



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Pembina County

Cavalier, North Dakota

Audit Report for the Year Ended December 31, 2019

Client Code: PS34000



Photo credit: North Dakota Tourism



Office of the
State Auditor

PEMBINA COUNTY

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PEMBINA COUNTY

County Officials and Audit Personnel
December 31, 2019

COUNTY OFFICIALS

Hetty Walker	Chairperson
Hugh Ralston	Vice-Chairperson
James Benjaminson	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
Samantha Weeks	E-911/IT/GIS Coordinator
Revel Sapa	Veterans Services Officer/Human Resources Director
Jill Denault	Social Services Director
Tanya Wieler	Human Resources Advisor
Julie Hardy	Public Health Administrator
Kari Helgoe	County Extension Agent

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Jonathan Worrall, CPA	Audit In-Charge

STATE AUDITOR
Joshua C. Gallion



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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, the discretely presented component units, and the aggregate remaining fund information of Pembina County, North Dakota, as of and for the year ended December 31, 2019, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Pembina County, North Dakota, as of December 31, 2019, 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 2018 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2020 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

Bismarck, North Dakota
August 3, 2020

PEMBINA COUNTY

Statement of Net Position
December 31, 2019

	Primary	Component Units	
	Government	Water	Job
	Governmental	Resource	Development
	Activities	District	Authority
ASSETS			
Cash and Investments	\$ 4,050,469	\$ 2,133,564	\$ 105,694
Intergovernmental Receivable	280,149	2,323	2,323
Accounts Receivable	62,002	-	-
Special Assessments Receivable	-	5,178	-
Road Accounts Receivable	47,003	-	-
Taxes Receivable	132,887	6,877	3,677
Loans Receivable	-	-	394,382
Capital Assets			
Nondepreciable	1,146,826	285,947	-
Depreciable, Net	9,657,968	14,565,962	-
Total Assets	\$ 15,377,304	\$ 16,999,851	\$ 506,076
DEFERRED OUTFLOWS OF RESOURCES			
Pensions & OPEB	\$ 1,571,011	\$ 25,861	\$ -
LIABILITIES			
Accounts Payable	\$ 92,617	\$ -	\$ -
Salaries Payable	11,075	4,478	-
Interest Payable	-	77,145	-
Grants Received in Advance	81,530	-	-
Retainage Payable	4,355	28,595	-
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	-	924,465	-
Compensated Absences Payable	16,498	519	-
Due After One Year			
Long-Term Debt	-	2,902,661	-
Compensated Absences Payable	148,481	4,675	-
Net Pension and OPEB Liability	3,421,363	56,423	-
Total Liabilities	\$ 3,775,919	\$ 3,998,961	\$ -
DEFERRED INFLOWS OF RESOURCES			
Pensions & OPEB	\$ 1,738,459	\$ 28,670	\$ -
NET POSITION			
Net Investment in Capital Assets	\$ 10,800,439	\$ 10,919,043	\$ -
Restricted			
Highways and Bridges	1,257,707	-	-
Conservation of Natural Resources	4,684	-	-
Emergencies	407,783	-	-
Economic Development	-	-	111,694
Loans	-	-	394,382
General Government & Other Purposes	10,916	-	-
Unrestricted	(1,047,592)	2,079,038	-
Total Net Position	\$ 11,433,937	\$ 12,998,081	\$ 506,076

