

Bottineau County
Bottineau, North Dakota

Audit Report

For the Year Ended
December 31, 2014



ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor

BOTTINEAU COUNTY
Bottineau, North Dakota

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BOTTINEAU COUNTY
Bottineau, North Dakota

COUNTY OFFICIALS

At December 31, 2014

Todd Streich

Commissioner - Chairman

LeRoy Rude
Daniel Marquardt
Lance Kjelshus
Jeff Beyer

Commissioner - Vice-Chairman
Commissioner
Commissioner
Commissioner

Lisa Herbel
Ann Monson
Steve Watson
Helen Christenson
Rhonda Langehaug
A. Swain Benson, Sr.

Auditor
Treasurer
Sheriff
Recorder
Clerk of Court
State's Attorney

STATE AUDITOR

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



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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Bottineau County
Bottineau, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bottineau County, Bottineau, North Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bottineau County, Bottineau, North Dakota, as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, material prior period adjustments were necessary to properly restate beginning balances related to capital assets in the governmental activities of the financial statements.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 27-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2015 on our consideration of Bottineau County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bottineau County's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 2, 2015

BOTTINEAU COUNTY
Bottineau, North Dakota

STATEMENT OF NET POSITION
December 31, 2014

	Primary Government Governmental Activities	Component Units
ASSETS:		
Cash and Investments	\$ 10,508,340	\$ 212,364
Accounts Receivable	29,897	-
Intergovernmental Receivable	843,256	-
Taxes Receivable	80,660	3,081
Road Receivables	300,739	-
Uncertified Special Assessments Receivable	-	1,274
Capital Assets (not being depreciated):		
Land	155,004	-
Intangibles	174,434	-
Construction in Progress	23,683	-
Capital Assets (being depreciated):		
Furniture and Equipment	107,618	-
Vehicles and Equipment	2,298,081	8,000
Buildings	1,461,595	-
Infrastructure	32,494,582	-
Total Capital Assets	<u>\$ 36,714,997</u>	<u>\$ 8,000</u>
Total Assets	<u>\$ 48,477,889</u>	<u>\$ 224,719</u>
LIABILITIES:		
Accounts Payable	\$ 193,327	\$ 21,888
Salaries Payable	440	8,872
Grants Received in Advance	132,255	-
Interest Payable	14,679	-
Long-Term Liabilities:		
Due Within One Year:		
Capital Leases Payable	349,939	-
Loans Payable	49,520	-
Compensated Absences Payable	39,320	-
Due After One Year:		
Capital Leases Payable	837,643	-
Loans Payable	-	355,834
Compensated Absences Payable	353,880	-
Total Liabilities	<u>\$ 1,971,003</u>	<u>\$ 386,594</u>
NET POSITION:		
Net investment in capital assets	\$ 35,527,415	\$ -
Restricted for:		
Public Safety	116,893	-
Highways	7,016,197	-
Flood Repair	102,401	-
Health and Welfare	79,232	-
Culture and Recreation	197,668	-
Conservation of Natural Resources	220,963	-
Emergencies	283,284	-
General Government	1,718,109	-
Unrestricted	<u>1,244,724</u>	<u>(161,875)</u>
Total Net Position	<u>\$ 46,506,886</u>	<u>\$ (161,875)</u>

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

BOTTINEAU COUNTY
Bottineau, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	\$ 2,117,485	\$ 167,300	\$ 101,674	\$ -	\$ (1,848,511)	\$ -
Public Safety	1,205,656	473,681	103,454	-	(628,521)	-
Highways	6,508,409	935,903	6,022,410	1,866,807	2,316,711	-
Flood Repair	172,117	-	274,518	-	102,401	-
Health and Welfare	902,259	595	202,453	-	(699,211)	-
Culture and Recreation	242,637	9,207	9,142	-	(224,288)	-
Conserv. of Natural Resources	190,129	-	24,807	-	(165,322)	-
Emergency	121,030	-	-	-	(121,030)	-
Other	5,922	-	-	-	(5,922)	-
Interest Expense on Long-Term Debt	30,913	-	-	-	(30,913)	-
Total Primary Government	\$11,496,557	\$ 1,586,686	\$ 6,738,458	\$ 1,866,807	\$ (1,304,606)	\$ -
Total Component Units	\$ 606,457	\$ -	\$ 358,435	\$ -	\$ -	\$ (248,022)
<u>General Revenues:</u>						
Taxes:						
Property taxes; levied for general purposes					\$ 461,986	\$ 102,260
Property taxes; levied for special purposes					2,750,513	-
Non Restricted Grants and Contributions					906,735	-
Earnings on Investments					45,602	1,694
Miscellaneous Revenue					159,791	70,126
Total General Revenues					\$ 4,324,627	\$ 174,080
Change in Net Position					\$ 3,020,021	\$ (73,942)
Net Position - January 1					\$ 18,969,344	\$ (87,933)
Prior Period Adjustment					24,517,521	-
Net Position - January 1, as restated					\$ 43,486,865	\$ (87,933)
Net Position - December 31					\$ 46,506,886	\$ (161,875)

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

BOTTINEAU COUNTY
Bottineau, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2014

