Report for the Year Ended December 31, 2018
Client Code PS34000



North Dakota State Auditor
Joshua C. Gallion

PEMBINA COUNTY

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PEMBINA COUNTY

County Officials and Audit Personnel
December 31, 2018

COUNTY OFFICIALS

James Benjaminson	Chairperson
Hetty Walker	Vice-Chairperson
Hugh Ralston	Commissioner
Nick Rutherford	Commissioner
Laverne Doyle	Commissioner
Linda Schlittenhard	Auditor/Treasurer/Supt. Of Schools
Kay Braget	Clerk of Court/Recorder
Terry Meidinger	Sheriff
Rebecca Flanders	State's Attorney
Mikka Willits	Tax Director
Liz Beck	E-911/GIS Coordinator
Eric Gauthier	Veterans Services Officer
Jill Denault	Social Services Director
Tanya Wieler	Human Resources Director
Jeanna Kujava	Public Health Administrator
Kari Helgoe	County Extension Agent
Samantha Lahman	County Extension Agent

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Rick Kremer	Audit In-Charge



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pembina County
Cavalier, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component units of Pembina County, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Pembina County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the discretely presented component units of Pembina County, North Dakota, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and notes to the required supplementary information* as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pembina County's basic financial statements. The *schedule of fund activity - cash basis* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of fund activity - cash basis* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity - cash basis* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

PEMBINA COUNTY

Independent Auditor's Report - Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019 on our consideration of Pembina County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pembina County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 27, 2019

PEMBINA COUNTY

Statement of Net Position

December 31, 2018

	Primary	Component Units	
	Government	Water	Job
	Governmental	Resource	Development
	Activities	District	Authority
ASSETS			
Cash and Investments	\$ 3,669,102	\$ 1,745,297	\$ 202,876
Intergovernmental Receivable	300,389	2,377	2,377
Accounts Receivable	50,669	-	-
Special Assessments Receivable	-	3,662	-
Road Accounts Receivable	11,081	-	-
Taxes Receivable	74,334	3,908	1,727
Loans Receivable	-	-	353,884
Capital Assets			
Nondepreciable	4,900	1,632,269	-
Depreciable, Net	9,796,340	13,359,327	-
Total Assets	<u>\$ 13,906,815</u>	<u>\$ 16,746,840</u>	<u>\$ 560,864</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions & OPEB	<u>\$ 2,039,214</u>	<u>\$ 44,133</u>	<u>\$ -</u>
LIABILITIES			
Accounts Payable	\$ 57,025	\$ 106,699	\$ -
Salaries Payable	10,056	4,126	-
Interest Payable	-	39,767	-
Grants Received in Advance	81,530	-	-
Retainage Payable	-	35,567	-
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	-	372,120	-
Compensated Absences Payable	16,284	352	-
Due After One Year			
Long-Term Debt	-	3,097,003	-
Compensated Absences Payable	146,554	3,173	-
Net Pension and OPEB Liability	4,975,124	110,685	-
Total Liabilities	<u>\$ 5,286,573</u>	<u>\$ 3,769,492</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions & OPEB	<u>\$ 297,055</u>	<u>\$ 6,609</u>	<u>\$ -</u>
NET POSITION			
Net Investment in Capital Assets	\$ 9,801,240	\$ 9,890,204	\$ -
Restricted			
Highways and Bridges	1,550,241	-	-
Emergencies	438,569	-	-
Economic Development	-	-	206,980
Loans	-	-	353,884
General Government & Other Purposes	8,867	-	-
Unrestricted	<u>(1,436,516)</u>	<u>3,124,668</u>	<u>-</u>
Total Net Position	<u>\$ 10,362,401</u>	<u>\$ 13,014,872</u>	<u>\$ 560,864</u>

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

PEMBINA COUNTY

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary	Component Units	
						Government	Water Resource District	Job Development Authority
Primary Government								
Governmental Activities								
General Government	\$ 2,582,908	\$ 141,916	\$ -	\$ -	\$ (2,440,992)			
Public Safety	1,680,900	385,104	94,121	-	(1,201,675)			
Health and Welfare	1,684,958	152,953	1,238,726	-	(293,279)			
Economic Development	29,498	-	-	-	(29,498)			
Highways	2,296,134	-	911,937	-	(1,384,197)			
Flood Repair	212,595	143,324	263,560	-	194,289			
Conserv. of Natural Resources	288,449	21,290	20,371	-	(246,788)			
Total Primary Government	\$ 8,775,442	\$ 844,587	\$ 2,528,715	\$ -	\$ (5,402,140)			
Component Units								
Water Resource District	\$ 2,682,855	\$ -	\$ 420,681	\$ 791,026		\$ (1,471,148)	\$ -	
Job Development Authority	119,565	3,475	-	-		-	(116,090)	
Total Component Units	\$ 2,802,420	\$ 3,475	\$ 420,681	\$ 791,026		\$ (1,471,148)	\$ (116,090)	
General Revenues								
Property Taxes					\$ 3,846,811	\$ 1,528,636	\$ 95,019	
Nonrestricted Grants and Contributions					718,011	3,986	8,710	
Unrestricted Investment Earnings					-	6,343	-	
Net Gain on Sale of Capital Assets					4,977	-	-	
Miscellaneous Revenue					264,589	6,155	-	
Total General Revenues					\$ 4,834,388	\$ 1,545,120	\$ 103,729	
Change in Net Position					\$ (567,752)	\$ 73,972	\$ (12,361)	
Net Position - January 1					\$ 10,930,153	\$ 13,015,842	\$ 573,225	
Prior Period Adjustment					\$ -	\$ (74,942)	\$ -	
Net Position - January 1, as restated					\$ 10,930,153	\$ 12,940,900	\$ 573,225	
Net Position - December 31					\$ 10,362,401	\$ 13,014,872	\$ 560,864	