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

PEMBINA COUNTY

Statement of Activities

For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units	
					Governmental Activities	Water Resource District	Job Development Authority
Primary Government							
Governmental Activities							
General Government	\$ 2,725,881	\$ 149,836	\$ -	\$ -	\$ (2,576,045)		
Public Safety	1,593,315	403,727	77,200	-	(1,112,388)		
Health and Welfare	1,597,360	167,756	1,222,408	940,416	733,220		
Economic Development	23,120	-	-	-	(23,120)		
Highways	1,942,941	155,632	913,002	-	(874,307)		
Flood Repair	98,018	-	98,468	-	450		
Conserv. of Natural Resources	310,217	14,072	1,200	-	(294,945)		
Total Primary Government	\$ 8,290,852	\$ 891,023	\$ 2,312,278	\$ 940,416	\$ (4,147,135)		
Component Units							
Water Resource District	\$ 2,562,452	\$ -	\$ 390,169	\$ 52,768	\$ (2,119,515)	\$ -	
Job Development Authority	185,922	4,077	-	-	-	(181,845)	
Total Component Units	\$ 2,748,374	\$ 4,077	\$ 390,169	\$ 52,768	\$ (2,119,515)	\$ (181,845)	
General Revenues							
Property Taxes					\$ 4,145,422	\$ 1,609,713	\$ 117,788
Nonrestricted Grants and Contributions					739,253	9,352	9,250
Unrestricted Investment Earnings					-	19,490	-
Net Gain on Sale of Capital Assets					10,358	-	-
Miscellaneous Revenue					323,638	19,777	19
Total General Revenues					\$ 5,218,671	\$ 1,658,332	\$ 127,057
Change in Net Position					\$ 1,071,536	\$ (461,183)	\$ (54,788)
Net Position - January 1					\$ 10,362,401	\$ 13,014,872	\$ 560,864
Prior Period Adjustment					\$ -	\$ 444,392	\$ -
Net Position - January 1, as restated					\$ 10,362,401	\$ 13,459,264	\$ 560,864
Net Position - December 31					\$ 11,433,937	\$ 12,998,081	\$ 506,076

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

PEMBINA COUNTY

Balance Sheet – Governmental Funds
December 31, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,233,585	\$ 2,816,884	\$ 4,050,469
Intergovernmental Receivable	172,635	107,514	280,149
Accounts Receivable	52,017	9,985	62,002
Road Receivable	-	47,003	47,003
Taxes Receivable	99,342	33,545	132,887
Total Assets	<u>\$ 1,557,579</u>	<u>\$ 3,014,931</u>	<u>\$ 4,572,510</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 56,327	\$ 36,290	\$ 92,617
Salaries Payable	-	11,075	11,075
Grants Received in Advance	-	81,530	81,530
Total Liabilities	<u>\$ 56,327</u>	<u>\$ 128,895</u>	<u>\$ 185,222</u>
Deferred Inflows of Resources			
Road Receivable	\$ -	\$ 47,003	\$ 47,003
Taxes Receivable	99,342	33,545	132,887
Total Deferred Inflows of Resources	<u>\$ 99,342</u>	<u>\$ 80,548</u>	<u>\$ 179,890</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 155,669</u>	<u>\$ 209,443</u>	<u>\$ 365,112</u>
Fund Balances			
Restricted			
Highways and Bridges	\$ -	\$ 1,830,524	\$ 1,830,524
Health and Welfare	-	321,304	321,304
Public Safety	-	70,770	70,770
Conservation of Natural Resources	-	80,540	80,540
Emergencies	-	491,434	491,434
General Government	-	10,916	10,916
Unassigned	1,401,910	-	1,401,910
Total Fund Balances	<u>\$ 1,401,910</u>	<u>\$ 2,805,488</u>	<u>\$ 4,207,398</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,557,579</u>	<u>\$ 3,014,931</u>	<u>\$ 4,572,510</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, 2019

Total Fund Balances of Governmental Funds		\$ 4,207,398
<p>Total <i>net position</i> reported for government activities in the statement of net position is different because:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		10,804,794
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	\$ 132,887	
Road Accounts Receivable	<u>47,003</u>	179,890
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	\$ 1,571,011	
Deferred Inflows Derived From Pensions and OPEB	<u>(1,738,459)</u>	(167,448)
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.		
Retainage Payable	\$ (4,355)	
Compensated Absences Payable	(164,979)	
Net Pension and OPEB Liability	<u>(3,421,363)</u>	<u>(3,590,697)</u>
Net Position of Governmental Activities		<u>\$ 11,433,937</u>