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General	County Road & Bridge	Highway Tax Distribution	Misc. Road	FEMA		
ASSETS							
Cash and Investments	\$ 1,113,306	\$ 3,018,176	\$ 1,052,658	\$ 644,763	\$ 132,255	\$ 4,547,182	\$ 10,508,340
Intergovernmental Receivable	156,284	331,184	123,705	-	107,159	124,924	843,256
Accounts Receivable	29,897	-	-	-	-	-	29,897
Taxes Receivable	11,657	304	-	-	-	68,699	80,660
Road Receivables	-	300,739	-	-	-	-	300,739
Due from Other Funds	7,919	-	-	-	-	-	7,919
Total Assets	\$ 1,319,063	\$ 3,650,403	\$ 1,176,363	\$ 644,763	\$ 239,414	\$ 4,740,805	\$ 11,770,811
LIABILITIES, FUND BALANCE, AND DEFERRED INFLOWS OF RESOURCES							
Liabilities:							
Accounts Payable	\$ -	\$ 154,761	\$ -	\$ 13,963	\$ 4,758	\$ 19,845	\$ 193,327
Salaries Payable	50	390	-	-	-	-	440
Grants Received in Advance	-	-	-	-	132,255	-	132,255
Due to Other Funds	-	-	-	-	-	7,919	7,919
Total Liabilities	\$ 50	\$ 155,151	\$ -	\$ 13,963	\$ 137,013	\$ 27,764	\$ 333,941
Deferred Inflows of Resources:							
Taxes Receivable	\$ 11,657	\$ 304	\$ -	\$ -	\$ -	\$ 68,699	\$ 80,660
Road Receivables	-	300,739	-	-	-	-	300,739
Total Deferred Inflows of Resources	\$ 11,657	\$ 301,043	\$ -	\$ -	\$ -	\$ 68,699	\$ 381,399
Total Liabilities and Deferred Inflows of Resources	\$ 11,707	\$ 456,194	\$ -	\$ 13,963	\$ 137,013	\$ 96,463	\$ 715,340
Fund Balances:							
Restricted for:							
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,514	\$ 198,514
Highways	-	3,194,209	1,176,363	-	-	1,785,066	6,155,638
Flood Repair	-	-	-	-	102,401	-	102,401
Health and Welfare	-	-	-	-	-	171,968	171,968
Culture and Recreation	-	-	-	-	-	203,071	203,071
Conservation of Natural Resources	-	-	-	-	-	222,336	222,336
Emergency	-	-	-	-	-	279,357	279,357
General Government	-	-	-	-	-	1,786,757	1,786,757
Committed for:							
Highways & Public Improvement	-	-	-	630,800	-	-	630,800
Unassigned	1,307,356	-	-	-	-	(2,727)	1,304,629
Total Fund Balances	\$ 1,307,356	\$ 3,194,209	\$ 1,176,363	\$ 630,800	\$ 102,401	\$ 4,644,342	\$ 11,055,471
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,319,063	\$ 3,650,403	\$ 1,176,363	\$ 644,763	\$ 239,414	\$ 4,740,805	\$ 11,770,811

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

BOTTINEAU COUNTY
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2014

Total *Fund Balances* for Governmental Funds \$ 11,055,471

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

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

Cost of Capital Assets	\$ 54,273,948	
Less: Accumulated Depreciation	<u>(17,558,951)</u>	36,714,997

Property taxes receivable 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 inflows of resource in the funds. 80,660

Road receivable 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 inflows of resources in the funds. 300,739

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 position. Balances at December 31, 2014 are:

Capital Leases Payable	\$ (1,187,582)	
Loans Payable	(49,520)	
Interest Payable	(14,679)	
Compensated Absences	<u>(393,200)</u>	<u>(1,644,981)</u>

Total Net Position of Governmental Activities \$ 46,506,886

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

BOTTINEAU COUNTY
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General	County Road & Bridge	Highway Tax Distribution	Misc. Road	FEMA		
Revenues:							
Taxes	\$ 463,436	\$ 12,007	\$ -	-	\$ -	\$ 2,735,160	\$ 3,210,603
Intergovernmental	1,018,692	3,429,433	1,045,555	-	274,518	1,876,995	7,645,193
Charges for Services	586,870	-	-	787,893	-	101,685	1,476,448
Licenses, Permits and Fees	5,715	-	-	-	-	-	5,715
Interest Income	-	-	-	-	-	45,602	45,602
Miscellaneous	89,245	-	-	-	-	70,546	159,791
Total Revenues	\$ 2,163,958	\$ 3,441,440	\$ 1,045,555	\$ 787,893	\$ 274,518	\$ 4,829,988	\$ 12,543,352
Expenditures:							
Current:							
General Government	\$ 1,076,696	\$ -	\$ -	\$ -	\$ -	\$ 975,141	\$ 2,051,837
Public Safety	1,039,441	-	-	-	-	190,005	1,229,446
Highways	-	3,407,270	982,749	749,700	-	682,448	5,822,167
Flood Repair	-	-	-	-	172,117	-	172,117
Health and Welfare	-	-	-	-	-	899,289	899,289
Culture and Recreation	27,500	-	-	-	-	196,031	223,531
Conserv. of Natural Resources	2,893	-	-	-	-	185,556	188,449
Emergency	-	-	-	-	-	121,030	121,030
Other	5,922	-	-	-	-	-	5,922
Debt Service:							
Principal	9,149	-	-	346,390	-	7,320	362,859
Interest & Service Charges	-	-	-	31,574	-	-	31,574
Total Expenditures	\$ 2,161,601	\$ 3,407,270	\$ 982,749	\$ 1,127,664	\$ 172,117	\$ 3,256,820	\$ 11,108,221
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,357	\$ 34,170	\$ 62,806	\$ (339,771)	\$ 102,401	\$ 1,573,168	\$ 1,435,131
Other Financing Sources (Uses):							
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,469	\$ 67,469
Loan Proceeds	49,520	-	-	-	-	-	49,520
Lease Financing	-	-	-	394,148	-	-	394,148
Transfers Out	(37,469)	-	-	-	-	(30,000)	(67,469)
Total Other Financing Sources and Uses	\$ 12,051	\$ -	\$ -	\$ 394,148	\$ -	\$ 37,469	\$ 443,668
Net Change in Fund Balances	\$ 14,408	\$ 34,170	\$ 62,806	\$ 54,377	\$ 102,401	\$ 1,610,637	\$ 1,878,799
Fund Balance - January 1	\$ 1,292,948	\$ 3,160,039	\$ 1,113,557	\$ 576,423	\$ -	\$ 3,033,705	\$ 9,176,672
Fund Balance - December 31	\$ 1,307,356	\$ 3,194,209	\$ 1,176,363	\$ 630,800	\$ 102,401	\$ 4,644,342	\$ 11,055,471

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

BOTTINEAU COUNTY
Bottineau, 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, 2014

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,878,799

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

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

Current Year Capital Outlay	\$ 1,086,615	
Current Year Capital Contribution	1,866,807	
Current Year Depreciation Expense	<u>(1,834,846)</u>	1,118,576

In the Statement of Activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.

