

OFFICE OF THE STATE AUDITOR

**PEMBINA COUNTY
Cavalier, North Dakota**

Audit for the Year Ended

December 31, 2010



PEMBINA COUNTY
Cavalier, North Dakota

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PEMBINA COUNTY
Cavalier, North Dakota

COUNTY OFFICIALS

December 31, 2010

| | |
|---------------------|---|
| Hetty Walker | Commissioner - Chairperson |
| Corene Vaughn | Commissioner - Vice Chairperson |
| Gary Nilsson | Commissioner |
| Andy Adamson | Commissioner |
| Hugh Ralston | Commissioner |
| Linda Schlittenhard | County Auditor/Treasurer/Supt. of Schools |
| Kay Braget | County Clerk of Court/County Recorder |
| Brian Erovick | Sheriff |
| Stuart Askew | State's Attorney |
| Julie Doyle | Tax Director |
| Troy Kittelson | Highway Superintendent |
| Jill Pedersen | Disaster Emergency Director |

STATE AUDITOR
ROBERT R. PETERSON
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(701) 328-2241
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LOCAL GOVERNMENT DIVISION:
FARGO OFFICE
MANAGER - DAVID MIX
(701) 239-7252
FAX (701) 239-7251

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pembina County
Cavalier, North Dakota

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pembina County, Cavalier, North Dakota, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of Pembina County, Cavalier, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 23 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

PEMBINA COUNTY

Independent Auditor's Report - Continued

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Pembina County, Cavalier, North Dakota basic financial statements. The accompanying supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Pembina County, Cavalier, North Dakota. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the schedule of fund activity arising from cash transactions which is prepared on a cash basis, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Robert R. Peterson
State Auditor

October 14, 2011

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF NET ASSETS
December 31, 2010

| | Primary | Component Units | |
|---|----------------------------|----------------------------|------------------------------|
| | Governmental Activities | Water Resource District | Job Development Authority |
| ASSETS: | | | |
| Cash and investments | \$ 3,126,987 | \$ 532,058 | \$ 249,762 |
| Accounts receivable | 18,452 | - | - |
| Intergovernmental receivable | 378,013 | - | - |
| Special assessments receivable | - | 15,566 | - |
| Road accounts receivable | 91,559 | - | - |
| Taxes receivable | 118,311 | 5,018 | 3,693 |
| Job development loans receivable (net of allowance) | - | - | 225,741 |
| Capital Assets (net of accumulated depreciation): | | | |
| Land | 4,900 | - | - |
| Construction in Progress | 304,600 | 508,902 | - |
| Buildings | 1,321,219 | - | - |
| Equipment and vehicles | 1,079,282 | - | - |
| Infrastructure | 1,879,736 | 1,401,349 | - |
| Total capital assets | \$ 4,589,737 | \$ 1,910,251 | \$ - |
| Total Assets | \$ 8,323,059 | \$ 2,462,893 | \$ 479,196 |
| LIABILITIES: | | | |
| Accounts payable | \$ 156,793 | \$ - | \$ - |
| Long-Term Liabilities: | | | |
| Due Within One Year: | | | |
| Capital leases payable | 49,703 | - | - |
| Lines of credit payable | 80,000 | 589,008 | - |
| Warrants payable | - | 251,365 | - |
| Compensated absences payable | 10,074 | - | - |
| Due After One Year: | | | |
| Capital leases payable | 35,886 | - | - |
| Compensated absences payable | 90,359 | - | - |
| Total Liabilities | \$ 422,815 | \$ 840,373 | \$ - |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | \$ 4,424,148 | \$ 1,321,243 | \$ - |
| Restricted for: | | | |
| Debt Service | 102,340 | - | - |
| Public safety | 36,856 | - | - |
| Highways and bridges | 1,482,696 | - | - |
| Health and welfare | 186,159 | - | - |
| Culture and recreation | 15,619 | - | - |
| Conservation of natural resources | 88,576 | 301,277 | - |
| Emergencies | 333,963 | - | - |
| Economic development | - | - | 253,455 |
| Loans | - | - | 225,741 |
| Other purposes | 226,034 | - | - |
| Unrestricted | 1,003,853 | - | - |
| Total Net Assets | \$ 7,900,244 | \$ 1,622,520 | \$ 479,196 |

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

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---------------------|---|--|--|--|-------------------------------|---------------------------------|
| | | Fees, Fines, Forfeits and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary | Component Units | |
| | | | | | Governmental Activities | Water Resource District | Job Development Authority |
| <u>Primary Government:</u> | | | | | | | |
| General government | \$ 1,748,844 | \$ 123,156 | \$ 182,486 | \$ - | \$ (1,443,202) | | |
| Public safety | 1,217,653 | 378,647 | 106,872 | - | (732,134) | | |
| Highways and bridges | 2,331,709 | 83,880 | 1,291,343 | - | (956,486) | | |
| Health and welfare | 1,002,659 | 58,927 | 294,473 | - | (649,259) | | |
| Conserv. of natural resources | 196,022 | 5,328 | 603 | - | (190,091) | | |
| Culture and recreation | 194,981 | - | - | - | (194,981) | | |
| Economic development | 84,949 | - | - | - | (84,949) | | |
| Interest and service charges | 6,844 | - | - | - | (6,844) | | |
| Total Governmental Activities | \$ 6,783,661 | \$ 649,938 | \$ 1,875,777 | \$ - | \$ (4,257,946) | | |
| <u>Component Units:</u> | | | | | | | |
| Water Resource District | \$ 1,070,311 | \$ 591,458 | \$ 306,468 | \$ - | \$ (172,385) | \$ - | |
| Job Development Authority | 62,432 | - | - | - | - | (62,432) | |
| Total Component Units | \$ 1,132,743 | \$ 591,458 | \$ 306,468 | \$ - | \$ (172,385) | \$ (62,432) | |
| <u>General Revenues:</u> | | | | | | | |
| <u>Taxes:</u> | | | | | | | |
| Property taxes; levied for general purposes | | | | \$ 775,897 | \$ 150,514 | \$ - | |
| Property taxes; levied for special purposes | | | | 2,470,122 | - | 97,957 | |
| Property taxes; levied for drains/maintenance | | | | - | 488,919 | - | |
| <u>State aid & grants not restricted to specific programs:</u> | | | | | | | |
| State Aid Distribution and Grants | | | | 432,345 | - | 6,005 | |
| Other State Shared Revenues | | | | 29,390 | - | - | |
| Unrestricted investment earnings | | | | 14,638 | 1,135 | - | |
| Miscellaneous revenue | | | | 369,756 | 65,313 | 16,757 | |
| Total General Revenues | | | | \$ 4,092,148 | \$ 705,881 | \$ 120,719 | |
| Change in Net Assets | | | | \$ (165,798) | \$ 533,496 | \$ 58,287 | |
| Net Assets - January 1 | | | | \$ 8,061,513 | \$ 880,483 | \$ 422,403 | |
| Prior Period Adjustment | | | | 4,529 | 208,541 | (1,494) | |
| Net Assets - January 1, as restated | | | | \$ 8,066,042 | \$ 1,089,024 | \$ 420,909 | |
| Net Assets - December 31 | | | | \$ 7,900,244 | \$ 1,622,520 | \$ 479,196 | |