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

PEMBINA COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 For the Year Ended December 31, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 3,072,426	\$ 1,014,443	\$ 4,086,869
Intergovernmental	741,637	2,309,893	3,051,530
Charges for Services	593,384	258,155	851,539
Licenses, Permits and Fees	3,562	-	3,562
Miscellaneous	295,156	28,484	323,640
Total Revenues	\$ 4,706,165	\$ 3,610,975	\$ 8,317,140
EXPENDITURES			
Current			
General Government	\$ 2,609,410	\$ -	\$ 2,609,410
Public Safety	1,432,659	66,067	1,498,726
Health and Welfare	304,639	1,185,590	1,490,229
Economic Development	23,120	-	23,120
Highways	-	1,986,808	1,986,808
Flood Repair	-	98,018	98,018
Conserv. of Natural Resources	-	297,980	297,980
Total Expenditures	\$ 4,369,828	\$ 3,634,463	\$ 8,004,291
Excess (Deficiency) of Revenues Over Expenditures	\$ 336,337	\$ (23,488)	\$ 312,849
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 119,128	\$ -	\$ 119,128
Sale of Capital Assets	-	23,000	23,000
Transfers Out	-	(119,128)	(119,128)
Total Other Financing Sources and Uses	\$ 119,128	\$ (96,128)	\$ 23,000
Net Change in Fund Balances	\$ 455,465	\$ (119,616)	\$ 335,849
Fund Balances - January 1	\$ 946,445	\$ 2,925,104	\$ 3,871,549
Fund Balances - December 31	\$ 1,401,910	\$ 2,805,488	\$ 4,207,398

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, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 335,849

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	\$ 537,280	
Capital Contributions	940,416	
Depreciation Expense	<u>(461,500)</u>	1,016,196

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	\$ 10,358	
Sale of Capital Assets	<u>(23,000)</u>	(12,642)

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

Net Change in Retainage Payable	\$ (4,355)	
Net Change in Compensated Absences	<u>(2,141)</u>	(6,496)

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.

Net Change in Taxes Receivable	\$ 58,553	
Net Change in Road Accounts Receivable	<u>35,922</u>	94,475

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.

Net Change in Net Pension and OPEB Liability	\$ 1,553,761	
Net Change in Deferred Outflows of Resources Related to Pensions and OPEB	(468,203)	
Net Change in Deferred Inflows of Resources Related to Pensions and OPEB	<u>(1,441,404)</u>	<u>(355,846)</u>

Change in Net Position of Governmental Activities \$ 1,071,536

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, 2019

ASSETS

Cash and Investments \$ 3,861,792

LIABILITIES

Due to Other Governments \$ 3,861,792

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, 2019

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, 2019 has been restated for a capital asset adjustment as shown below. The results of the adjustment increased the beginning net position of the Water Resource District.

Water Resource District	Amounts
Beginning Net Position, as Previously Reported	\$ 13,014,872
Prior Period Adjustments	
Capital Assets, Net	444,392
Net Position, January 1, Restated	\$ 13,459,264

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, 2019, the County's carrying amount of deposits was \$7,314,824 and the bank balances were \$7,119,111. Of the bank balances, \$1,500,000 was covered by Federal Depository Insurance, \$1,121,101 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, 2019, the Water Resource District's carrying amount of deposits was \$2,133,564 and the bank balances were \$2,215,437. Of the bank balances, \$375,776 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, 2019:

Primary Government	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 4,900	\$ -	\$ -	\$ -	\$ 4,900
Construction in Progress	-	1,141,926	-	-	1,141,926
Total Capital Assets Not Being Depreciated	\$ 4,900	\$ 1,141,926	\$ -	\$ -	\$ 1,146,826
Capital Assets Being Depreciated					
Buildings	\$ 3,084,384	\$ 93,249	\$ -	\$ -	\$ 3,177,633
Equipment	3,819,193	242,521	45,045	-	4,016,669
Infrastructure	59,282,090	-	-	-	59,282,090
Total Capital Assets Being Depreciated	\$ 66,185,667	\$ 335,770	\$ 45,045	\$ -	\$ 66,476,392
Less Accumulated Depreciation					
Buildings	\$ 1,908,334	\$ 65,045	\$ -	\$ -	\$ 1,973,379
Equipment	2,514,749	192,090	32,403	-	2,674,436
Infrastructure	51,966,244	204,365	-	-	52,170,609
Total Accumulated Depreciation	\$ 56,389,327	\$ 461,500	\$ 32,403	\$ -	\$ 56,818,424
Total Capital Assets Being Depreciated, Net	\$ 9,796,340	\$ (125,730)	\$ 12,642	\$ -	\$ 9,657,968
Governmental Activities Capital Assets, Net	\$ 9,801,240	\$ 1,016,196	\$ 12,642	\$ -	\$ 10,804,794

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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