(36,714)

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

Lease Repayment	\$ 362,859	
Loan Issuance	(49,520)	
Capital Lease Issuance	<u>(394,148)</u>	(80,809)

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

Change in Compensated Absences	\$ 28,663	
Change in Retainage Payable	4,426	
Change in Interest Payable	<u>661</u>	33,750

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	\$ 1,896	
Change in Road Receivables	<u>104,523</u>	<u>106,419</u>

Change in Net Position of Governmental Activities \$ 3,020,021

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

BOTTINEAU COUNTY WATER RESOURCE DISTRICT
Bottineau, North Dakota

COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
December 31, 2014

	Bottineau Co. Water Resource Dist.	Boundary Creek Water Resource Dist.	Oak Creek Water Resource Dist.	Total
<u>ASSETS:</u>				
Cash and Invesments	\$ 92,847	\$ 36,785	\$ 82,732	\$ 212,364
Taxes Receivable	1,434	318	1,329	3,081
Uncertified Special Assessments Receivable	1,274	-	-	1,274
Capital Assets (being depreciated):				
Vehicles and Machinery	8,000	-	-	8,000
Total Assets	\$ 103,555	\$ 37,103	\$ 84,061	\$ 224,719
<u>LIABILITIES:</u>				
Accounts Payable	\$ -	\$ -	\$ 21,888	\$ 21,888
Salaries Payable	-	-	8,872	8,872
Long-Term Liabilities:				
Due After One Year:				
Loans Payable	355,834	-	-	355,834
Total Liabilities	\$ 355,834	\$ -	\$ 30,760	\$ 386,594
<u>NET POSITION:</u>				
Unrestricted	\$ (252,279)	\$ 37,103	\$ 53,301	\$ (161,875)
Total Net Position	\$ (252,279)	\$ 37,103	\$ 53,301	\$ (161,875)

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

BOTTINEAU COUNTY
Bottineau, North Dakota

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Operating Grants and Contributions	Bottineau County WRD	Boundary Creek WRD	Oak Creek WRD	Total
<u>Component Units:</u>						
Bottineau Co. WRD	\$ 530,567	\$ 168,212	\$ (362,355)	\$ -	\$ -	\$ (362,355)
Boundary Creek WRD	8,509		-	(8,509)	-	(8,509)
Oak Creek WRD	67,381	190,223	-	-	122,842	122,842
Total Component Units	\$ 606,457	\$ 358,435	\$ (362,355)	\$ (8,509)	\$ 122,842	\$ (248,022)
<u>General Revenues:</u>						
Taxes:						
Property Taxes;						
Levied for General Purposes			\$ 50,075	\$ 12,922	\$ 39,263	\$ 102,260
Earnings on Investments			1,143	85	466	1,694
Miscellaneous Revenue			69,550	506	70	70,126
Total General Revenues			\$ 120,768	\$ 13,513	\$ 39,799	\$ 174,080
Change in Net Position			\$ (241,587)	\$ 5,004	\$ 162,641	\$ (73,942)
Net Position - January 1			\$ (10,692)	\$ 32,099	\$ (109,340)	\$ (87,933)
Net Position - December 31			\$ (252,279)	\$ 37,103	\$ 53,301	\$ (161,875)

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

BOTTINEAU COUNTY
Bottineau, North Dakota

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
December 31, 2014

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash and Investments	<u>\$ 2,259,344</u>
<u>Liabilities:</u>	
Due to Other Governments	<u>\$ 2,259,344</u>

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

BOTTINEAU COUNTY
Bottineau, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Bottineau County, North Dakota 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 Bottineau 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 Bottineau 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 Bottineau County.

Based on these criteria, the component units discussed below are included within the county's reporting entity because of the significance of their operational or financial relationship with the county.

COMPONENT UNITS

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity of the government-wide statements as 'aggregate' discretely presented component units.

Aggregate Discretely Presented Component Units: The component units' column in the combined government-wide financial statements includes the financial data of the county's three component units aggregated. These component units are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the county. Additionally, combining statements for the individual water resource districts are also shown for the component units following the fund financial statements.

Bottineau County Water Resource District: The Bottineau County Water Resource District governing board is appointed by the county's governing body. The County's governing body has the authority to disapprove, amend, or approve the water resource district budget.

Boundary Creek Water Resource District: The Boundary Creek Water Resource District governing board is appointed by the county's governing body. The County's governing body has the authority to disapprove, amend, or approve the water resource district budget.

Oak Creek Water Resource District: The Oak Creek Water Resource District governing board is appointed by the county's governing body. The County's governing body has the authority to disapprove, amend, or approve the water resource district budget.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

Component Unit Financial Statements: Complete financial statements of the Bottineau County Water Resource District can be obtained from their administrative office. Financial statements of the Oak Creek Water Resource District and Boundary Creek Water Resource District are included with these financial statements.

Administrative Office:

Bottineau County Water Resource District
521 Main Street, Suite 3
Bottineau, North Dakota 58318

BLENDED COMPONENT UNIT

Blended component units, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government's funds and activities.

Bottineau County Park Board – The activities of the park board have been blended in the activities of the county park fund reported in other governmental funds in the primary government's fund financial statements, as well as in applicable areas in the primary government's activities. The park board does not have the right to sue in its own name without recourse to the county. Therefore it is reported as if it were part of the county's operations.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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.

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

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar item are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues to be available if they are collected within sixty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

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

County Road and Bridge Fund. This fund accounts for the maintenance and repair of county roads within the county. The major source of revenue is restricted State/Federal grants/reimbursements.

Highway Tax Distribution Fund. This fund accounts for Highway Tax Distribution from the State for payroll expenses for roads within the county. The major source of revenues is restricted State/Federal grants/reimbursements.

Miscellaneous Road Fund. This fund accounts for the maintenance and repair of roads within the county, as well as debt service payments for capital leases related to highway equipment. The major source of revenue is committed charge for services revenue.

FEMA Fund. This fund accounts for state and federal grants related for flood disaster repairs and the related disbursements. The major source of revenue is restricted grants (reimbursements) for disaster related repair expenditures/projects.

Additionally, the county reports the following fund type:

Agency Funds. These fund accounts 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

D. Cash and Investments

Cash includes amounts in demand deposits, money market accounts, and certificates of deposit with a maturity of 3 months or less. Investments consist of certificates of deposit with a maturity of more than 3 months.

E. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns 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.

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.

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

ASSETS	YEARS
Buildings	30-50
Infrastructure	5-99
Furniture and Equipment	5-20
Vehicles and Machinery	5-20

F. Compensated Absences

Full time employees are granted vacation benefits from one to two days per month depending on tenure with the County. Upon termination of employment, employees will be paid for vacation benefits that have accrued. Sick leave benefits accrue at the rate of one day per month. Unused sick leave benefits are allowed to accumulate up to an unlimited amount. Upon termination of employment or retirement unused sick leave will be paid for Social Service employees at a rate of 15% of unused days up to a maximum of 144 hours, while other employees will be paid for 15% of unused days up to a maximum of 120 days. Severance pay for both County employees and Social Service employees will be provided to employees who have completed 10 consecutive years of service with the County. The employee will receive 10 days severance pay at his/her current salary level.