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

PEMBINA COUNTY
Cavalier, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2010

| | General | General Fund Reserve | County Road and Bridge | Highway Funds | Farm to Market Road | Social Services | Social Service Levy | Flood Emergency Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|----------------------------|------------------------------|-------------------|---------------------------|--------------------|---------------------------|----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$620,428 | \$ 182,130 | \$ 81,921 | \$ 401,710 | \$387,082 | \$ 2,417 | \$17,487 | \$ 466,689 | \$ 967,123 | \$ 3,126,987 |
| Accounts receivable | 18,452 | - | - | - | - | - | - | - | - | 18,452 |
| Intergovernmental receivable | 167,533 | 63,750 | - | 105,918 | - | 13,875 | - | - | 26,937 | 378,013 |
| Road accounts receivable | - | - | 91,559 | - | - | - | - | - | - | 91,559 |
| Taxes receivable | 26,560 | - | 2,295 | - | 12,546 | - | 18,048 | - | 58,862 | 118,311 |
| Total Assets | \$832,973 | \$ 245,880 | \$175,775 | \$ 507,628 | \$399,628 | \$16,292 | \$35,535 | \$ 466,689 | \$ 1,052,922 | \$ 3,733,322 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts payable | \$ - | \$ 75,000 | \$ - | \$ 22,538 | \$ 26,259 | \$ - | \$ - | \$ - | \$ 32,996 | \$ 156,793 |
| Deferred revenue | 26,560 | - | 93,854 | - | 12,546 | - | 18,048 | - | 58,862 | 209,870 |
| Total Liabilities | \$ 26,560 | \$ 75,000 | \$ 93,854 | \$ 22,538 | \$ 38,805 | \$ - | \$18,048 | \$ - | \$ 91,858 | \$ 366,663 |
| Fund Balances: | | | | | | | | | | |
| Reserved for debt service | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,106 | \$ 12,106 |
| Unreserved, reported in: | | | | | | | | | | |
| General Fund | 806,413 | - | - | - | - | - | - | - | - | 806,413 |
| Special Revenue | - | 170,880 | 81,921 | 485,090 | 360,823 | 16,292 | 17,487 | 466,689 | 948,958 | 2,548,140 |
| Total Fund Balances | \$806,413 | \$ 170,880 | \$ 81,921 | \$ 485,090 | \$360,823 | \$16,292 | \$17,487 | \$ 466,689 | \$ 961,064 | \$ 3,366,659 |
| Total Liabilities and Fund Balances | \$832,973 | \$ 245,880 | \$175,775 | \$ 507,628 | \$399,628 | \$16,292 | \$35,535 | \$ 466,689 | \$ 1,052,922 | \$ 3,733,322 |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

Total *Fund Balances* of Governmental Funds \$ 3,366,659

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

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

| | | |
|-------------------------------|--------------------|-----------|
| Cost of Capital Assets | \$ 8,177,069 | |
| Less Accumulated Depreciation | <u>(3,587,332)</u> | |
| Net Capital Assets | | 4,589,737 |

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

| | | |
|-------------------------------------|---------------|---------|
| Property Taxes Receivable | \$ 118,311 | |
| Road Department Accounts Receivable | <u>91,559</u> | 209,870 |

Long-term liabilities applicable to the county's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net assets. Balances at December 31, 2010 are:

| | | |
|------------------------------|------------------|------------------|
| Capital Leases Payable | \$ (85,589) | |
| Lines of Credit Payable | (80,000) | |
| Compensated Absences Payable | <u>(100,433)</u> | |
| Total Long-Term Liabilities | | <u>(266,022)</u> |

Net Assets of Governmental Activities \$ 7,900,244

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | General | General Fund Reserve | County Road and Bridge | Highway Funds | Farm to Market Road | Social Services | Social Service Levy | Flood Emergency Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|------------------------------|---------------------|---------------------------|---------------------|---------------------------|----------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | | | | | |
| Taxes | \$ 800,555 | \$ - | \$ 72,002 | \$ - | \$ 338,214 | \$ - | \$ 475,249 | \$ - | \$ 1,612,991 | \$ 3,299,011 |
| Intergovernmental | 505,315 | 152,476 | 3,161 | 837,708 | 30,341 | 140,568 | 56,284 | 350,530 | 261,129 | 2,337,512 |
| Charges for services | 495,591 | - | - | 87,551 | - | 57,670 | - | - | 10,857 | 651,669 |
| Licenses, permits and fees | 1,940 | - | - | - | - | - | - | - | - | 1,940 |
| Interest income | 10,000 | 4,638 | - | - | - | - | - | - | - | 14,638 |
| Miscellaneous | 67,325 | - | - | 84,066 | - | 1,917 | - | - | 216,448 | 369,756 |
| Total Revenues | \$ 1,880,726 | \$ 157,114 | \$ 75,163 | \$ 1,009,325 | \$ 368,555 | \$ 200,155 | \$ 531,533 | \$ 350,530 | \$ 2,101,425 | \$ 6,674,526 |
| Expenditures: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | \$ 773,520 | \$ 279,623 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 897,270 | \$ 1,950,413 |
| Public safety | 837,161 | - | - | - | - | - | - | - | 327,491 | 1,164,652 |
| Highways and bridges | - | - | 5,689 | 1,368,307 | 295,387 | - | - | 541,533 | 26,976 | 2,237,892 |
| Health and welfare | 163,929 | - | - | - | - | 694,867 | 53,005 | - | 92,907 | 1,004,708 |
| Culture and recreation | - | - | - | - | - | - | - | - | 194,981 | 194,981 |
| Conserv. of natural resources | - | - | - | - | - | - | - | - | 183,600 | 183,600 |
| Economic development | 24,190 | - | - | - | - | - | - | - | 60,759 | 84,949 |
| Debt Service: | | | | | | | | | | |
| Principal | - | - | - | 47,127 | - | - | - | - | 95,000 | 142,127 |
| Interest and fiscal charges | - | - | - | 5,920 | - | - | - | - | 924 | 6,844 |
| Total Expenditures | \$ 1,798,800 | \$ 279,623 | \$ 5,689 | \$ 1,421,354 | \$ 295,387 | \$ 694,867 | \$ 53,005 | \$ 541,533 | \$ 1,879,908 | \$ 6,970,166 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 81,926 | \$ (122,509) | \$ 69,474 | \$ (412,029) | \$ 73,168 | \$ (494,712) | \$ 478,528 | \$ (191,003) | \$ 221,517 | \$ (295,640) |
| Other Financing Sources (Uses): | | | | | | | | | | |
| Loan proceeds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 80,000 | \$ 80,000 |
| Transfers in | - | - | - | - | - | 492,000 | - | - | - | 492,000 |
| Transfers out | - | - | - | - | - | - | (492,000) | - | - | (492,000) |
| Total Other Financing Sources and Uses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 492,000 | \$ (492,000) | \$ - | \$ 80,000 | \$ 80,000 |
| Net Change in Fund Balances | \$ 81,926 | \$ (122,509) | \$ 69,474 | \$ (412,029) | \$ 73,168 | \$ (2,712) | \$ (13,472) | \$ (191,003) | \$ 301,517 | \$ (215,640) |
| Fund Balances - January 1 | \$ 724,487 | \$ 293,389 | \$ 12,447 | \$ 897,119 | \$ 287,655 | \$ 19,004 | \$ 30,959 | \$ 657,692 | \$ 659,547 | \$ 3,582,299 |
| Fund Balances - December 31 | \$ 806,413 | \$ 170,880 | \$ 81,921 | \$ 485,090 | \$ 360,823 | \$ 16,292 | \$ 17,487 | \$ 466,689 | \$ 961,064 | \$ 3,366,659 |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