Primary Government	Amounts
General Government	\$ 42,324
Public Safety	98,738
Highways and Bridges	314,068
Health and Welfare	3,088
Conservation of Natural Resource	3,282
Total Depreciation Expense	\$ 461,500

Discretely Presented Component Units

The following is a summary of changes in capital assets for the year ended December 31, 2019 for the Water Resource District:

Water Resource District	Bal. Jan 1 Restated	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Construction in Progress	\$ 2,076,662	\$ 403,209	\$ -	\$ (2,193,924)	\$ 285,947
Capital Assets Being Depreciated					
Equipment	\$ 74,391	\$ -	\$ -		\$ 74,391
Infrastructure	17,551,854	-	-	2,193,924	19,745,778
Total Capital Assets, Being Depreciated	\$ 17,626,245	\$ -	\$ -	\$ 2,193,924	\$ 19,820,169
Less Accumulated Depreciation					
Equipment	\$ 74,391	\$ -	\$ -	\$ -	\$ 74,391
Infrastructure	4,192,527	987,289	-	-	5,179,816
Total Accumulated Depreciation	\$ 4,266,918	\$ 987,289	\$ -	\$ -	\$ 5,254,207
Total Capital Assets Being Depreciated, Net	\$ 13,359,327	\$ (987,289)	\$ -	\$ 2,193,924	\$ 14,565,962
Governmental Activities Capital Assets, Net	\$ 15,435,989	\$ (584,080)	\$ -	\$ -	\$ 14,851,909

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

NOTE 6 LOANS RECEIVABLE

The Job Development Authority provides loans to businesses for either startup costs or expansion costs. The Job Development Authority had the following loans receivable activity for the year ended December 31, 2019.

	Balance Jan 1	New Loans	Prinicipal Payments	Balance Dec 31
Loans Receivable	\$ 353,884	\$ 72,238	\$ 31,740	\$ 394,382

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 7 LONG-TERM LIABILITIES

Primary Government

During the year ended December 31, 2019, 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 *	\$ 162,838	\$ 2,141	\$ -	\$ 164,979	\$ 16,498
Net Pension and OPEB Liability	4,975,124	-	1,553,761	3,421,363	-
Total Primary Government	\$ 5,137,962	\$ 2,141	\$1,553,761	\$ 3,586,342	\$ 16,498

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

Discretely Presented Component Units

During the year ended 31, 2019, the following changes occurred in governmental long-term liabilities of the Water Resource District:

Water Resource District	Balance Jan 1	Increases	Decreases	Balance December 31	Due Within One Year
Long Term Debt					
Registered Drain Warrants Payable	\$ 30,130	\$ -	\$ 30,130	\$ -	\$ -
Line of Credit Payable	132,648	668,489	71,014	730,123	730,123
Bonds Payable	3,250,000	-	205,000	3,045,000	190,000
Bond Premium	56,345	-	4,342	52,003	4,342
Total Long Term Debt	\$ 3,469,123	\$ 668,489	\$ 310,486	\$ 3,827,126	\$ 924,465
Compensated Absences *	3,525	1,669	-	5,194	519
Net Pension and OPEB Liability	110,685	-	54,262	56,423	-
Total Water Resource District	\$ 3,583,333	\$ 670,158	\$ 364,748	\$ 3,888,743	\$ 924,984

* 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	
2020	\$ 190,000	\$ 97,970	\$ 730,123	\$ 27,380	\$ 4,342
2021	200,000	92,270	-	-	4,342
2022	205,000	86,270	-	-	4,342
2023	215,000	80,120	-	-	4,342
2024	220,000	73,670	-	-	4,342
2025-2029	1,120,000	266,750	-	-	19,537
2030-2034	530,000	122,390	-	-	6,722
2035-2039	365,000	37,200	-	-	4,034
Total	\$ 3,045,000	\$ 856,640	\$ 730,123	\$ 27,380	\$ 52,003

NOTE 8 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 NDCC 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.