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 position. Bond premiums, discounts and issuance costs 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. 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.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

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

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

I. Fund Balances / Net Position

GASB Statement No. 54 requires fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of Bottineau County to spend restricted resources first followed by committed unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Major Special Revenue Fund Purposes & Revenue Sources:

Purposes and major revenue sources of the major special revenue funds (county road and bridge, highway tax distribution, miscellaneous road, and FEMA funds) are disclosed in more detail in Note 1B.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

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

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

BOTTINEAU COUNTYNotes to the Financial Statements – Continued

Bottineau County reports amounts in the restricted, committed, and unassigned fund balances in the balance sheet at December 31, 2014.

Restricted Fund Balances – consist of the following items at December 31, 2014:

Restricted fund balances are shown by primary function on the balance sheet for public safety, flood repair, highways & public improvement, health and welfare, culture & recreation, conservation of natural resources, emergencies, and general government (reported in the other governmental funds). Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments for various grants & reimbursements).

Restricted & Committed Fund Balances – Special Revenue Funds:

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
- Restricted tax levies (enabling legislation) – includes fund balances for various tax levies other than the general fund, including the road and bridge fund, farm to market road fund, and various other tax levy funds reported in other governmental funds.
 - Restricted grants/reimbursements – primarily includes amounts in county road and bridge fund, farm to market road fund, oil impact fund, FEMA fund, highway tax distribution fund, and other grant funds.
- (b) Committed fund balances (special revenue fund) – committed by governing board county commission action;
- Committed in special revenue funds for road work and snow removal performed for cities, townships, and private citizens reported in other governmental funds.

Unassigned fund balances – reported in the general fund and for negative fund balances at year end.

Net Position:

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

Unrestricted net position is primarily unrestricted amounts related to general fund governmental activities, and is the portion of net position that is not restricted or reported as net investment in capital assets. The unrestricted net position is available to meet the district's ongoing obligations.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt used to purchase or finance capital assets. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements. Restricted net position is also shown by primary function and is restricted for public safety, highways, health & welfare, culture & recreation, conservation of natural resources, emergencies, and general government (health insurance, insurance reserve, veteran's service officer, and social security).

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

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

The board of county commissioners amended the county budget for 2014 as follows:

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
<u>Special Revenue Funds:</u>			
County Road and Bridge	\$2,735,000	\$724,201	\$3,459,201
FEMA	-	167,359	167,359
VSO	35,626	625	36,251
Homeland Security	-	5,156	5,156
County Park	44,000	18,571	62,571
Zoning	1,000	319	1,319

NOTE 3: DEPOSITS

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

Primary Government:

At the year ended December 31, 2014, the county's carrying amount of deposits was \$12,762,611 and the bank balances were \$12,341,720. Of the bank balances, \$1,210,100 was covered by Federal Depository Insurance. The remaining balance of \$11,131,620 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Aggregate Discretely Presented Component Units:

At the year ended December 31, 2014, the Bottineau County Water Resource District's carrying amount of deposits was \$92,846 and the bank balances were \$94,294, all of which was covered by Federal Depository Insurance.

At the year ended December 31, 2014, the Oak Creek Water Resource District's carrying amount of deposits was \$82,732 and the bank balances were \$83,032, all of which was covered by Federal Depository Insurance.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

At year ended December 31, 2014, the Boundary Creek Water Resource District's carrying amount of deposits was \$36,785 and the bank balances were \$39,220, all of which was covered by Federal Depository Insurance.

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, 2014, the county held certificates of deposit in the amount of \$2,624,666, which are all considered deposits.

The aggregate discretely presented component units had the following certificates of deposit on hand at December 31, 2014, which are considered deposits:

Discretely Presented Component Units:	2014
Oak Creek Water Resource District	\$36,194
Boundary Creek Water Resource District	22,995

Concentration of Credit Risk:

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

NOTE 4: TAXES RECEIVABLE

Taxes receivable represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

NOTE 5: UNCERTIFIED SPECIAL ASSESSMENTS RECEIVABLE

Uncertified special assessments receivable in the component units represent the amount of uncertified special assessments to be certified in upcoming years for various projects for the Bottineau County Water Resource District.

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due for contract policing and 911 fees.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

NOTE 7: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of reimbursements due for expenses in the operation various welfare, road and emergency management programs. These amounts consist of a mix of state and federal dollars.

NOTE 8: ROAD ACCOUNTS RECEIVABLE

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

NOTE 9: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2014 for the primary government:

Primary Government:	Balance January 1	Adjustments	Increases	Decreases	Transfers	Balance December 31
Governmental Activities:						
<i>Capital assets not being depreciated:</i>						
Land	\$ 155,004	\$ -	\$ -	\$ -	\$ -	\$ 155,004
Intangibles	-	-	56,265	-	118,169	174,434
Construction Progress	118,169	1,719,188	2,097,913	-	(3,911,587)	23,683
Total Capital Assets, not being depreciated	\$ 273,173	\$ 1,719,188	\$ 2,154,178	\$ -	\$(3,793,418)	\$ 353,121
<i>Capital assets being depreciated:</i>						
Furniture and Equipment	\$ 646,451	\$ -	\$ 9,839	\$ -	\$ -	\$ 656,290
Vehicles and Machinery	5,615,266	(649,256)	789,405	486,541	-	5,268,874
Buildings	3,488,579	-	-	-	-	3,488,579
Infrastructure	7,131,311	33,582,356	-	-	3,793,418	44,507,085
Total Capital Assets, Being Depreciated	\$16,881,607	\$32,933,100	\$ 799,244	\$486,541	\$ 3,793,418	\$53,920,828
<i>Less Accumulated Depreciation for:</i>						
Furniture and Equipment	\$ 490,628	\$ -	\$ 58,044	\$ -	\$ -	\$ 548,672
Vehicles and Machinery	3,275,980	(439,639)	584,279	449,827	-	2,970,793
Buildings	1,946,473	-	80,511	-	-	2,026,984
Infrastructure	326,085	10,574,406	1,112,012	-	-	12,012,503
Total Accumulated Depreciation	\$ 6,039,166	\$10,134,767	\$ 1,834,846	\$449,827	\$ -	\$17,558,952
Total Capital Assets Being Depreciated, Net	\$10,842,441	\$22,798,333	\$(1,035,602)	\$ 36,714	\$ 3,793,418	\$36,361,876
Governmental Activities- Capital Assets, Net	\$11,115,614	\$24,517,521	\$ 1,118,576	\$ 36,714	\$ -	\$36,714,997