Net Change in *Fund Balances* - Total Governmental Funds \$ (215,640)

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

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

| | | |
|-----------------------------------|----------------|--------|
| Current Year Capital Outlay | \$ 430,153 | |
| Current Year Depreciation Expense | (358,137) | |
| Loss on Capital Assets | <u>(9,638)</u> | 62,378 |

The issuance of debt decreases long-term liabilities, while the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which debt payments exceeded debt proceeds.

| | | |
|-------------------------|----------------|--------|
| Issuance of Debt - Loan | \$ (80,000) | |
| Repayment of Debt | <u>142,127</u> | 62,127 |

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This consists of a net decrease in compensated absences. (18,000)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the following:

| | | |
|------------------------------------|----------------|-----------------|
| Change in Taxes Receivable | \$ (52,992) | |
| Change in Road Accounts Receivable | <u>(3,671)</u> | <u>(56,663)</u> |

Change in Net Assets of Governmental Activities \$ (165,798)

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

PEMBINA COUNTY
Cavalier, North Dakota

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2010

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| <u>Assets:</u> | |
| Cash and cash equivalents | <u>\$ 2,509,062</u> |
| <u>Liabilities:</u> | |
| Due to other governments | <u>\$ 2,509,062</u> |

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

PEMBINA COUNTY
Cavalier, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

COMPONENT UNITS

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

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

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

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

Component Unit Financial Statements: The financial statements of the discretely presented component units are presented in the County's basic financial statements. Complete financial statements of the component units can be obtained from the Pembina County Auditor/Treasurer, Pembina County, 301 Dakota Street West, Cavalier, North Dakota, 58220.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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

| | |
|--------------------|----------|
| Historical Society | \$ 9,234 |
| Senior Citizens | 57,924 |
| County Fair | 55,407 |
| Bookmobile Library | 26 |
| County Ambulance | 181,805 |

B. Basis of Presentation

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

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

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

The county reports the following major governmental funds:

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

General Fund Reserve Fund. This fund accounts for the accumulation of resources over time for various county courthouse and other improvement projects.

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

Highway Funds. This fund accounts for repair and improvement of highways that are legally restricted from state highway tax distribution.

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

Social Services Fund. This fund accounts for the costs of providing social service benefits and programs to needy residents of the county.

Social Service Levy Fund. This fund accounts for the levy and collection of taxes for social service programs that are transferred to the social services fund.

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Flood Emergency Fund. This is the County's fund used to account for Federal Homeland Security disaster funds received and used for repairs caused by natural disasters.

The County reports the following fund type:

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

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Cash, Cash Equivalents and Investments

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

E. Capital Assets

PRIMARY GOVERNMENT:

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

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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

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

| Assets | Years |
|-----------------------|--------|
| Buildings | 40 |
| Machinery & Equipment | 5 - 15 |
| Vehicles | 3 - 5 |
| Office Equipment | 3 - 5 |
| Infrastructure | 40 |

DISCRETELY PRESENTED COMPONENT UNIT:

Pembina County Water Resource District:

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

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

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

| Assets | Years |
|----------------|-------|
| Infrastructure | 20 |
| Equipment | 5 - 7 |

F. Compensated Absences

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

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets for the primary government and the Pembina County Water Resource District, a discretely presented component unit. Bond premiums, discounts and issuance costs, when applicable, are recognized in the current period since the amounts are not material.

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

H. Fund Balances / Net Assets Equity

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

I. Interfund Transactions

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

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

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

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

| | EXPENDITURES | | |
|-------------------------------|-----------------|------------------|----------------|
| | Original Budget | Budget Amendment | Amended Budget |
| Major Funds: | | | |
| Highway Department | \$1,125,000 | \$273,816 | \$1,398,816 |
| Flood Emergency | 150,000 | 499,610 | 649,610 |
| Nonmajor Funds: | | | |
| Special Revenue Funds: | | | |
| Historical Society | 8,300 | 934 | 9,234 |
| Senior Citizen | 86,200 | 2,526 | 88,726 |
| Ambulance Fund | 170,000 | 11,805 | 181,805 |
| Airport | 55,000 | 5,759 | 60,759 |
| Document Preservation | 6,980 | 589 | 7,569 |
| County Nurse | 200 | 95 | 295 |
| Hazard Materials | 8,800 | 3,915 | 12,715 |
| Victim Witness | 37,600 | 3,694 | 41,294 |
| Library | 37,000 | 1,743 | 38,743 |
| County Fair | 53,000 | 2,407 | 55,407 |

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 3: DEPOSITS

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

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

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

At year ended December 31, 2010, the county's carrying amount of deposits was \$5,659,675 and the bank balances totaled \$5,659,686. Of the bank balances, \$1,889,447 was deposited at the Bank of North Dakota, and \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances totaling \$2,772,264 were collateralized with securities held by the pledging financial institution's agent in the government's name. At year ended December 31, 2010, the water resource district's carrying amount of deposits was \$532,059 and the bank balances totaled \$549,974. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balances totaling \$299,975 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

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

As of December 31, 2010, the county had certificates of deposit totaling \$1,565,000, all of which were considered deposits.

Concentration of Credit Risk:

The county does not have a limit on the amount it may invest in any one issuer.

NOTE 4: TAXES RECEIVABLE

The taxes receivable represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable because any defaults will be covered by enforcement of the liens.

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

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

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

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable consists of money due the county at December 31, 2010. No allowance has been established for estimated uncollectible accounts receivable.