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

PEMBINA COUNTY

Balance Sheet – Governmental Funds
December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 743,862	\$ 2,925,240	\$ 3,669,102
Intergovernmental Receivable	182,392	117,997	300,389
Accounts Receivable	44,397	6,272	50,669
Road Receivable	-	11,081	11,081
Taxes Receivable	51,557	22,777	74,334
Total Assets	<u>\$ 1,022,208</u>	<u>\$ 3,083,367</u>	<u>\$ 4,105,575</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 23,924	\$ 33,101	\$ 57,025
Salaries Payable	282	9,774	10,056
Grants Received in Advance	-	81,530	81,530
Total Liabilities	<u>\$ 24,206</u>	<u>\$ 124,405</u>	<u>\$ 148,611</u>
Deferred Inflows of Resources			
Road Receivable	\$ -	\$ 11,081	\$ 11,081
Taxes Receivable	51,557	22,777	74,334
Total Deferred Inflows of Resources	<u>\$ 51,557</u>	<u>\$ 33,858</u>	<u>\$ 85,415</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 75,763</u>	<u>\$ 158,263</u>	<u>\$ 234,026</u>
Fund Balances			
Restricted			
Highways and Bridges	\$ -	\$ 2,100,316	\$ 2,100,316
Health and Welfare	-	265,696	265,696
Public Safety	-	66,613	66,613
Emergencies	-	490,744	490,744
General Government	-	8,867	8,867
Unassigned	946,445	(7,132)	939,313
Total Fund Balances	<u>\$ 946,445</u>	<u>\$ 2,925,104</u>	<u>\$ 3,871,549</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,022,208</u>	<u>\$ 3,083,367</u>	<u>\$ 4,105,575</u>

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

PEMBINA COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total Fund Balances of Governmental Funds		\$ 3,871,549
Total <i>net position</i> reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		9,801,240
Certain 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 inflow of resources in the funds.		
Property Taxes Receivable	\$ 74,334	
Road Accounts Receivable	<u>11,081</u>	85,415
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows Derived From Pensions and OPEB	\$ 2,039,214	
Deferred Inflows Derived From Pensions and OPEB	<u>(297,055)</u>	1,742,159
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term- are reported in the statement of net position.		
Compensated Absences Payable	\$ (162,838)	
Net Pension and OPEB Liability	<u>(4,975,124)</u>	<u>(5,137,962)</u>
Net Position of Governmental Activities		<u>\$ 10,362,401</u>

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

PEMBINA COUNTYStatement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 2,833,903	\$ 1,035,313	\$ 3,869,216
Intergovernmental	714,218	2,532,507	3,246,725
Charges for Services	573,555	270,213	843,768
Licenses, Permits and Fees	2,520	-	2,520
Miscellaneous	254,435	23,203	277,638
Total Revenues	\$ 4,378,631	\$ 3,861,236	\$ 8,239,867
EXPENDITURES			
Current			
General Government	\$ 2,528,504	\$ -	\$ 2,528,504
Public Safety	1,499,450	75,818	1,575,268
Health and Welfare	289,692	1,264,325	1,554,017
Economic Development	29,498	-	29,498
Highways	-	2,008,746	2,008,746
Flood Repair	-	212,595	212,595
Conserv. of Natural Resources	-	277,540	277,540
Total Expenditures	\$ 4,347,144	\$ 3,839,024	\$ 8,186,168
Excess (Deficiency) of Revenues Over Expenditures	\$ 31,487	\$ 22,212	\$ 53,699
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 57,996	\$ -	\$ 57,996
Transfers Out	-	(57,996)	(57,996)
Total Other Financing Sources and Uses	\$ 57,996	\$ (57,996)	\$ -
Net Change in Fund Balances	\$ 89,483	\$ (35,784)	\$ 53,699
Fund Balances - January 1	\$ 856,962	\$ 2,960,888	\$ 3,817,850
Fund Balances - December 31	\$ 946,445	\$ 2,925,104	\$ 3,871,549

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

PEMBINA COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 53,699

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

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

Capital Outlay	\$ 348,948	
Depreciation Expense	<u>(447,927)</u>	(98,979)

In the statement of activities only the gain on sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

Gain on Sale of Capital Assets	\$ 4,977	
Sale of Capital Assets	<u>(13,050)</u>	(8,073)

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 the net change in compensated absences.