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

Governmental Activities:	Amounts
General Government	\$ 81,765
Public Safety	65,353
Highways and Bridges	1,666,460
Culture and Recreation	19,006
Conservation of Natural Resources	2,262
Total Depreciation Expense-Governmental Activities	\$1,834,846

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

Bottineau County Water Resource District:

The following is a summary of changes in capital assets for the Bottineau County WRD, a discretely presented component unit of Bottineau County, for the year ended December 31, 2014:

Bottineau County Water Resource District	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Vehicles and Machinery	\$16,000	\$ -	\$ -	\$16,000
<i>Less Accumulated Depreciation for:</i>				
Vehicles and Machinery	\$ 6,000	\$ 2,000	\$ -	\$ 8,000
<i>Governmental Activities- Capital Assets, Net</i>	\$10,000	\$(2,000)	\$ -	\$ 8,000

NOTE 10: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to December 31, 2014 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

NOTE 11: SALARIES PAYABLE

Salaries payable consists of amounts earned by employees prior to year-end, but paid subsequent to year-end.

NOTE 12: GRANTS RECEIVED IN ADVANCE

Grants received in advance is a liability consisting of funds received in the FEMA fund where the cash has been received but the eligibility requirements have not been met at December 31, 2014.

NOTE 13: DEFERRED INFLOWS OF RESOURCES

Bottineau County early implemented provisions of GASB 65 "Items Previously Reported as Assets and Liabilities" during the year ended December 31, 2014. Prior to GASB 65, the offset to taxes receivable and road receivables were reported as a liability in the balance sheet, but is now reported as a deferred inflow of resources under the provisions of GASB 65.

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes and road receivables in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes and road receivables are measurable but not available.

NOTE 14: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long term debt outstanding at December 31, 2014.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

NOTE 15: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2014, the following changes occurred in long-term liabilities for Bottineau County and the component unit:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Capital Leases	\$1,156,293	\$394,148	\$362,859	\$1,187,582	\$349,939
Loan Payable	-	49,520	-	49,520	49,520
Compensated Absences *	421,863	-	28,663	393,200	39,320
Total Governmental Activities	\$1,578,156	\$443,668	\$391,522	\$1,630,302	\$438,779

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

Capital Leases Payable:

Motor Grader Lease #2 – due in annual installments of \$42,113 through December 2016, interest at 3.25%.	\$ 80,290
Motor Grader Lease #3 – due in annual installments of \$86,893 through January 2017, interest at 2.75%.	246,498
Caterpillar Hydraulic Thumb – due in annual installments of \$3,849 through June 2017, interest at 4.75%.	10,531
Motor Grader Lease #4 – due in annual installments of \$88,228 through August 2017, interest at 2.65%.	251,252
Dozer Lease – due in annual installments of \$68,619 through August 2017, interest at 2.65%.	195,409
Motor Grader Leases (2) – due in annual installments of \$85,978 through September 2019, interest at 2.70%.	394,148
Copier Lease – due in monthly installments of \$610 through March 2015.	1,830
Phone System Lease – due in monthly installments of \$762 through May 2015.	<u>7,624</u>
Total Capital Leases Payable	<u>\$1,187,582</u>

Loan Payable:

Loan for Veteran's Service operations – due in one installment of \$49,520 in 2015, interest at 3%.	<u>\$ 49,520</u>
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BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

Future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2014 were as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Leases Payable	
	Principal	Interest
2015	\$ 349,439	\$32,694
2016	352,579	23,101
2017	320,331	13,236
2018	81,516	4,461
2019	83,717	2,260
Totals	\$1,187,582	\$75,752

The loan payable (certificate of indebtedness for the general fund) of \$49,520 is all due in 2015.

DISCRETELY PRESENTED COMPONENT UNIT:

Bottineau County Water Resource District:

Changes in Long-Term Liabilities – During the year ended December 31, 2014, the following changes occurred in governmental activities long-term liabilities for the Bottineau County Water Resource District:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Loan Payable	\$116,164	\$303,334	\$63,664	\$355,834	\$ -

NOTE 16: TRANSFERS

The following is a summary of transfers in and transfers out reported in the basic financial statements for the year ended December 31, 2014:

	Transfers In	Transfers Out
General Fund	\$ -	\$37,469
<u>Special Revenue Funds:</u>	-	-
Library	-	30,000
Library Building	30,000	-
Courthouse Building Imp. & Equip.	37,469	-
Total Transfers	\$67,469	\$67,469

The purpose of the transfer from the library fund to the library building fund was to help with costs of a library project.

NOTE 17: PENSION PLAN

Bottineau County contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution 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, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

During January 1, 2014 through December 31, 2014, plan members were required to contribute 7% of their annual covered salary. Bottineau County has elected to contribute the employees required contribution. The county was required to contribute 8.26% of the employee's salary, which consists of 7.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the county are established and may be amended by the State legislature. The County's contributions to NDPERS for the years ending December 31, 2014, 2013, and 2012 were \$238,852, \$196,562, and \$152,209, respectively, equal to the required contributions for the year.

NOTE 18: RISK MANAGEMENT

Bottineau 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. Bottineau County pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and auto coverage and \$5,048,849 for public assets (mobile equipment and portable property) coverage.

Bottineau County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Bottineau 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 Bottineau County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees and provides Bottineau County Water Resource District, a discretely presented component unit of Bottineau County, with blanket fidelity bond coverage in the amount of \$135,000. The State Bonding Fund does not currently charge any premium for this coverage.

Bottineau County has workers compensation with the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 19: DEFICIT FUND BALANCES

Bottineau County had the following deficit fund balances at December 31, 2014:

Fund	2014
Homeland Security	\$(2,117)
Law Enforcement Block Grant	(609)

The deficits will be relieved by future revenues and transfers from the General Fund and reimbursements as applicable for the grant funds.