NOTE 6: ROAD ACCOUNTS RECEIVABLE

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

NOTE 7: INTERGOVERNMENTAL RECEIVABLE

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

NOTE 8: JOB DEVELOPMENT LOANS RECEIVABLE

The Job Development Authority, a discretely presented component unit of Pembina County, provides loans to businesses for either start-up costs or expansion costs. The Development Authority receives applications from various businesses within the community and either approves or denies the applications based on majority board decision. The Authority had the following activity in loans outstanding for the year ended December 31, 2010.

| Name/Business | Beginning Balance 1-1-10 | Adjustments | New Loans/ Additions | Payments | Ending Balance 12-31-10 |
|-------------------------------------|-------------------------------------|--------------------|---------------------------------|-----------------|------------------------------------|
| Northern Valley Growers | \$ 4,000 | \$ - | \$ - | \$ - | \$ 4,000 |
| Main Street Café | 274 | - | - | - | 274 |
| Valley Building Center | 2,500 | - | - | 2,500 | - |
| QMAS | 8,736 | - | - | - | 8,736 |
| Sally Dog Grooming | 600 | - | - | - | 600 |
| Tarnel USA | 1,297 | - | - | - | 1,297 |
| St. Thomas Sales | 136 | - | - | 136 | - |
| John Carpenter | 5,000 | - | - | - | 5,000 |
| Barber Business Properties | - | - | 1,485 | - | 1,485 |
| Border Town Wire Products | - | - | 3,224 | - | 3,224 |
| Valley Crete Products | 25,275 | - | - | - | 25,275 |
| La Tea Da | 8,714 | (1,485) | - | - | 7,229 |
| Hank's Corner Hardware | 946 | (8) | - | - | 938 |
| T & M Restaurant | 1,168 | - | - | 269 | 899 |
| T & M Restaurant | 300 | - | - | 240 | 60 |
| Dakota Valley Growers, LLP | 20,287 | - | - | 104 | 20,183 |
| Pete Marciniak Enterprises | 25,755 | - | - | 5,807 | 19,948 |
| HBS of ND LLC | 78,847 | - | - | 1,663 | 77,184 |
| Agrimaxx, Inc. | 58,145 | - | - | - | 58,145 |
| Total Loans Receivable | \$241,980 | \$(1,493) | \$4,709 | \$10,719 | \$234,477 |
| Allowance for Doubtful Loans | (8,736) | - | - | - | (8,736) |
| Total Net Loans Receivable | \$233,244 | \$(1,493) | \$4,709 | \$10,719 | \$225,741 |

PEMBINA COUNTY

Notes to the Financial Statements – Continued

NOTE 9: CAPITAL ASSETS

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

| PRIMARY GOVERNMENT: Governmental Activities: | Balance 1-1-10 | Adjustments | Increases | Decreases | Balance 12-31-10 |
|---|---------------------------|--------------------|--------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | | |
| Land | \$ 4,900 | \$ - | \$ - | \$ - | \$ 4,900 |
| Construction in Progress | - | - | 304,600 | - | 304,600 |
| Total Capital Assets, Not Being Depreciated | \$ 4,900 | \$ - | \$ 304,600 | \$ - | \$ 309,500 |
| <i>Capital assets being depreciated:</i> | | | | | |
| Buildings | \$2,706,659 | \$ - | \$ - | \$ - | \$2,706,659 |
| Equipment | 2,997,209 | 300 | 125,553 | 56,428 | 3,066,634 |
| Infrastructure | 2,094,276 | - | - | - | 2,094,276 |
| Total Capital Assets, Being Depreciated | \$7,798,144 | \$ 300 | \$ 125,553 | \$56,428 | \$7,867,569 |
| <i>Less Accumulated Depreciation for:</i> | | | | | |
| Buildings | \$1,324,720 | \$ - | \$ 60,720 | \$ - | \$1,385,440 |
| Equipment | 1,795,074 | (5,993) | 245,061 | 46,790 | 1,987,352 |
| Infrastructure | 162,184 | - | 52,356 | - | 214,540 |
| Total Accumulated Depreciation | \$3,281,978 | \$(5,993) | \$ 358,137 | \$46,790 | \$3,587,332 |
| Total Capital Assets Being Depreciated, Net | \$4,516,166 | \$ 6,293 | \$(232,584) | \$ 9,638 | \$4,280,237 |
| Governmental Activities Capital Assets, Net | \$4,521,066 | \$ 6,293 | \$ 72,016 | \$ 9,638 | \$4,589,737 |

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

| Governmental Activities: | Amounts |
|---|------------------|
| General Government | \$ 87,568 |
| Public Safety | 60,084 |
| Highways and Bridges | 196,651 |
| Health and Welfare | 1,276 |
| Conservation of Natural Resource | 12,558 |
| Total Depreciation Expense - Governmental Activities | \$358,137 |

Pembina County Water Resource District:

The following is a summary of changes in capital assets for the Pembina County Water Resource District, a discretely presented component unit of Pembina County, for the year ended December 31, 2010:

| WATER RESOURCE DISTRICT Governmental Activities: | Balance 1-1-10 | Adjustments | Increases | Decreases | Balance 12-31-10 |
|---|---------------------------|--------------------|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | | |
| Construction in Progress | \$ 84,207 | \$208,541 | \$216,154 | \$ - | \$ 508,902 |
| <i>Capital assets being depreciated:</i> | | | | | |
| Equipment | \$ 134,391 | \$ - | \$ - | \$ - | \$ 134,391 |
| Infrastructure | 1,639,624 | - | 118,589 | - | 1,758,213 |
| Total Capital Assets, Being Depreciated | \$1,774,015 | \$ - | \$118,589 | \$ - | \$1,892,604 |
| <i>Less Accumulated Depreciation for:</i> | | | | | |
| Equipment | \$ 118,712 | \$ - | \$ 15,679 | \$ - | \$ 134,391 |
| Infrastructure | 268,954 | - | 87,911 | - | 356,865 |
| Total Accumulated Depreciation | \$ 387,666 | \$ - | \$103,590 | \$ - | \$ 491,256 |
| Total Capital Assets Being Depreciated, Net | \$1,386,349 | \$ - | \$ 14,999 | \$ - | \$1,401,348 |
| Total Capital Assets | \$1,470,556 | \$208,541 | \$231,153 | \$ - | \$1,910,250 |

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Depreciation expense totaling \$101,954 was charged to the conservation of natural resources function for the year ended December 31, 2010.

NOTE 10: ACCOUNTS PAYABLE

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

NOTE 11: LONG-TERM DEBT

Primary Government:

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

| Governmental Activities: | Balance 1-1-10 | Increases | Decreases | Balance 12-31-10 | Due Within One Year |
|--------------------------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Leases Payable | \$132,716 | \$ - | \$ 47,127 | \$ 85,589 | \$ 49,704 |
| Loan Payable | 95,000 | 80,000 | 95,000 | 80,000 | 80,000 |
| Compensated Absences | 82,433 | 18,000 | - | 100,433 | 10,074 |
| Total Governmental Activities | \$310,149 | \$98,000 | \$142,127 | \$266,022 | \$139,778 |

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

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

| Year Ending 12-31-10 | Principal | Interest |
|---------------------------------|------------------|-----------------|
| 2011 | \$49,704 | \$3,343 |
| 2012 | 35,886 | 819 |
| Total | \$85,589 | \$4,162 |

Loan Payable - The \$80,000 county loan payable is due in one payment in 2011 with total interest owed of \$924.