(14,407)

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.

Decrease in Taxes Receivable	\$ (22,405)	
Decrease in Road Accounts Receivable	<u>(1,701)</u>	(24,106)

The net pension and OPEB liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension and OPEB Liability	\$ (314,889)	
Decrease in Deferred Outflows of Resources Related to Pensions and OPEB	(46,830)	
Increase in Deferred Inflows of Resources Related to Pensions and OPEB	<u>(114,167)</u>	<u>(475,886)</u>

Change in Net Position of Governmental Activities \$ (567,752)

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

PEMBINA COUNTY

Statement of Fiduciary Assets and Liabilities – Agency Funds
December 31, 2018

ASSETS

Cash and Investments \$ 4,177,179

LIABILITIES

Due to Other Governments \$ 4,177,179

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

PEMBINA COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pembina County ("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.

Reporting Entity

The accompanying financial statements present the activities of the County. The County has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the County such that exclusion would cause its 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 the 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 the County.

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

Component Units

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

Discretely Presented Component Units. The component units' column in the basic financial statements includes 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 Water Resource District ("Water Resource District") - The County's governing board appoints a voting majority of the members of the Water Resource District board. The County has the authority to approve or modify the Water Resource District's operational and capital budgets. The County also must approve the tax levy established by the Water Resource District.

Pembina County Job Development Authority ("Job Development Authority") - The County's governing board appoints a voting majority of the members of the Job Development Authority. The County's governing body has the authority to approve or modify the Job Development Authority's operational and capital budgets. The County also must approve the tax levy established by the Job Development Authority.

Component Unit Financial Statements. The financial statements of each of the discretely presented component units are included in the basic financial statements. Complete financial statements of the individual component units can be obtained from the County Auditor/Treasurer; 301 Dakota Street West, Cavalier, ND 58220.

Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made 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 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 all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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.

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.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Additionally, 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.

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.

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.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the County consist of certificates of deposit stated at cost with maturities in excess of three months.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Capital Assets

Capital assets for the primary government 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 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. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives (amounts in years):

Assets	County	Water Resource District
Buildings	40	-
Machinery & Equipment	5-15	5-7
Vehicles	3-5	-
Office Equipment	3-5	-
Infrastructure	40	20

Compensated Absences

Vacation leave is earned at the rate of one to two days per month depending on years of service. Up to 240 hours of vacation leave may be carried over at each year-end. Upon termination vacation benefits that have accrued through the last day of work will be paid. A liability for the vested or accumulated vacation leave is reported in the statement of net position

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 at each year-end. Sick leave benefits are not paid out upon termination.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Fund Balances

Fund Balance Spending Policy. It is the policy of the 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.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

Net Position

When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

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

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

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 PRIOR PERIOD ADJUSTMENTS

Discretely Presented Component Units

Net position of the Water Resource District as of January 1, 2018 has been restated for a long term debt adjustment as shown below. The results of the adjustment decreased the beginning net position of the Water Resource District.

Water Resource District	Amounts
Beginning Net Position, as Previously Reported	\$ 13,015,842
Prior Period Adjustments	
Long Term Debt	(74,942)
Net Position January 1, Restated	\$ 12,940,900

NOTE 3 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution’s failure, the County would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The County does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

In accordance with North Dakota statutes, 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 another state of the United States or such other securities approved by the banking board.

At December 31, 2018, the County's carrying amount of deposits was \$7,111,854 and the bank balances were \$7,188,552. Of the bank balances, \$1,500,000 was covered by Federal Depository Insurance, \$1,427,888 were held at the Bank of North Dakota, which is backed by the full faith of the State of North Dakota, while the remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2018, the Water Resource District's carrying amount of deposits was \$1,745,298 and the bank balances were \$1,749,277. Of the bank balances, \$261,255 was covered by Federal Depository Insurance, while the remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

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.

NOTE 5 CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the year ended December 31, 2018:

Primary Government	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Not Being Depreciated				
Land	\$ 4,900	\$ -	\$ -	\$ 4,900
Capital Assets Being Depreciated				
Buildings	\$ 3,084,384	\$ -	\$ -	\$ 3,084,384
Equipment	3,598,813	348,948	128,568	3,819,193
Infrastructure	59,282,090	-	-	59,282,090
Total Capital Assets Being Depreciated	\$ 65,965,287	\$ 348,948	\$ 128,568	\$ 66,185,667
Less Accumulated Depreciation				
Buildings	\$ 1,845,621	\$ 62,714	\$ -	\$ 1,908,335
Equipment	2,454,396	180,849	120,496	2,514,749
Infrastructure	51,761,878	204,365	-	51,966,243
Total Accumulated Depreciation	\$ 56,061,895	\$ 447,928	\$ 120,496	\$ 56,389,327
Total Capital Assets Being Depreciated, Net	\$ 9,903,392	\$ (98,980)	\$ 8,072	\$ 9,796,340
Governmental Activities Capital Assets, Net	\$ 9,908,292	\$ (98,980)	\$ 8,072	\$ 9,801,240