BOTTINEAU COUNTY

Notes to the Financial Statements – Continued

NOTE 20: COMMITMENTSCommitments:

At December 31, 2014, Bottineau County had commitments for remaining project costs related to road projects. As of December 31, 2014, the remaining construction commitments are as follows:

Project	Contract Amount	Total Completed	Retainage	Remaining Balance
COIB 0530(053) – Forfar East 11 Mile	\$4,907,693	\$14,726	\$ -	\$4,892,967
COIB 0503(052) – Lanford North	4,104,788	8,956	-	4,095,832
Total Construction in Progress	\$9,012,481	\$23,683	\$ -	\$8,988,799

NOTE 21: PRIOR PERIOD ADJUSTMENTSCounty:

There were prior period adjustments for the period ending December 31, 2014 for Governmental Activities involving adjustments to capital assets.

Governmental Activities (County):	Amounts
Beginning Net Position, as previously reported	\$18,969,344
Adjustments to restate the January 1, 2013 Net Position:	
Capital asset cost adjustment	34,475,686
Capital asset depreciation adjustment	(9,958,165)
Net Position January 1, as restated	\$43,486,865

NOTE 22: SUBSEQUENT EVENTSCounty:

The County approved at the August 4, 2015 meeting to proceed with the jail expansion/renovation project. The project will be funded with County funds (\$1,000,000) and also from the Bank of North Dakota (\$4,000,000). Breaking ground is estimated to be in the spring of 2016.

Water Resource District:

In August 2015, the Bottineau County Water Resource District took out a line of credit in the amount of \$1.1 million. \$250,000 has been redeemed as of the audit report date to pay for the first billing for the Haas Coulee Drain, and an additional \$1,000 has been redeemed to open a checking account to for any future advances.

BOTTINEAU COUNTY
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 466,550	\$ 466,550	\$ 463,436	\$ (3,114)
Intergovernmental	912,963	912,963	1,018,692	105,729
Charges for Services	562,739	562,739	586,870	24,131
Licenses, Permits and Fees	6,100	6,100	5,715	(385)
Miscellaneous	70,450	70,450	89,245	18,795
Total Revenues	\$ 2,018,802	\$ 2,018,802	\$ 2,163,958	\$ 145,156
<u>Expenditures:</u>				
Current:				
General Government	\$ 1,060,560	\$ 1,060,560	\$ 1,027,176	\$ 33,384
Public Safety	1,034,158	1,034,158	1,039,441	(5,283)
Culture and Recreation	27,500	27,500	27,500	-
Conser. of Natural Resources	3,000	3,000	2,893	107
Other	15,000	15,000	5,922	9,078
Debt Service:				
Principal	9,150	9,150	9,149	1
Total Expenditures	\$ 2,149,368	\$ 2,149,368	\$ 2,112,081	\$ 37,287
Excess (Deficiency) of Revenues Over Expenditures	\$ (130,566)	\$ (130,566)	\$ 51,877	\$ 182,443
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ (37,469)	\$ (37,469)	\$ (37,469)	\$ -
Total Other Financing Sources (Uses)	\$ (37,469)	\$ (37,469)	\$ (37,469)	\$ -
Net Change in Fund Balance	\$ (168,035)	\$ (168,035)	\$ 14,408	\$ 182,443
Fund Balance - January 1	\$ 1,292,948	\$ 1,292,948	\$ 1,292,948	\$ -
Fund Balance - December 31	\$ 1,124,913	\$ 1,124,913	\$ 1,307,356	\$ 182,443

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

BOTTINEAU COUNTY
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY ROAD AND BRIDGE FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 12,250	\$ 12,250	\$ 12,007	\$ (243)
Intergovernmental	3,591,501	3,591,501	3,429,433	(162,068)
Total Revenues	<u>\$ 3,603,751</u>	<u>\$ 3,603,751</u>	<u>\$ 3,441,440</u>	<u>\$ (162,311)</u>
<u>Expenditures:</u>				
Current:				
Hwy. & Public Improve.	<u>\$ 2,735,000</u>	<u>\$ 3,459,201</u>	<u>\$ 3,407,270</u>	<u>\$ 51,931</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 868,751</u>	<u>\$ 144,550</u>	<u>\$ 34,170</u>	<u>\$ (110,380)</u>
Fund Balance - January 1	<u>\$ 3,160,039</u>	<u>\$ 3,160,039</u>	<u>\$ 3,160,039</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 4,028,790</u>	<u>\$ 3,304,589</u>	<u>\$ 3,194,209</u>	<u>\$ (110,380)</u>

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

BOTTINEAU COUNTY
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX DISTRIBUTION FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 1,037,795	\$ 1,037,795	\$ 1,045,555	\$ 7,760
<u>Expenditures:</u>				
Current:				
Hwy. & Public Improve.	\$ 1,117,044	\$ 1,117,044	\$ 982,749	\$ 134,295
Excess (Deficiency) of Revenues Over Expenditures	\$ (79,249)	\$ (79,249)	\$ 62,806	\$ 142,055
Fund Balance - January 1	\$ 1,113,557	\$ 1,113,557	\$ 1,113,557	\$ -
Fund Balance - December 31	\$ 1,034,308	\$ 1,034,308	\$ 1,176,363	\$ 142,055

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

BOTTINEAU COUNTY
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE
MISCELLANEOUS ROAD FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Charges for Services	\$ 700,000	\$ 700,000	\$ 787,893	\$ 87,893
<u>Expenditures:</u>				
Current:				
Hwy. & Public Improve.	\$ 760,000	\$ 760,000	\$ 355,552	\$ 404,448
Debt Service:				
Principal	-	-	346,390	(346,390)
Interest	-	-	31,574	(31,574)
Total Expenditures	\$ 760,000	\$ 760,000	\$ 733,516	\$ 26,484
Excess (Deficiency) of Revenues Over Expenditures	\$ (60,000)	\$ (60,000)	\$ 54,377	\$ 114,377
Fund Balance - January 1	\$ 576,423	\$ 576,423	\$ 576,423	\$ -
Fund Balance - December 31	\$ 516,423	\$ 516,423	\$ 630,800	\$ 114,377

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

BOTTINEAU COUNTY
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE
FEMA FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 274,518	\$ 274,518
<u>Expenditures:</u>				
Current:				
Flood Repair	\$ -	\$ 167,359	\$ 172,117	\$ (4,758)
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (167,359)	\$ 102,401	\$ 269,760
Fund Balance - January 1	\$ -	\$ -	\$ -	\$ -
Fund Balance - December 31	\$ -	\$ (167,359)	\$ 102,401	\$ 269,760