DISCRETELY PRESENTED COMPONENT UNIT:

Pembina County Water Resource District:

During the year ended December 31, 2010, the following changes occurred in the long-term liabilities of the Water Resource District:

| Governmental Activities: | Balance 1-1-10 | Increases | Decreases | Balance 12-31-10 | Due Within One Year |
|--------------------------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Warrants Payable | \$329,514 | \$149,004 | \$227,154 | \$251,364 | \$251,364 |
| Lines of Credit Payable | 539,211 | 271,169 | 221,371 | 589,009 | 589,009 |
| Total Governmental Activities | \$868,725 | \$420,173 | \$448,525 | \$840,373 | \$840,373 |

PEMBINA COUNTY

Notes to the Financial Statements – Continued

WRD Lines of Credit Payable:

| | |
|--|------------------|
| \$200,000 Line of Credit from Choice Financial Bank for Drain #72, no set payment schedule, interest at 5.15%. | \$107,726 |
| \$210,026 Line of Credit from United Valley Bank, no set payment schedule, interest at 4.0-4.25%. | 123,938 |
| \$163,988 Line of Credit from Choice Financial Bank for Walhalla Drain #2, no set payment schedule, interest at 4.25%. | 125,668 |
| \$93,414 Line of Credit from Choice Financial Bank for Walhalla Drain #3, no set payment schedule, interest at 4.25% | 77,063 |
| \$154,614 Line of Credit from Choice Financial Bank for Renwick Dam, no set payment schedule, interest at 4.15% | <u>154,614</u> |
| Total Water Resource District Lines of Credit Payable | <u>\$589,039</u> |

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

NOTE 12: CONDUIT DEBT

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

As of December 31, 2010, there is one Community Development Block Grant Loan outstanding (Dakota Valley Growers), with a principal amount payable of \$115,159.

NOTE 13: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements of the governmental activities for the year ended December 31, 2010:

| Fund | Transfers In | Transfers Out |
|----------------------|--------------|---------------|
| Major Funds: | | |
| Social Services Fund | \$492,000 | \$ - |
| Social Services Levy | - | 492,000 |
| Total Transfers | \$492,000 | \$492,000 |

NOTE 14: PENSION PLAN

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

Plan members are required to contribute 4% of their annual salary and the county is required to contribute 5.12% of the employee's salary that consists of 4.12% for employee retirement and 1% for retiree health benefits fund. The county has agreed to pay 100% of the member assessments in lieu of a salary increase. The contributions requirements of the plan members and the county are established and may be amended by the State legislature. The county's contributions to NDPERS for the years ended December 31, 2010, 2009 and 2008 were \$168,878, \$168,643, and \$167,624, respectively, equal to the required contributions for each year.

NOTE 15: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Pembina County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$1,971,139 for public assets (mobile equipment and portable property).

Pembina County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Pembina County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Pembina County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 16: JOINT VENTURES

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

PEMBINA COUNTY

Notes to the Financial Statements – Continued

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2009, which is the most current audited information available.

| | Red River Joint Water Resource District |
|------------------------------|--|
| Total Assets | \$4,032,873 |
| Total Liabilities | 50,490 |
| Total Equity | \$3,982,293 |
| Revenues | \$1,168,643 |
| Expenditures | 681,802 |
| Net Increase in Fund Balance | \$ 486,841 |

NOTE 17: DEFICIT CASH FUND BALANCES

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

| County Funds | Balance |
|-------------------------|----------------|
| WIC | \$ (4,671) |
| Victim Witness | (2,056) |
| Homeland Security Funds | (8,245) |

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

NOTE 18: PRIOR PERIOD ADJUSTMENT

Prior period errors were noted in capital assets for cost and depreciation from the prior period for Pembina County and in uncollected taxes receivable. The result of the errors was to increase beginning net assets equity by a total of \$4,529 on the statement of activities.

| | Governmental Wide |
|--|--------------------------|
| Net Assets Equity as previously reported | \$8,061,513 |
| Adjustments to restate the January 1, 2010 net assets equity for the following: | |
| Decrease in taxes receivable | (1,764) |
| Net change in capital assets due to the adjustments for cost and depreciation | 6,293 |
| Net Assets Equity January 1, 2010 as restated | \$8,066,042 |

Prior period errors were noted in capital assets for cost and depreciation from the prior period for the Water Resource District. The result of the errors was to increase beginning net assets equity by a total of \$208,541 on the statement of activities.

| | Governmental Wide |
|--|--------------------------|
| Net Assets Equity as previously reported | \$ 880,483 |
| Adjustments to restate the January 1, 2010 net assets equity for the following: | |
| The net change in capital assets due to the adjustments for cost and depreciation | 208,541 |
| Net Assets Equity January 1, 2010 as restated | \$1,089,024 |