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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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, 2019, the following net pension liabilities were reported:

	Net Pension Liability
Primary Government	\$ 3,215,932
Water Resource District	53,036

The net pension liability was measured as of June 30, 2019, 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, 2019, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2018 Measurement	Pension Expense
Primary Government	0.274380%	-0.008049%	\$ 568,708
Water Resource District	0.004525%	-0.001758%	9,379

PEMBINA COUNTY

Notes to the Financial Statements – Continued

At December 31, 2019, 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	\$ 1,905	\$ 583,630
Changes of Assumptions	1,201,710	1,031,772
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	56,029	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	47,107	110,279
Employer Contributions Subsequent to the Measurement Date	200,608	-
Total Primary Government	\$ 1,507,359	\$ 1,725,681

Water Resource District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 31	\$ 9,625
Changes of Assumptions	19,818	17,015
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	924	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	777	1,819
District Contributions Subsequent to the Measurement Date	3,268	-
Total Water Resource District	\$ 24,818	\$ 28,459

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, 2020:

Primary Government	\$ 200,608
Water Resource District	3,268

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
2020	\$ 90,173	\$ 1,487
2021	23,262	384
2022	(123,068)	(2,030)
2023	(311,697)	(5,140)
2024	(97,600)	(1,610)

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2019 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	7.50%, 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 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%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
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.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Primary Government	\$ 4,610,955	\$ 3,215,932	\$ 2,043,870
Water Resource District	76,042	53,036	33,706

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 9 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. . Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2019, the following net OPEB liabilities were reported:

	Net OPEB Liability
Primary Government	\$ 205,430
Water Resource District	3,388

The net OPEB liability was measured as of June 30, 2019, 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, 2019, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2018 Measurement	OPEB Expense
Primary Government	0.255769%	-0.009393%	\$ 27,206
Water Resource District	0.004218%	-0.001681%	449

PEMBINA COUNTY

Notes to the Financial Statements – Continued

At December 31, 2019, 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	\$ 5,071	\$ 6,417
Changes of Assumptions	24,484	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	229	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,748	6,361
Employer Contributions Subsequent to the Measurement Date	32,120	-
Total Primary Government	\$ 63,653	\$ 12,778

Water Resource District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 84	\$ 106
Changes of Assumptions	404	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	4	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	29	105
Employer Contributions Subsequent to the Measurement Date	523	-
Total Water Resource District	\$ 1,043	\$ 211

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, 2020:

Primary Government	\$ 32,120
Water Resource District	523

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
2020	\$ 3,051	\$ 50
2021	3,051	50
2022	4,963	82
2023	4,612	76
2024	2,402	40
2025	620	10
Thereafter	56	1

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Actuarial assumptions

The total OPEB liability in the July 1, 2019 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	7.25%, 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
International Equities	40%	2.07%
U.S. High Yield	21%	6.95%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. 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, 2019, and July 1, 2018, 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.

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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Primary Government	\$ 262,205	\$ 205,430	\$ 156,832
Water Resource District	4,324	3,388	2,586

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 10 OPEN CONSTRUCTION CONTRACTS

Primary Government

The County had one construction project open at year-end:

Project	Contract Amount	Total Completed	Retainage	Remaining Balance
County Road 1	\$ 513,893	\$ 217,765	\$ 4,355	\$ 300,483

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 64	\$ 542,989	\$ 285,947	\$ 28,595	\$ 285,637

NOTE 11 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 \$2,119,352 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 12 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 13 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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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, 2019:

Total Assets	\$ 13,450,277
Total Liabilities	73,258
Net Position	\$ 13,377,019
Total Revenues	\$ 2,570,262
Total Expenses	896,172
Change in Net Position	\$ 1,674,090

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 Walsh 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.

NOTE 14 CONDUIT DEBT

Conduit debt obligations are defined as certain limited-obligation revenue bonds, certifications of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

At December 31, 2019, the County is involved in conduit debt obligations under the following criteria.

Community Development Block Grants

The County is currently involved in a program that had issued Community Development Block Grant Loans. Community Development Block Grant Loans provide financial assistance private-sector entities for various purposes. The loans are secured by the property financed and are payable solely from payments received on the underlying block grant loans.

As of December 31, 2019 there was one Community Development Block Grant with principal balances that totaled \$38,725.