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

BOTTINEAU COUNTY
Bottineau, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014

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 2014, Bottineau County had the following fund expenditures in excess of budgeted amounts:

Special Revenue Funds:	Budget	Spent	Over Budget
Township Road Construction	\$ -	\$ 9,334	\$ (9,334)
FEMA Funds	167,359	172,117	(4,758)
LAW Enforcement Grant	-	89,371	(89,371)

No remedial action is anticipated or required regarding these excess expenditures

BOTTINEAU COUNTY

Notes to the Required Supplementary Information - Continued

NOTE 3: BUDGET TO ACTUAL RECONCILIATION

The county entered into a loan for Veteran's Service. The loan proceeds and corresponding expenditures were reported on the statement of revenues, expenditures and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the general fund. The county didn't budget for these funds and these transactions were not recorded on the county's general ledger. The differences are as follows:

General Fund	Combined Statement	Adjustment	Budget to Actual
Expenditures	\$2,161,601	\$(49,520)	\$2,112,081
Loan Proceeds	49,520	(49,520)	-

The county entered into a lease for highway equipment. The lease proceeds and corresponding expenditures were reported on the statement of revenues, expenditures and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the general fund. The county didn't budget for these funds and these transactions were not recorded on the county's general ledger. The differences are as follows:

Misc. Road Fund	Combined Statement	Adjustment	Budget to Actual
Expenditures	\$1,127,664	\$(394,148)	\$733,516
Lease Proceeds	394,148	(394,148)	-

BOTTINEAU COUNTY
Bottineau, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2014

	Balance 1-1-14	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12-31-14
Major Funds:							
General Fund	\$ 1,148,544.73	\$ 2,129,484.45	\$ -	\$ -	\$ 37,469.48	\$ 2,119,334.68	\$ 1,121,225.02
County Road & Bridge	1,318,202.46	5,159,174.91	-	-	-	3,459,201.27	3,018,176.10
Highway Tax Distribution	1,003,387.88	1,032,019.96	-	-	-	982,749.24	1,052,658.60
Miscellaneous Road	605,239.07	787,892.94	-	-	-	748,369.27	644,762.74
FEMA	107,225.23	192,389.50	-	-	-	167,359.47	132,255.26
Total Major Funds	\$ 4,182,599.37	\$ 9,300,961.76	\$ -	\$ -	\$ 37,469.48	\$ 7,477,013.93	\$ 5,969,077.72
Nonmajor Funds:							
Farm to Market Blacktop	\$ 310,519.63	\$ 1,154,029.23	\$ -	\$ -	\$ -	\$ 438,147.81	\$ 1,026,401.05
County Road Repair	44,748.95	277,014.76	-	-	-	234,928.21	86,835.50
Township Road Construction	184,318.00	-	-	-	-	9,334.00	174,984.00
Social Service	411,501.69	1,022,685.09	-	-	-	899,315.43	534,871.35
Emergency	227,457.64	167,467.20	-	-	-	121,029.70	273,895.14
9-1-1	200,708.86	133,501.67	-	-	-	162,242.69	171,967.84
Veteran Service Officer	15,159.85	33,908.24	-	-	-	36,251.24	12,816.85
Health Care Insurance	270,344.40	169,214.75	-	-	-	198,639.72	240,919.43
Social Security/Rtmt/Tech	189,758.37	623,573.22	-	-	-	598,926.15	214,405.44
Property Insurance Reserve	140,398.12	113,306.08	-	-	-	114,371.22	139,332.98
Advertising	14,921.86	27,700.47	-	-	-	14,316.34	28,305.99
Library	175,896.98	155,061.48	-	-	30,000.00	150,670.05	150,288.41
Library Building	113,242.65	991.46	30,000.00	-	-	1,237.82	142,996.29
Weed Control Fund	161,343.09	195,830.08	-	-	-	180,825.71	176,347.46
Hazardous Chemical	12,748.94	4,599.70	-	-	-	1,955.68	15,392.96
Homeland Security	(2,529.74)	5,567.87	-	-	-	5,156.00	(2,117.87)
Courthouse Building Imp. & Equip.	444,978.66	582,332.83	37,469.48	-	-	18,638.03	1,046,142.94
County Park	2,135.14	79,237.10	-	-	-	62,571.05	18,801.19
County Zoning	12,356.96	2,100.00	-	-	-	1,319.06	13,137.90
Document Preservation	59,262.93	24,807.00	-	-	-	4,729.89	79,340.04
Law Enforcement Block Grant	(4,267.59)	87,837.29	-	-	-	89,371.03	(5,801.33)
Total Nonmajor Funds	\$ 2,985,005.39	\$ 4,860,765.52	\$ 67,469.48	\$ -	\$ 30,000.00	\$ 3,343,976.83	\$ 4,539,263.56
Total Government Funds	\$ 7,167,604.76	\$ 14,161,727.28	\$ 67,469.48	\$ -	\$ 67,469.48	\$ 10,820,990.76	\$ 10,508,341.28
Agency Funds:							
Flexible Benefits Plan	\$ 6,852.80	\$ 50,602.92	\$ -	\$ -	\$ -	\$ 49,591.21	\$ 7,864.51
Airport Authority	138.10	41,911.91	-	-	-	41,956.73	93.28
NDSU Extension	81,626.55	115,695.98	-	-	-	112,082.83	85,239.70
Jobs Development Authority	651.58	220,224.92	-	-	-	220,450.76	425.74
Senior Citizens Fund	169.23	95,833.30	-	-	-	95,895.40	107.13
State Tax	169.23	49,128.19	-	-	-	49,190.29	107.13
Game and Fish Licenses	575.30	48,226.00	-	-	-	48,785.00	16.30
Protest	-	532.37	-	-	-	532.37	-
County Health-1st District	986.95	146,228.08	-	-	-	141,032.23	6,182.80
Garrison Diversion	169.23	54,335.83	-	-	-	54,397.93	107.13
Safe Communities	1,911.50	1,822.21	-	-	-	1,149.46	2,584.25
County Historical Society	87.38	13,365.96	-	-	-	13,388.37	64.97
Unlocatable Mineral Owners	7,374.69	11,422.30	-	-	-	-	18,796.99
Trust Fund	1,429,297.33	1,998,567.36	-	-	-	1,484,029.16	1,943,835.53

Continued on next page...