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 788,594 | \$ 788,594 | \$ 800,555 | \$ 11,961 |
| Intergovernmental | 360,222 | 360,222 | 505,315 | 145,093 |
| Charges for services | 468,830 | 468,830 | 495,591 | 26,761 |
| Licenses, permits and fees | 2,900 | 2,900 | 1,940 | (960) |
| Interest income | 30,000 | 30,000 | 10,000 | (20,000) |
| Miscellaneous | 37,475 | 37,475 | 67,325 | 29,850 |
| Total Revenues | \$ 1,688,021 | \$ 1,688,021 | \$ 1,880,726 | \$ 192,705 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| General government | \$ 790,908 | \$ 790,908 | \$ 773,520 | \$ 17,388 |
| Public safety | 907,675 | 907,675 | 837,161 | 70,514 |
| Health and welfare | 140,290 | 140,290 | 163,929 | (23,639) |
| Economic development | 24,082 | 24,082 | 24,190 | (108) |
| Total Expenditures | \$ 1,862,955 | \$ 1,862,955 | \$ 1,798,800 | \$ 64,155 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (174,934) | \$ (174,934) | \$ 81,926 | \$ 256,860 |
| Fund Balances - January 1 | \$ 724,487 | \$ 724,487 | \$ 724,487 | \$ - |
| Fund Balances - December 31 | \$ 549,553 | \$ 549,553 | \$ 806,413 | \$ 256,860 |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$ 55,000 | \$ 55,000 | \$ 152,476 | \$ 97,476 |
| Interest income | 10,000 | 10,000 | 4,638 | (5,362) |
| Total Revenues | <u>\$ 65,000</u> | <u>\$ 65,000</u> | <u>\$ 157,114</u> | <u>\$ 92,114</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| General government | \$ 242,001 | \$ 242,001 | \$ 279,623 | \$ (37,622) |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (177,001)</u> | <u>\$ (177,001)</u> | <u>\$ (122,509)</u> | <u>\$ 54,492</u> |
| Fund Balances - January 1 | <u>\$ 293,389</u> | <u>\$ 293,389</u> | <u>\$ 293,389</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u>\$ 116,388</u> | <u>\$ 116,388</u> | <u>\$ 170,880</u> | <u>\$ 54,492</u> |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|--------------------|------------------|-------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 73,980 | \$ 73,980 | \$ 72,002 | \$ (1,978) |
| Intergovernmental | 2,520 | 2,520 | 3,161 | 641 |
| Total Revenues | <u>\$ 76,500</u> | <u>\$ 76,500</u> | <u>\$ 75,163</u> | <u>\$ (1,337)</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Highways and bridges | \$ 75,000 | \$ 75,000 | \$ 5,689 | \$ 69,311 |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 1,500</u> | <u>\$ 1,500</u> | <u>\$ 69,474</u> | <u>\$ 67,974</u> |
| Fund Balances - January 1 | <u>\$ 12,447</u> | <u>\$ 12,447</u> | <u>\$ 12,447</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u>\$ 13,947</u> | <u>\$ 13,947</u> | <u>\$ 81,921</u> | <u>\$ 67,974</u> |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$ 776,500 | \$ 776,500 | \$ 837,708 | \$ 61,208 |
| Charges for services | 12,000 | 12,000 | 87,551 | 75,551 |
| Miscellaneous | 163,500 | 163,500 | 84,066 | (79,434) |
| Total Revenues | \$ 952,000 | \$ 952,000 | \$ 1,009,325 | \$ 57,325 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Highways and bridges | \$ 1,125,000 | \$ 1,398,816 | \$ 1,368,307 | \$ 30,509 |
| Debt Service: | | | | |
| Principal | - | - | 47,127 | (47,127) |
| Interest | - | - | 5,920 | (5,920) |
| Total Expenditures | \$ 1,125,000 | \$ 1,398,816 | \$ 1,421,354 | \$ (22,538) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (173,000) | \$ (446,816) | \$ (412,029) | \$ 34,787 |
| Fund Balances - January 1 | \$ 897,119 | \$ 897,119 | \$ 897,119 | \$ - |
| Fund Balances - December 31 | \$ 724,119 | \$ 450,303 | \$ 485,090 | \$ 34,787 |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|-------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 339,700 | \$ 339,700 | \$ 338,214 | \$ (1,486) |
| Intergovernmental | 25,300 | 25,300 | 30,341 | 5,041 |
| Total Revenues | <u>\$ 365,000</u> | <u>\$ 365,000</u> | <u>\$ 368,555</u> | <u>\$ 3,555</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Highways and bridges | <u>\$ 840,000</u> | <u>\$ 840,000</u> | <u>\$ 295,387</u> | <u>\$ 544,613</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (475,000)</u> | <u>\$ (475,000)</u> | <u>\$ 73,168</u> | <u>\$ 548,168</u> |
| Fund Balances - January 1 | <u>\$ 287,655</u> | <u>\$ 287,655</u> | <u>\$ 287,655</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u>\$ (187,345)</u> | <u>\$ (187,345)</u> | <u>\$ 360,823</u> | <u>\$ 548,168</u> |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$ 153,400 | \$ 153,400 | \$ 140,568 | \$ (12,832) |
| Charges for services | 36,780 | 36,780 | 57,670 | 20,890 |
| Miscellaneous | - | - | 1,917 | 1,917 |
| Total Revenues | \$ 190,180 | \$ 190,180 | \$ 200,155 | \$ 9,975 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Health and welfare | \$ 815,500 | \$ 815,500 | \$ 694,867 | \$ 120,633 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (625,320) | \$ (625,320) | \$ (494,712) | \$ 130,608 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers in | \$ 560,218 | \$ 560,218 | \$ 492,000 | \$ (68,218) |
| Net Change in Fund Balances | \$ (65,102) | \$ (65,102) | \$ (2,712) | \$ 62,390 |
| Fund Balances - January 1 | \$ 19,004 | \$ 19,004 | \$ 19,004 | \$ - |
| Fund Balances - December 31 | \$ (46,098) | \$ (46,098) | \$ 16,292 | \$ 62,390 |

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

PEMBINA COUNTY
Cavalier, North Dakota

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICE LEVY FUND
For the Year Ended December 31, 2010

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|--------------------|--------------------|--------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 474,718 | \$ 474,718 | \$ 475,249 | \$ 531 |
| Intergovernmental | 45,500 | 45,500 | 56,284 | 10,784 |
| Total Revenues | <u>\$ 520,218</u> | <u>\$ 520,218</u> | <u>\$ 531,533</u> | <u>\$ 11,315</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Health and welfare | \$ 68,534 | \$ 68,534 | \$ 53,005 | \$ 15,529 |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 451,684</u> | <u>\$ 451,684</u> | <u>\$ 478,528</u> | <u>\$ 26,844</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers out | \$ (491,684) | \$ (491,684) | \$ (492,000) | \$ (316) |
| Net Change in Fund Balances | <u>\$ (40,000)</u> | <u>\$ (40,000)</u> | <u>\$ (13,472)</u> | <u>\$ 26,528</u> |
| Fund Balances - January 1 | <u>\$ 30,959</u> | <u>\$ 30,959</u> | <u>\$ 30,959</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u>\$ (9,041)</u> | <u>\$ (9,041)</u> | <u>\$ 17,487</u> | <u>\$ 26,528</u> |

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

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|--------------------|-----------------|-------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$ 148,000 | \$ 148,000 | \$ 350,530 | \$ 202,530 |
| Miscellaneous | 2,000 | 2,000 | - | (2,000) |
| Total Revenues | \$ 150,000 | \$ 150,000 | \$ 350,530 | \$ 200,530 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Highways and bridges | \$ 150,000 | \$ 649,610 | \$ 541,533 | \$ 108,077 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ - | \$ (499,610) | \$ (191,003) | \$ 308,607 |
| Fund Balances - January 1 | \$ 657,692 | \$ 657,692 | \$ 657,692 | \$ - |
| Fund Balances - December 31 | \$ 657,692 | \$ 158,082 | \$ 466,689 | \$ 308,607 |

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

PEMBINA COUNTY
Cavalier, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2010

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

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

| Overspent Funds: | Budget | Actual | Overspent |
|-------------------------------------|---------------|---------------|------------------|
| <u>Major Funds:</u> | | | |
| General Reserve | \$ 237,000 | \$ 279,623 | \$(42,623) |
| Highway Fund | 1,398,816 | 1,421,354 | (22,538) |
| <u>Nonmajor Funds:</u> | | | |
| <u>Special Revenue Funds</u> | | | |
| Senior Citizens | 88,726 | 91,571 | (2,845) |
| County Agent Trust | - | 3,812 | (3,812) |

The general reserve fund and highway fund were overspent due to an accounts payable audit adjustment and were not overspent on the client basis. No remedial action is anticipated or required regarding these excess expenditures.