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Depreciation expense was charged to functions of the County as follows:

Primary Government	Amounts
General Government	\$ 33,632
Public Safety	93,258
Highways and Bridges	313,701
Health and Welfare	3,378
Conservation of Natural Resource	3,959
Total Depreciation Expense - Primary Government	\$ 447,928

Discretely Presented Component Units

The following is a summary of changes in capital assets for the year ended December 31, 2018 for the Water Resource District:

Water Resource District	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 199,026	\$ 1,433,243	\$ -	\$ 1,632,269
Capital Assets Being Depreciated				
Equipment	\$ 74,391	\$ -	\$ -	\$ 74,391
Infrastructure	17,551,854	-	-	17,551,854
Total Capital Assets, Being Depreciated	\$ 17,626,245	\$ -	\$ -	\$ 17,626,245
Less Accumulated Depreciation				
Equipment	\$ 74,391	\$ -	\$ -	\$ 74,391
Infrastructure	3,314,934	877,593	-	4,192,527
Total Accumulated Depreciation	\$ 3,389,325	\$ 877,593	\$ -	\$ 4,266,918
Total Capital Assets Being Depreciated, Net	\$ 14,236,920	\$ (877,593)	\$ -	\$ 13,359,327
Governmental Activities Capital Assets, Net	\$ 14,435,946	\$ 555,650	\$ -	\$ 14,991,596

Depreciation expense was charged to the conservation of natural resource function.

NOTE 6 LONG-TERM LIABILITIES

Primary Government

During the year ended December 31, 2018, the following changes occurred in governmental activities long-term liabilities:

Primary Government	Balance Jan 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 148,431	\$ 14,407	\$ -	\$ 162,838	\$ 16,284
Net Pension and OPEB Liability	4,660,235	314,889	-	4,975,124	-
Total Primary Government	\$ 4,808,666	\$ 329,296	\$ -	\$ 5,137,962	\$ 16,284

* The change in compensated absences is shown as a net change.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Discretely Presented Component Units

During the year ended 31, 2018, the following changes occurred in governmental long-term liabilities of the Water Resource District:

Water Resource District	Bal. Jan 1 Restated	Increases	Decreases	Balance December 31	Due Within One Year
Long Term Debt					
Registered Drain Warrants Payable	\$ 1,047,893	\$ -	\$1,017,763	\$ 30,130	\$ 30,130
Line of Credit Payable	1,231,039	761,578	1,859,969	132,648	132,648
Bonds Payable	-	3,250,000	-	3,250,000	205,000
Bond Premium	-	60,687	4,342	56,345	4,342
Total Long Term Debt	\$ 2,278,932	\$ 4,072,265	\$2,882,074	\$ 3,469,123	\$ 372,120
Compensated Absences *	3,120	405	-	3,525	352
Net Pension and OPEB Liability	106,854	3,831	-	110,685	-
Total Water Resource District	\$ 2,388,906	\$ 4,076,501	\$2,882,074	\$ 3,583,333	\$ 372,472

* The change in compensated absences is shown as a net change.

Debt service requirements on long-term debt is as follows:

Year Ending Dec 31	Bonds Payable		Line of Credit		Bond Premium
	Principal	Interest	Principal	Interest	
2019	\$ 205,000	\$ 84,164	\$ 132,648	\$ 4,974	\$ 4,343
2020	190,000	97,970	-	-	4,342
2021	200,000	92,270	-	-	4,342
2022	205,000	86,270	-	-	4,342
2023	215,000	80,120	-	-	4,342
2024-2028	1,140,000	301,185	-	-	20,364
2029-2033	645,000	143,625	-	-	8,893
2034-2038	450,000	55,200	-	-	5,377
Total	\$ 3,250,000	\$ 940,804	\$ 132,648	\$ 4,974	\$ 56,345

Registered Drain Warrants Payable

Under North Dakota Century Code 61-21-29, water resource districts may issue registered drain warrants for payment of locating and construction of drains. There is no set maturity for these registered drain warrants, and the interest rate is set by the water resource board at a rate not to exceed eight percent per annum. There are no set payment schedules for registered drain warrants; future debt payments for the next five years individually and five-year increments thereafter are not able to be disclosed.