BOTTINEAU COUNTY
Bottineau, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2014

CONTINUED....	Balance 1-1-14	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12-31-14
<u>Agency Funds (Cont.):</u>							
County Fair	\$ 169.23	\$ 85,513.28	\$ -	\$ -	\$ -	\$ 85,575.38	\$ 107.13
County Fair Bldg. & Improvements	84.64	24,169.18	-	-	-	24,200.28	53.54
ND Income Tax	-	28,080.19	-	-	-	21,031.24	7,048.95
Domestic Violence Prevention	35.00	1,085.00	-	-	-	840.00	280.00
Coalition Domestic Violence	381.00	4,782.00	-	-	-	4,588.00	575.00
Cheer-Social Service	341.38	-	-	-	-	-	341.38
24/7 Sobriety Program	-	7,167.00	-	-	-	5,189.00	1,978.00
Total Water Management Districts	576.25	174,281.08	-	-	-	174,367.34	489.99
Total Ambulance Districts	351.69	134,244.27	-	-	-	134,405.62	190.34
Total Cities	8,513.96	791,066.36	-	-	-	796,011.07	3,569.25
Total Park Districts	1,477.38	704,639.72	-	-	-	703,935.64	2,181.46
Total School Districts	15,643.58	3,642,680.45	-	-	-	3,650,775.08	7,548.95
Total Townships	52,509.12	2,430,349.35	-	-	-	2,314,118.24	168,740.23
Total Fire Districts	700.72	266,384.69	-	-	-	266,546.69	538.72
Total Soil Conservation Districts	362.54	104,791.10	-	-	-	104,878.29	275.35
Total Agency Funds	\$ 1,611,156.36	\$ 11,247,131.00	\$ -	\$ -	\$ -	\$ 10,598,943.61	\$ 2,259,343.75
Total Primary Government	\$ 8,778,761.12	\$ 25,408,858.28	\$ 67,469.48	\$ -	\$ 67,469.48	\$ 21,419,934.37	\$ 12,767,685.03
<u>Discretely Presented Component Units:</u>							
Bottineau County WRD	\$ 145,029.90	\$ 236,714.38	\$ -	\$ 303,333.80	\$ -	\$ 592,231.62	\$ 92,846.46
Boundary Creek WRD	31,803.93	13,489.85	-	-	-	8,508.62	36,785.16
Oak Creek WRD	75,433.57	230,666.27	-	-	-	223,367.39	82,732.45
Total Discretely Presented Component Units	\$ 252,267.40	\$ 480,870.50	\$ -	\$ 303,333.80	\$ -	\$ 824,107.63	\$ 212,364.07
Total Reporting Entity	\$ 9,031,028.52	\$ 25,889,728.78	\$ 67,469.48	\$ 303,333.80	\$ 67,469.48	\$ 22,244,042.00	\$ 12,980,049.10

STATE AUDITOR

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MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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

Independent Auditor's Report

Board of County Commissioners
Bottineau County
Bottineau, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Bottineau County, Bottineau, North Dakota as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Bottineau County's basic financial statements, and have issued our report thereon dated September 2, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified one deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness [2014-01].

BOTTINEAU COUNTY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bottineau 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*.

Bottineau County's Response to Findings

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

Purpose of this Report

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



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 2, 2015

BOTTINEAU COUNTYSchedule of Findings and Questioned Costs - Continued

Cause:

The adjustments were due to the lack of reconciliation of the capital asset listing with each department head at or near year end. There were some of the highway department vehicles/machinery that should have been removed from the asset listing in the prior years, but were not. Also, infrastructure (completed highway projects) should have been included on the County's asset listing, but were not added until FY2014.

Criteria:

Important guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate control activities. Proper internal control includes maintaining up to date accurate capital asset records for governmental activities including annual additions, deletions, depreciation and year-end balances.

Additionally, important criteria/guidance includes accounting principles generally accepted in the United States of America -- those principles require that accounting records are properly maintained by management, and financial statements are fairly presented in accordance with GAAP.

The review of capital asset listing by department heads to ensure that County reports an accurate amount in capital assets is an integral internal control activity over financial statement reporting.

Additionally, proper reporting of capital assets in accordance with accounting principles generally accepted in the United States of America is the responsibility of management.

Recommendation:

The County should pay special attention to ensure that all infrastructure projects are carefully reviewed on at least an annual basis shortly after each fiscal year end to ensure infrastructure projects that need to be capitalized are indeed properly reported and disclosed. Reconciliations between records at the auditor's office and department heads should be performed on a timely basis to ensure completeness of records.

Views of Responsible Officials:

I agree with the recommendation. The following actions that will be taken to correct the issue with records:

- A. I have talked to the Clerk about doing additions/deletions monthly and working with the department heads twice a year rather than at the end of the year to make sure their inventory is current. She will also work closer with the Road Superintendent and the Sheriff to make sure she's aware of the deletions.
- B. I will work with the County Engineer to notify me what projects should be added to our capital assets.

STATE AUDITOR

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Board of County Commissioners
Bottineau County
Bottineau, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bottineau County, Bottineau, North Dakota, for the year ended December 31, 2014 which collectively comprise the County’s basic financial statements, and have issued our report thereon dated September 2, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated August 20, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Bottineau County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bottineau County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated September 2, 2015.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

OTHER AUDIT FINDINGS OR ISSUES

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

The following presents our informal recommendations:

OVERSPENT FUNDS

A review of client fund expenditures (actual and budgeted) indicated that Bottineau County overspent the FEMA, Township Road Construction, and Law Enforcement Grant funds by \$4,758, \$9,334, and \$89,371 respectively. The County is not in compliance with *NDCC section 11-23-06* that states "...No county expenditure may be made or liability incurred, nor may a bill be paid for any purpose, in excess of the appropriation, except as provided in section 11-23-07 and internal control over expenditures."

We recommend Bottineau County carefully budget each required fund, and amend the budget for any unforeseen expenditures in excess of budgeted amounts to comply with *NDCC section 11-23-06*.

SEGREGATION OF DUTIES – COMPONENT UNITS

The Bottineau County Water Resource District, the Boundary Creek Water Resource District, and the Oak Creek Water Resource District each have one Secretary-Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations. The lack of segregation of duties increases the risk of fraud and the risk of misstatement of each Water Resource District's financial condition, whether due to error or fraud.

We recommend to the Bottineau County Water Resource District, Boundary Creek Water Resource District and Oak Creek Water Resource District 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.

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

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



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 2, 2015

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