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Balance 1-1-10 | Receipts | Transfers In | Debt Proceeds | Transfers Out | Disbursements | Balance 12-31-10 |
|-------------------------------------|-------------------|-----------------|-----------------|------------------|------------------|-----------------|---------------------|
| Major Funds: | | | | | | | |
| General Fund | \$ 577,400.01 | \$ 1,841,828.63 | \$ - | \$ - | \$ - | \$ 1,798,800.22 | \$ 620,428.42 |
| Special Revenue Funds: | | | | | | | |
| General Fund Reserve & Bldg Imp | \$ 293,389.30 | \$ 93,363.66 | \$ - | \$ - | \$ - | \$ 204,623.16 | \$ 182,129.80 |
| County Road & Bridge | 12,447.48 | 75,162.92 | - | - | - | 5,689.11 | 81,921.29 |
| Highway Funds | 804,355.43 | 996,170.33 | - | - | - | 1,398,816.18 | 401,709.58 |
| Farm to Market Road | 287,655.47 | 368,554.33 | - | - | - | 269,127.50 | 387,082.30 |
| Social Service | 3,036.71 | 202,247.09 | 492,000.00 | - | - | 694,866.56 | 2,417.24 |
| Social Service Levy | 30,958.97 | 531,532.65 | - | - | 492,000.00 | 53,004.69 | 17,486.93 |
| Flood Emergency Fund | 765,768.47 | 350,530.39 | - | - | - | 649,609.78 | 466,689.08 |
| Total Major Special Revenue Funds | \$2,197,611.83 | \$ 2,617,561.37 | \$ 492,000.00 | \$ - | \$ 492,000.00 | \$ 3,275,736.98 | \$ 1,539,436.22 |
| Total Major Funds | \$2,775,011.84 | \$ 4,459,390.00 | \$ 492,000.00 | \$ - | \$ 492,000.00 | \$ 5,074,537.20 | \$ 2,159,864.64 |
| Nonmajor Funds: | | | | | | | |
| Comprehensive Health Fund | \$ 105,270.75 | \$ 415,812.46 | \$ - | \$ - | \$ - | \$ 375,346.67 | \$ 145,736.54 |
| County Loan Fund (Debt Service) | 12,106.36 | 102,394.08 | - | 80,000.00 | - | 95,923.97 | 98,576.47 |
| WIC | (2,656.10) | 36,528.44 | - | - | - | 38,543.82 | (4,671.48) |
| County Library | 154.69 | 38,639.51 | - | - | - | 38,743.37 | 50.83 |
| Emergency | 266,378.67 | 67,846.06 | - | - | - | 2,770.70 | 331,454.03 |
| Bookmobile | 0.26 | 30.06 | - | - | - | 25.72 | 4.60 |
| County Agent | 5,624.88 | 80,817.71 | - | - | - | 84,201.85 | 2,240.74 |
| Veteran's Service | 4,668.02 | 22,675.99 | - | - | - | 21,121.90 | 6,222.11 |
| County Fair | 204.33 | 55,276.58 | - | - | - | 55,407.15 | 73.76 |
| OASIS & Social Security | 57,650.50 | 295,506.84 | - | - | - | 249,347.30 | 103,810.04 |
| Technology/OASIS | 13,276.86 | 68,057.39 | - | - | - | 56,977.33 | 24,356.92 |
| Health OASIS | 429.92 | 99,049.67 | - | - | - | 95,000.00 | 4,479.59 |
| Historical Society Fund | 34.09 | 9,211.77 | - | - | - | 9,233.84 | 12.02 |
| Senior Citizen Fund | 136.23 | 57,836.56 | - | - | - | 57,923.63 | 49.16 |
| Senior Citizen Fund-Faith In Action | 122.89 | 33,568.39 | - | - | - | 33,647.18 | 44.10 |
| Advertising | 22,679.10 | 18,423.45 | - | - | - | 15,507.00 | 25,595.55 |
| Insurance Reserve | 24,559.76 | 128,076.40 | - | - | - | 92,010.31 | 60,625.85 |
| Ambulance | 681.03 | 181,366.81 | - | - | - | 181,804.85 | 242.99 |
| Weed Control | 22,519.46 | 132,332.29 | - | - | - | 91,479.78 | 63,371.97 |
| Correctional Center Levy | 12,950.94 | 88,604.70 | - | - | - | 81,868.77 | 19,686.87 |
| Abandoned Cemetery | 13,693.15 | 0.59 | - | - | - | - | 13,693.74 |
| Airport | 468.76 | 60,538.69 | - | - | - | 60,759.23 | 248.22 |
| Sheriff Special Trust | 43,337.07 | 0.00 | - | - | - | (1,290.00) | 44,627.07 |
| Document Preservation | 4,154.07 | 5,328.00 | - | - | - | 7,568.72 | 1,913.35 |
| County Agent Special Trust | 11,031.91 | 4,579.02 | - | - | - | 3,812.15 | 11,798.78 |
| County Nurse Special Trust | 100.00 | 320.00 | - | - | - | 295.00 | 125.00 |
| Hazardous Chem. Preparedness | 6,222.29 | 12,733.39 | - | - | - | 12,714.83 | 6,240.85 |
| Victim Witness | (1,875.85) | 41,113.64 | - | - | - | 41,293.91 | (2,056.12) |
| Asset Forfeiture Account | 12,375.71 | - | - | - | - | - | 12,375.71 |
| Tobacco Funds | 1,977.45 | 36,236.09 | - | - | - | 33,774.29 | 4,439.25 |
| Homeland Security Funds | (13,245.95) | 15,974.43 | - | - | - | 10,973.87 | (8,245.39) |
| Hazard Mitigation (Reg. Council) | - | 125.00 | - | - | - | 125.00 | - |
| Total Nonmajor Funds | \$ 625,031.25 | \$ 2,109,004.01 | \$ - | \$ 80,000.00 | \$ - | \$ 1,846,912.14 | \$ 967,123.12 |
| Total Governmental Funds | \$3,400,043.09 | \$ 6,568,394.01 | \$ 492,000.00 | \$ 80,000.00 | \$ 492,000.00 | \$ 6,921,449.34 | \$3,126,987.76 |

CONTINUED ON NEXT PAGE...