NOTE 7 PENSION PLAN

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to N.D.C.C Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

The member’s account balance includes the vested employer contributions equal to the member’s contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

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

At December 31, 2018, the following net pension liabilities were reported:

	Net Pension Liability
Primary Government	\$ 4,766,291
Water Resource District	106,039

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurement	Pension Expense
Primary Government	0.282429%	0.005359%	\$ 788,491
Water Resource District	0.006283%	-0.000070%	17,542

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were reported:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 12,615	\$ 162,158
Changes of Assumptions	1,720,532	68,029
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	23,188
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	62,650	34,872
Employer Contributions Subsequent to the Measurement Date	187,868	-
Total Primary Government	\$ 1,983,665	\$ 288,248

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Water Resource District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 281	\$ 3,608
Changes of Assumptions	38,278	1,514
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	516
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,394	776
District Contributions Subsequent to the Measurement Date	3,115	-
Total Water Resource District	\$ 43,067	\$ 6,413

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019:

Primary Government	\$ 187,868
Water Resource District	3,115

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

	Primary Government	Water Resource District
2019	\$ 492,756	\$ 10,963
2020	429,325	9,552
2021	360,307	8,016
2022	209,508	4,661
2023	15,653	348

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer’s proportionate share of the net pension liability to changes in the discount rate

The following presents the entities proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what their proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Primary Government	\$ 6,476,503	\$ 4,766,291	\$ 3,339,174
Water Resource District	144,088	106,039	74,289

Pension Plan Fiduciary Net Position

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

NOTE 8 OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the following net OPEB liabilities were reported:

	Net OPEB Liability
Primary Government	\$ 208,833
Water Resource District	4,646

PEMBINA COUNTY

Notes to the Financial Statements – Continued

The net OPEB liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurement	OPEB Expense
Primary Government	0.265162%	0.001737%	\$ 26,153
Water Resource District	0.005899%	0.001882%	582

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were reported:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 6,251	\$ 4,315
Changes of Assumptions	17,135	-
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	4,492
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	2,083	-
Employer Contributions Subsequent to the Measurement Date	30,080	-
Total Primary Government	\$ 55,548	\$ 8,807

Water Resource District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 139	\$ 96
Changes of Assumptions	381	-
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	100
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	46	-
Employer Contributions Subsequent to the Measurement Date	499	-
Total Water Resource District	\$ 1,065	\$ 196

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019:

Primary Government	\$ 30,080
Water Resource District	499

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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

	Primary Government	Water Resource District
2019	\$ 2,097	\$ 47
2020	2,097	47
2021	2,097	47
2022	4,080	91
2023	3,716	83
2024	2,206	49
Thereafter	367	8

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment rate or return	7.50%, net of investment expenses
Cost of living adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	.10%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Sensitivity of the Employer’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.5%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Primary Government	\$ 264,224	\$ 208,833	\$ 161,348
Water Resource District	5,878	4,646	3,590

NOTE 9 RISK MANAGEMENT

The 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. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile and \$2,013,352 for mobile equipment and portable property (public assets).

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

The County has worker’s compensation with the ND Workforce Safety and Insurance.

NOTE 10 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the County accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 11 OPEN CONSTRUCTION CONTRACTS

Discretely Presented Component Units

The Water Resource District had one construction project open at year-end:

Project	Contract Amount	Total Completed	Retainage	Remaining Balance
Drain 79	\$ 1,625,458	\$ 1,385,942	\$ 35,537	\$ 275,053

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 12 JOINT VENTURES

Red River Joint Water Resource District

Under authorization of state statutes, the Water Resource District joined Southeast Cass Water Resource District, North Cass Water Resource District, Maple River Water Resource District, Rush River Water Resource District, and the water resource districts of Richland County, Traill County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for the water management districts located within the Red River Valley. 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 each year depends on where 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, 2018:

Total Assets	\$ 11,751,624
Total Liabilities	48,695
Net Position	\$ 11,702,929
Total Revenues	\$ 2,421,328
Total Expenses	784,919
Change in Net Position	\$ 1,636,409

Complete financial statements for the Red River Joint Water Resource District may be obtained from the Treasurer's office at Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

Park River Joint Water Resource District

Under authorization of state statutes, the County and Pembina County formed the Park River Joint Water Resource District to address common water issues and problems with the portions of the Park River Watershed in those counties. 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. Under the agreement, and assessment project costs will be assessed and paid from the properties benefited by the project, and any excess costs of such project will be shared equally from the individual water resource district general funds. Other general and administrative costs will be paid by the individual water resource districts as described in the joint powers agreement.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2018.

Total Assets	\$ 192,004
Total Liabilities	-
Net Position	\$ 192,004
Total Revenues	\$ 135,355
Total Expenses	134,133
Change in Net Position	\$ 1,222

Complete financial statements for the Park River Joint Water Resource District may be obtained from the Park River Joint Water Resource District, 308 Courthouse Drive #5, Cavalier, ND 58220.