PEMBINA COUNTY

Budgetary Comparison Schedule – General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 3,199,455	\$ 3,199,455	\$ 3,072,426	\$ (127,029)
Intergovernmental	569,300	569,300	741,637	172,337
Charges for Services	547,453	547,453	593,384	45,931
Licenses, Permits and Fees	2,050	2,050	3,562	1,512
Miscellaneous	173,737	173,737	295,156	121,419
Total Revenues	<u>\$ 4,491,995</u>	<u>\$ 4,491,995</u>	<u>\$ 4,706,165</u>	<u>\$ 214,170</u>
EXPENDITURES				
Current				
General Government	\$ 2,924,884	\$ 2,924,884	\$ 2,609,410	\$ 315,474
Public Safety	1,452,021	1,452,021	1,432,659	19,362
Health and Welfare	298,033	298,033	304,639	(6,606)
Economic Development	25,550	25,550	23,120	2,430
Total Expenditures	<u>\$ 4,700,488</u>	<u>\$ 4,700,488</u>	<u>\$ 4,369,828</u>	<u>\$ 330,660</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (208,493)</u>	<u>\$ (208,493)</u>	<u>\$ 336,337</u>	<u>\$ 544,830</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,128</u>	<u>\$ 119,128</u>
Net Change in Fund Balances	<u>\$ (208,493)</u>	<u>\$ (208,493)</u>	<u>\$ 455,465</u>	<u>\$ 663,958</u>
Fund Balances - January 1	<u>\$ 946,445</u>	<u>\$ 946,445</u>	<u>\$ 946,445</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 737,952</u>	<u>\$ 737,952</u>	<u>\$ 1,401,910</u>	<u>\$ 663,958</u>

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, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 1,048,757	\$ 1,048,757	\$ 1,014,443	\$ (34,314)
Intergovernmental	2,391,638	2,391,638	2,309,893	(81,745)
Charges for Services	172,450	172,450	258,155	85,705
Miscellaneous	20,600	20,600	28,484	7,884
Total Revenues	\$ 3,633,445	\$ 3,633,445	\$ 3,610,975	\$ (22,470)
EXPENDITURES				
Current				
General Government	\$ 5,000	\$ 5,000	\$ -	\$ 5,000
Public Safety	53,501	68,974	66,067	2,907
Health and Welfare	1,196,149	1,210,750	1,185,590	25,160
Highways and Bridges	2,400,088	2,400,088	1,986,808	413,280
Flood Repair	150,000	150,000	98,018	51,982
Conserv. of Natural Resources	333,964	339,968	297,980	41,988
Total Expenditures	\$ 4,138,702	\$ 4,174,780	\$ 3,634,463	\$ 540,317
Excess (Deficiency) of Revenues Over Expenditures	\$ (505,257)	\$ (541,335)	\$ (23,488)	\$ 517,847
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	\$ -	\$ -	\$ 23,000	\$ 23,000
Transfers Out	-	-	(119,128)	(119,128)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ (96,128)	\$ (96,128)
Net Change in Fund Balances	\$ (505,257)	\$ (541,335)	\$ (119,616)	\$ 421,719
Fund Balances - January 1	\$ 2,925,104	\$ 2,925,104	\$ 2,925,104	\$ -
Fund Balances - December 31	<u>\$ 2,419,847</u>	<u>\$ 2,383,769</u>	<u>\$ 2,805,488</u>	<u>\$ 421,719</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, 2019

**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
2019	0.274380%	\$ 3,215,932	\$ 2,854,021	112.68%	71.66%
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
2019	0.004525%	\$ 53,036	\$ 47,067	112.68%	71.66%
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, 2019

**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
2019	\$ 207,788	\$ 211,041	\$ (3,252)	\$ 2,854,021	7.39%
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
2019	\$ 3,427	\$ 3,480	\$ (54)	\$ 47,067	7.39%
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, 2019

**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
2019	0.255769%	\$ 205,430	\$ 2,854,021	7.20%	63.13%
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
2019	0.004218%	\$ 3,388	\$ 47,067	7.20%	63.13%
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
2019	\$ 33,193	\$ 33,791	\$ (598)	\$ 2,854,021	1.18%
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
2019	\$ 547	\$ 557	\$ (10)	\$ 47,067	1.18%
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, 2019

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

NOTE 2 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, the County will present information for those years for which information is available.