PEMBINA COUNTY
Cavalier, North Dakota

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

| | Balance 1-1-10 | Receipts | Transfers In | Debt Proceeds | Transfers Out | Disbursements | Balance 12-31-10 |
|-------------------------------------|-----------------------|------------------------|----------------------|---------------------|----------------------|------------------------|-----------------------|
| <i>CONTINUED....</i> | | | | | | | |
| <u>Agency Funds:</u> | | | | | | | |
| Investment Interest | \$ 877.53 | \$ 39,644.71 | \$ - | \$ - | \$ - | \$ 40,000.00 | \$ 522.24 |
| Restitution Special Trust | 2,102.16 | 540.00 | - | - | - | 296.40 | 2,345.76 |
| Pembina County Water Resource | 544.87 | 141,906.14 | - | - | - | 142,254.36 | 196.65 |
| Drain Funds | 3,033.36 | 469,134.59 | - | - | - | 472,074.13 | 93.82 |
| Clerk of Court Special Trust Fund | 30,074.72 | 175,168.30 | - | - | - | 205,243.02 | - |
| State | 136.23 | 33,923.55 | - | - | - | 33,908.65 | 151.13 |
| Fines | - | 52,691.08 | - | - | - | 52,641.08 | 50.00 |
| Court Administration Fees | - | 1,170.00 | - | - | - | 725.00 | 445.00 |
| Domestic Violence | - | 1,315.00 | - | - | - | 1,155.00 | 160.00 |
| Bond Forfeitures | (500.00) | 3,030.00 | - | - | - | 3,030.00 | (500.00) |
| Municipal Court Transfer | - | 1,462.00 | - | - | - | 1,462.00 | - |
| Displaced Homemaker | - | 650.00 | - | - | - | 700.00 | (50.00) |
| Civil Legal Services | 1,095.00 | 3,270.00 | - | - | - | 3,645.00 | 720.00 |
| Civil Filing Fees | (595.00) | 15,635.00 | - | - | - | 15,635.00 | (595.00) |
| Court Appointed Counsel | - | 8,219.65 | - | - | - | 4,234.65 | 3,985.00 |
| Divorce Modifications | - | 120.00 | - | - | - | 120.00 | - |
| Victim Witness | 275.00 | 3,719.10 | - | - | - | 3,969.10 | 25.00 |
| Indigent Defense | - | 525.00 | - | - | - | 575.00 | (50.00) |
| Criminal Administration | - | 19,509.23 | - | - | - | 23,494.23 | (3,985.00) |
| Defense Facility Administration Fee | - | 16,567.64 | - | - | - | 16,567.64 | - |
| State's Attorney Trust Fund | 1,715.83 | - | - | - | - | - | 1,715.83 |
| Protest Fund | 8,687.46 | 1,799.40 | - | - | - | 8,687.65 | 1,799.21 |
| Prepaid Taxes | 2,641,106.16 | 2,469,599.50 | - | - | - | 2,641,106.16 | 2,469,599.50 |
| Advance Tax Fund | 59.96 | 14,666.05 | - | - | - | 14,675.54 | 50.47 |
| Fire District Funds | 285.28 | 70,463.19 | - | - | - | 70,549.20 | 199.27 |
| City Funds | 34,771.03 | 1,662,833.72 | - | - | - | 1,679,930.29 | 17,674.46 |
| Township Funds | 2,288.98 | 712,223.88 | - | - | - | 713,538.82 | 974.04 |
| School Funds | 31,695.66 | 4,818,530.53 | - | - | - | 4,841,725.45 | 8,500.74 |
| Red River Water Resource | 136.23 | 34,601.59 | - | - | - | 34,690.48 | 47.34 |
| Game and Fish Fund | 6,053.35 | 47,826.50 | - | - | - | 48,973.00 | 4,906.85 |
| Pembina Co Soil Conservation Dist. | 116.48 | 62,825.25 | - | - | - | 62,862.09 | 79.64 |
| Township Road Fund | - | 165,505.05 | - | - | - | 165,505.05 | - |
| Total Agency Funds | \$2,763,960.29 | \$11,049,075.65 | \$ - | \$ - | \$ - | \$11,303,973.99 | \$2,509,061.95 |
| Total Primary Government | \$6,164,003.38 | \$17,617,469.66 | \$ 492,000.00 | \$ 80,000.00 | \$ 492,000.00 | \$18,225,423.33 | \$5,636,049.71 |
| Job Development Authority | \$ 184,067.48 | \$ 132,835.48 | \$ - | \$ - | \$ - | \$ 67,141.43 | \$ 249,761.53 |
| Total Reporting Entity | \$6,348,070.86 | \$17,750,305.14 | \$ 492,000.00 | \$ 80,000.00 | \$ 492,000.00 | \$18,292,564.76 | \$5,885,811.24 |

PEMBINA COUNTY
Cavalier, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Expenditures |
|---|---------------------------|--------------|
| <u>U.S. DEPARTMENT OF TRANSPORTATION:</u> | | |
| <u>Passed through the State Department of Transportation:</u> | | |
| Highway Planning & Construction | 20.205 | \$ 36,957 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u> | | |
| <u>Passed through State Department of Human Services:</u> | | |
| Promoting Safe & Stable Families | 93.556 | \$ 3,028 |
| Temporary Assistance for Needy Families | 93.558 | 37,187 |
| Child Support Enforcement | 93.563 | 410 |
| Adoption Assistance | 93.659 | 77 |
| Children's Health Insurance Program | 93.767 | 1,604 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 3,310 |
| Child Abuse and Neglect State Grants | 93.669 | 410 |
| Child Welfare Services-State Grant | 93.645 | 1,583 |
| Foster Care-Title IV-E | 93.658 | 25,419 |
| Maternal & Child Health Services Block Grant to the States | 93.994 | 655 |
| Total Department of Health and Human Services | | \$ 73,683 |
| <u>U.S. DEPARTMENT OF JUSTICE:</u> | | |
| <u>Passed through the State Attorney General's Office:</u> | | |
| Byrne Formula Grant Program | 16.738 | \$ 10,090 |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u> | | |
| <u>Passed through the State Department Emergency Management:</u> | | |
| Interagency Hazardous Materials Public Sector Training Grants | 20.703 | \$ 10,329 |
| State Domestic Preparedness Equipment Support Program | 97.042 | 34,677 |
| Hazard Mitigation Grant | 97.039 | 6,330 |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 571,206 |
| Homeland Security Grant | 97.067 | 146,739 |
| Total U.S. Department of Homeland Security | | \$ 769,281 |
| Total Expenditure of Federal Awards | | \$ 890,011 |

NOTES: BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the year ended December 31, 2010 as determined based on the modified accrual basis of accounting. The amounts reported on the schedule have been reconciled to and are in material agreement with amounts recorded in the accounting records from which the financial statements have been reported.

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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*

Board of County Commissioners
Pembina County
Cavalier, North Dakota

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Pembina County, Cavalier, North Dakota, as of and for the year ended December 31, 2010, which collectively comprise Pembina County's basic financial statements and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described in the accompanying *schedule of findings and questioned costs* identified as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pembina County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Pembina County in a separate letter dated October 14, 2011.

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



Robert R. Peterson
State Auditor

October 14, 2011

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

Independent Auditor's Report

Board of County Commissioners
Pembina County
Cavalier, North Dakota

Compliance

We have audited Pembina County, Cavalier, North Dakota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pembina County's major federal programs for the year ended December 31, 2010. Pembina County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pembina County's management. Our responsibility is to express an opinion on Pembina County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pembina County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pembina County's compliance with those requirements.

In our opinion, Pembina County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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



Robert R. Peterson
State Auditor

October 14, 2011

PEMBINA COUNTY
Cavalier, North Dakota

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

Section I - Summary of Auditor's Results

Financial Statements

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

Internal Control over financial reporting:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes _____

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ Yes X No

Identification of major programs:

| CFDA Numbers | Name of Federal Program Or Cluster |
|--------------|---|
| 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters) |
| 20.205 | Highway Planning and Construction |

Dollar threshold used to distinguish between Type A and B programs: \$300,000

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

Section II - Financial Statement Findings

2010-01 – LACK OF SEGREGATION OF DUTIES – Water Resource District

Condition:

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

Effect:

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

Cause:

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

Criteria:

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

Recommendation:

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

Views of Responsible Officials / Planned Corrective Actions:

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

Section III - Federal Award Findings and Questioned Costs

No matters were reported.