PEMBINA COUNTY

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 16,000	\$ 16,000	\$ 2,833,903	\$ 2,817,903
Intergovernmental	581,680	581,680	714,218	132,538
Charges for Services	513,780	513,780	573,555	59,775
Licenses, Permits and Fees	2,960	2,960	2,520	(440)
Interest Income	-	-	-	-
Miscellaneous	180,583	180,583	254,435	73,852
Total Revenues	\$ 1,295,003	\$ 1,295,003	\$ 4,378,631	\$ 3,083,628
EXPENDITURES				
Current				
General Government	\$ 2,827,575	\$ 2,828,111	\$ 2,528,504	\$ 299,607
Public Safety	1,577,028	1,577,028	1,499,450	77,578
Health and Welfare	292,897	294,906	289,692	5,214
Economic Development	31,393	31,393	29,498	1,895
Total Expenditures	\$ 4,728,893	\$ 4,731,438	\$ 4,347,144	\$ 384,294
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,433,890)	\$ (3,436,435)	\$ 31,487	\$ 3,467,922
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ 57,996	\$ 57,996
Net Change in Fund Balances	\$ (3,433,890)	\$ (3,436,435)	\$ 89,483	\$ 3,525,918
Fund Balances - January 1	\$ 856,962	\$ 856,962	\$ 856,962	\$ -
Fund Balances - December 31	\$ (2,576,928)	\$ (2,579,473)	\$ 946,445	\$ 3,525,918

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

PEMBINA COUNTY

Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ -	\$ -	\$ 1,035,313	\$ 1,035,313
Intergovernmental	2,417,647	2,417,647	2,532,507	114,860
Charges for Services	179,400	179,400	270,213	90,813
Miscellaneous	24,900	24,900	23,203	(1,697)
Total Revenues	<u>\$ 2,621,947</u>	<u>\$ 2,621,947</u>	<u>\$ 3,861,236</u>	<u>\$ 1,239,289</u>
EXPENDITURES				
Current				
General Government	\$ 5,000	\$ 5,000	\$ -	\$ 5,000
Public Safety	85,466	85,466	75,818	9,648
Health and Welfare	1,194,983	1,202,128	1,264,325	(62,197)
Highways and Bridges	2,342,150	2,342,150	2,008,746	333,404
Flood Repair	150,000	212,595	212,595	-
Conserv. of Natural Resources	340,047	351,293	277,540	73,753
Emergency	60,542	60,542	-	60,542
Total Expenditures	<u>\$ 4,178,188</u>	<u>\$ 4,259,174</u>	<u>\$ 3,839,024</u>	<u>\$ 420,150</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,556,241)</u>	<u>\$ (1,637,227)</u>	<u>\$ 22,212</u>	<u>\$ 1,659,439</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (57,996)</u>	<u>\$ (57,996)</u>
Net Change in Fund Balances	<u>\$ (1,556,241)</u>	<u>\$ (1,637,227)</u>	<u>\$ (35,784)</u>	<u>\$ 1,601,443</u>
Fund Balances - January 1	<u>\$ 2,960,888</u>	<u>\$ 2,960,888</u>	<u>\$ 2,960,888</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 1,404,647</u>	<u>\$ 1,323,661</u>	<u>\$ 2,925,104</u>	<u>\$ 1,601,443</u>

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

PEMBINA COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2018

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

Primary Government	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.282429%	\$ 4,766,291	\$ 2,901,440	164.27%	62.80%
2017	0.277074%	4,453,494	2,828,490	157.45%	61.98%
2016	0.274259%	2,672,926	2,763,888	96.71%	70.46%
2015	0.283066%	1,924,801	2,521,772	76.33%	77.15%
2014	0.285196%	1,810,202	2,402,441	75.35%	77.70%

Water Resource District	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.006283%	\$ 106,039	\$ 64,551	164.27%	62.80%
2017	0.006349%	102,044	64,810	157.45%	61.98%
2016	0.004177%	40,704	42,090	96.71%	70.46%
2015	0.003961%	26,934	35,287	76.33%	77.15%
2014	0.003991%	25,330	33,618	75.35%	77.70%

The accompanying required supplementary information notes are an integral part of this schedule.

PEMBINA COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions - Continued
For the Year Ended December 31, 2018

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

Primary Government	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 213,704	\$ 207,017	\$ 6,686	\$ 2,901,440	7.13%
2017	205,100	209,749	(4,648)	2,828,490	7.42%
2016	200,101	201,442	(1,342)	2,763,888	7.29%
2015	191,549	190,876	673	2,521,772	7.57%
2014	171,053	171,053	-	2,402,441	7.12%

Water Resource District	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 4,754	\$ 4,606	\$ 149	\$ 64,551	7.13%
2017	4,700	4,806	(107)	64,810	7.42%
2016	3,047	3,068	(20)	42,090	7.29%
2015	2,680	2,671	9	35,287	7.57%
2014	2,394	2,394	-	33,618	7.12%

The accompanying required supplementary information notes are an integral part of this schedule.

PEMBINA COUNTY

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
 For the Year Ended December 31, 2018

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

Primary Government	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.265162%	\$ 208,833	\$ 2,901,440	7.20%	61.89%
2017	0.261451%	206,811	2,828,490	7.31%	59.78%

Water Resource District	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.005899%	\$ 4,646	\$ 64,551	7.20%	61.89%
2017	0.005991%	4,739	64,810	7.31%	59.78%

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

Primary Government	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 34,032	\$ 33,147	\$ 885	\$ 2,901,440	1.14%
2017	32,880	33,583	(704)	2,828,490	1.19%

Water Resource District	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 757	\$ 737	\$ 20	\$ 64,551	1.14%
2017	753	770	(16)	64,810	1.19%

The accompanying required supplementary information notes are an integral part of this schedule.