NOTE 3 CHANGES OF BENEFIT TERMS – PENSION AND OPEB

Pension

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

OPEB

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

NOTE 4 CHANGES OF ASSUMPTIONS – PENSION AND OPEB

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50% for Pension.
- The investment return assumption was lowered from 7.50% to 7.25% for OPEB.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

PEMBINA COUNTY

Notes to the Required Supplementary Information - Continued

NOTE 5 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The board of County commissioners amended the budget for 2019 as follows:

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Special Revenue Fund	\$ 4,138,702	\$ 36,078	\$ 4,174,780

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

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, the discretely presented component units, and the aggregate remaining fund information of Pembina County as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Pembina County's basic financial statements, and have issued our report thereon dated August 3, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2019-001, 2019-002, and 2019-003 that we consider to be material weaknesses.

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

Bismarck, North Dakota
August 3, 2020

PEMBINA COUNTY

Summary of Auditor's Results
For the Year Ended December 31, 2019

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Major Funds	Unmodified
Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	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> </u> Yes	<u> X </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, 2019

2019-001 FINANCIAL STATEMENT PREPARATION

Condition

Pembina County currently does not prepare the financial statements, including various adjusting entries and 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

Pembina County is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management chose not to allocate County resources for preparation of the financial statements.

Effect

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

Repeat Finding

Yes.

Recommendation

We recommend the Pembina County consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

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.

2019-002 AUDIT ADJUSTMENTS – INTERGOVERNMENTAL RECEIVABLES – MATERIAL WEAKNESS

Condition

Pembina County did not include intergovernmental receivables totaling \$277,664 in their listing of receivables to be included in the financial statements.

Criteria

Pembina County is responsible for preparing adjustments for material receivables to ensure its financial statements are reliable, accurate, free of material misstatement, and in accordance with Generally Accepted Accounting Principles (GAAP).

Cause

Pembina County does not currently have someone, other than the preparer, review the receivable listing to ensure compliance with GAAP.

Effect

Failure to include \$277,664 of intergovernmental receivables would have resulted in material misstatements of the financial statements, as a whole.

Repeat Finding

Yes.

Recommendation

We recommend that Pembina County carefully prepare and review Intergovernmental Receivable schedules to ensure they are free of material misstatements.

Pembina County's Response

Agree: Pembina County will have two individuals review and verify Intergovernmental Receivables to ensure they are free of material misstatements. The Deputy Auditor/Treasurer will prepare and the Auditor/Treasurer will review and verify that all intergovernmental receivable have been included.

2019-003 LACK OF SEGREGATION OF DUTIES – COMPONENT UNITS – MATERIAL WEAKNESS

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 and disbursement in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates 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 Pembina County Water Resource District and Pembina County Job Development Authority.

Cause

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

Effect

The lack of segregation of duties increases the risk of material misstatement to the Pembina County Water Resource District and Pembina County Job Development Authority's financial condition, whether due to error or fraud.

Repeat Finding

Yes.

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.
- Include the board in reviewing bank reconciliations, credit memos, manual adjustments, etc.

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.

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GOVERNANCE COMMUNICATION

Board of County Commissioners
Pembina County
Cavalier, North Dakota

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of Pembina County, North Dakota, for the year ended December 31, 2019 which collectively comprise Pembina County's basic financial statements, and have issued our report thereon dated August 3, 2020. 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 June 22, 2020, 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, 2019. 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 or provided by management that were corrected by management.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
PRIMARY GOVERNMENT						
Intergovernmental Receivable	2,486	-	277,664	-	280,150	-
Accounts Receivable	62,002	-	-	-	62,002	-
Revenues	-	64,488	-	277,664	-	342,152
Expenditures	103,692	-	-	-	103,692	-
Accounts Payable	-	92,617	-	-	-	92,617
Salaries Payable	-	11,075	-	-	-	11,075
Revenues	81,530	-	-	-	81,530	-
Unearned Revenue	-	81,530	-	-	-	81,530
WATER RESOURCE DISTRICT						
Intergovernmental Receivable	2,323	-	-	-	2,323	-
Revenues	-	2,323	-	-	-	2,323
Expenditures	4,478	-	-	-	4,478	-
Salaries Payable	-	4,478	-	-	-	4,478
JOB DEVELOPMENT AUTHORITY						
Intergovernmental Receivable	2,323	-	-	-	2,323	-
Revenues	-	2,323	-	-	-	2,323

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 August 3, 2020.

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.

PEMBINA COUNTY

Governance Communication – Continued

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

Bismarck, North Dakota
August 3, 2020



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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