PEMBINA COUNTY

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

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. N.D.C.C 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. N.D.C.C 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. N.D.C.C 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. N.D.C.C 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2 SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, information for those years for which information is available will be presented.

NOTE 3 PENSION AND OPEB – CHANGES OF ASSUMPTIONS

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2018. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 4 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The board of County commissioners amended the budget for 2018 as follows:

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 4,728,893	\$ 2,545	\$ 4,731,438
Special Revenue Fund	4,178,188	80,986	4,259,174

PEMBINA COUNTY

Schedule of Fund Activity – Cash Basis
For the Year Ended December 31, 2018

	Balance Jan 1	Receipts	Transfers In	Transfers Out	Disbursements	Balance Dec 31
Governmental Funds						
General Fund						
General Fund	\$ 545,385.43	\$ 4,336,788.97	\$ 57,996.27	\$ -	\$ 4,337,765.75	\$ 602,404.92
General Fund Reserve & Bldg Imp	146,099.98	-	-	-	4,643.00	141,456.98
Total General Fund	\$ 691,485.41	\$ 4,336,788.97	\$ 57,996.27	\$ -	\$ 4,342,408.75	\$ 743,861.90
Special Revenue Fund						
Highway Funds	\$ 1,255,883.23	\$ 1,120,329.08	\$ -	\$ -	\$ 1,284,198.18	\$ 1,092,014.13
Road & Br/F-M/Co Loan	1,005,091.38	638,592.86	-	-	714,520.94	929,163.30
WIC	60.05	-	-	60.05	-	-
Emergency	431,816.45	58,928.38	-	-	-	490,744.83
County Agent	(24,448.05)	124,041.37	-	-	107,642.96	(8,049.64)
Veteran's Service	(5,342.31)	40,188.19	-	-	46,600.16	(11,754.28)
Weed Control	(114,277.70)	242,681.59	-	-	154,097.54	(25,693.65)
Social Services	1,016.19	1,278,740.47	-	-	1,157,333.28	122,423.38
Social Service Levy	140,100.40	33,625.48	-	57,936.22	-	115,789.66
Sheriff Special Trust	40,567.41	10,664.13	-	-	631.42	50,600.12
Document Preservation	6,637.17	8,740.50	-	-	4,144.78	11,232.89
County Agent Special Trust	11,225.38	12,549.64	-	-	11,245.53	12,529.49
County Nurse Special Trust	25,798.19	2,041.50	-	-	14,145.38	13,694.31
Hazardous Chem. Preparedness	13,936.23	2,325.00	-	-	427.85	15,833.38
Flood Emergency Fund	83,025.01	211,100.41	-	-	212,595.31	81,530.11
Victim Witness	13,468.44	63,598.95	-	-	71,320.82	5,746.57
Asset Forfeiture Account	6,020.18	2,846.40	-	-	-	8,866.58
Tobacco Funds	28,616.93	40,653.77	-	-	41,405.49	27,865.21
Homeland Security Funds	(6,206.20)	3,049.70	-	-	4,140.34	(7,296.84)
Total Special Revenue Fund	\$ 2,912,988.38	\$ 3,894,697.42	\$ -	\$ 57,996.27	\$ 3,824,449.98	\$ 2,925,239.55
Total Governmental Funds	\$ 3,604,473.79	\$ 8,231,486.39	\$ 57,996.27	\$ 57,996.27	\$ 8,166,858.73	\$ 3,669,101.45
Agency Funds						
State Funds	\$ 448.32	\$ 63,029.86	\$ -	\$ -	\$ 63,047.00	\$ 431.18
Township Road Fund	-	200,960.10	-	-	200,960.10	-
Park River Jt Water Dist	227.95	30,409.40	-	-	30,512.15	125.20
County Library	227.95	65,453.54	-	-	65,488.80	192.69
County Fair	-	-	-	-	-	-
Pembina County Water Resource	694.14	215,889.50	-	-	215,984.49	599.15
Historical Society Fund	49.52	15,829.86	-	-	15,836.57	42.81
Senior Citizen Fund	396.66	175,509.66	-	-	175,563.94	342.38
Pembina Co Emergency Med Serve	991.68	312,602.69	-	-	312,738.46	855.91
Red River Water Resource	396.71	90,401.53	-	-	90,517.71	280.53
Airport	263.19	79,120.44	-	-	79,030.57	353.06
Pembina Co Soil Conservation Dist.	279.69	117,984.74	-	-	117,947.27	317.16
Investment Interest	733.72	39,271.46	-	-	-	40,005.18
Restitution Special Trust	1,766.77	120.00	-	-	125.00	1,761.77
Clerk of Court Special Trust Fund	140.60	-	-	-	-	140.60
State's Attorney Trust Fund	1,965.83	-	-	-	-	1,965.83
Game and Fish Fund	1,296.15	93.80	-	-	149.00	1,240.95
Advance Tax Fund	4,961.90	11,812.16	-	-	16,774.06	-
Protest Fund	-	1,771.18	-	-	1,771.18	-
Township Funds	2,754.13	1,158,918.88	-	-	1,158,292.58	3,380.43
Fire District Funds	645.42	124,326.40	-	-	124,548.53	423.29
City Funds	19,948.37	1,780,682.31	-	-	1,783,306.71	17,323.97
School Funds	21,071.23	5,336,013.84	-	-	5,337,233.41	19,851.66
Drain Funds	4,719.94	1,316,451.37	-	-	1,316,544.46	4,626.85
Flex Spending Account	3,218.26	21,399.36	-	-	21,106.54	3,511.08
Prepaid Taxes	4,423,514.45	4,079,407.54	-	-	4,423,514.45	4,079,407.54
Total Agency Funds	\$ 4,490,712.58	\$ 15,237,459.62	\$ -	\$ -	\$ 15,550,992.98	\$ 4,177,179.22
Total Primary Government	\$ 8,095,186.37	\$ 23,468,946.01	\$ 57,996.27	\$ 57,996.27	\$ 23,717,851.71	\$ 7,846,280.67

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

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

Independent Auditor's Report

Board of County Commissioners
Pembina County
Cavalier, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the discretely presented component units of Pembina County as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Pembina County's basic financial statements, and have issued our report thereon dated November 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pembina County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pembina County's internal control. Accordingly, we do not express an opinion on the effectiveness of Pembina County's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *schedule of audit findings* as item 2018-004 to be a significant deficiency.

PEMBINA COUNTY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pembina County's financial statements are free from 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*.

Pembina County's Response to Findings

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 27, 2019

PEMBINA COUNTY

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Major Funds	Unmodified
Discretely Presented Component Units	Unmodified

Internal control over financial reporting

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

PEMBINA COUNTY

Schedule of Audit Findings

For the Year Ended December 31, 2018

2018-001 FINANCIAL STATEMENT PREPARATION

Condition

Pembina County does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

Criteria

Management of Pembina County is responsible for establishing proper internal control over the preparation of Pembina County's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management is not fully knowledgeable of the process of preparing financial statements in compliance with GAAP.

Effect

There is an increased risk of material misstatement to the Pembina County's financial statements.

Repeat Finding

No.

Recommendation

We recommend Pembina County design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

Pembina County's Response

Agree. Pembina County is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 ADJUSTING JOURNAL ENTRIES

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

Pembina County and Pembina County Water Resource District is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Cause

Management is not fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

Effect

Inadequate internal controls over recording of transactions affects Pembina County and Pembina County Water Resource District's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Repeat Finding

No.

Recommendation

We recommend that Pembina County and Pembina County Water Resource District design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

Pembina County's Response

Agree. Pembina County and Pembina County Water Resource District does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

2018-003 LACK OF SEGREGATION OF DUTIES – COMPONENT UNITS

Condition

The Pembina County Water Resource District and Pembina County Job Development Authority have limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

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 and Job Development Authority.

Cause

Management has chosen to allocate economic resources to other functions of the Water Resource District and Job Development Authority.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Water Resource District and Job Development Authority's financial condition.

Repeat Finding

No.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Pembina County's Response

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the Water Resource District and Job Development Authority.

2018-004 FRAUD RISK ASSESSMENT

Condition

Pembina County does not currently prepare a fraud risk assessment of the entire entity.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Cause

The County may not have considered preparing a fraud risk assessment.

Effect

If the County does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Pembina County's Response

Agree. We will perform a fraud risk assessment.



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OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
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FARGO, NORTH DAKOTA 58103

GOVERNANCE COMMUNICATION

Board of County Commissioners
Pembina County
Cavalier, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the discretely presented component units of Pembina County, North Dakota, for the year ended December 31, 2018 which collectively comprise Pembina County's basic financial statements, and have issued our report thereon dated November 27, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated August 6, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Pembina County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

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 and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pembina County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

PEMBINA COUNTY

Governance Communication – Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debt</u>	<u>Credit</u>	<u>Debt</u>	<u>Credit</u>	<u>Debt</u>	<u>Credit</u>
PRIMARY GOVERNMENT						
Intergovernmental Receivable	13,767		286,623		300,390	
Accounts Receivable	50,669		-		50,669	
Revenues		64,436		286,623		351,059
Expenditures	84,027		16,945		100,972	
Accounts Payable		73,970		16,945		90,915
Salaries Payable		10,057		-		10,057
Revenues	-		81,530		81,530	
Unearned Revenue		-		81,530		81,530
WATER RESOURCE DISTRICT						
Intergovernmental Receivable	-		2,377		2,377	
Revenues		-		2,377		2,377
Expenditures	-		110,825		110,825	
Accounts Payable		-		106,699		106,699
Salaries Payable		-		4,126		4,126
JOB DEVELOPMENT AUTHORITY						
Intergovernmental Receivable	-		2,377		2,377	
Revenues		-		2,377		2,377

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 27, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the County’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of County Commissioners and management of Pembina County, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Pembina County for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Pembina County.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 27, 2019

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