

**MCHENRY COUNTY
TOWNER, NORTH DAKOTA**

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

MCHENRY COUNTY

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MCHENRY COUNTY
LIST OF OFFICIALS
DECEMBER 31, 2015

Commissioners:	Bryan Bruner Harry Bergstad Larry Haman Gregg Boutilier David Medalen
Auditor:	Darlene Carpenter
Treasurer:	Linda Fairbrother
Sheriff:	Trey Skager
County Recorder:	Pam Kuk
States Attorney:	Cassey Breyer

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

County Commission
McHenry County
Towner, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and aggregate remaining fund information of McHenry County as of and for the year ended December 31, 2015, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McHenry County as of December 31, 2015, and the changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in accordance with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to that matter.

Other Matters

Management has omitted the management discussion and analysis and budgetary comparison information 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. My opinion on the basic financial statements is not affected by this missing information.

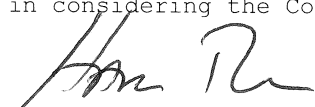
Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the McHenry County's basic financial statements. The Schedule of Activity is presented for purposes of additional analysis and is not a required part of the basis financial statements.

The Schedule of Activity is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basis 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 my opinion, the Schedule of Activity is fairly stated, in all material respects, in relation to the basis financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated December 1, 2016, on my considerations of the County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and McHenry agreements and other matters. The purpose of that report is to describe the scope of my 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 in considering the County's internal control over financial reporting and compliance.



West Fargo, North Dakota
December 1, 2016

PO Box 816 West Fargo, ND 58078 Phone(701)281-0483 Cell 212-3908

MCHENRY COUNTY
 STATEMENT OF NET POSITION- MODIFIED CASH BASIS
 DECEMBER 31, 2015

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
ASSETS		
Cash and investments	4,266,981.50	411,621.53
Capital assets (net of accumulated depreciation)	5,333,774.67	
Total Assets	9,600,756.17	411,621.53
LIABILITIES		
Accounts Payable		
Total liabilities	-	-
NET POSITION		
Net investment in capital assets	5,333,774.67	
Restricted for:		
FEMA	531,455.18	
Debt service		
Unrestricted	3,735,526.32	411,621.53
Total Net Position	9,600,756.17	411,621.53

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
 STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues		Net (expense) Revenue & Changes in Net Position	
		Charges for Services	Operating grants and Contributions	Governmental Activities	Component units
Governmental Activities:					
General government	1,959,950.37			(1,959,950.37)	-
Public safety	720,674.56	147,056.25		(573,618.31)	-
Health and welfare	713,617.83		126,497.37	(587,120.46)	
Highways	3,132,420.83	338,085.22	2,075,420.88	(718,914.73)	65,492.28
Economic development	58,606.61			(58,606.61)	
Weed control	287,325.95	109,224.81		(178,101.14)	
				-	
Capital outlays	278,139.33			(278,139.33)	-
Total Governmental Activiti	7,150,735.48	594,366.28	2,201,918.25	(4,354,450.95)	65,492.28
General Revenues					
Taxes:					
Property taxes				2,954,828.21	85,184.95
State aid not restricted to specific program				1,222,836.52	32,310.43
Interest income				33,818.73	1,616.00
Licenses and permits				62,893.89	
Other revenue				490,490.34	325.53
Total General revenues				4,764,867.69	119,436.91
Change in Net Position				410,416.74	53,944.63
Net Position- January 1				9,190,339.43	357,676.90
Net Position- December 31				9,600,756.17	411,621.53

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2015

	GENERAL	HIGHWAY FUNDS	SOCIAL SERVICE FUND	SOCIAL SECURITY FUND	WEED CONTROL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and investments	1,439,080.06	1,728,717.84	262,993.87	47,688.09	222,772.91	565,728.73	4,266,981.50
Accounts receivable							-
Taxes receivable							-
Intergovernmental receivable							-
Due from County Treasurer							-
Total Assets	1,439,080.06	1,728,717.84	262,993.87	47,688.09	222,772.91	565,728.73	4,266,981.50
LIABILITIES							
Accounts Payable							-
Prepaid taxes							-
Deferred revenue							-
Total liabilities	-	-	-	-	-	-	-
FUND BALANCE							
Restricted for FEMA						1,308,054.57	1,308,054.57
Restricted for Debt Service							-
Restricted for General Government		1,728,717.84	262,993.87	47,688.09	222,772.91	(165,701.06)	2,096,471.65
Unassigned	1,439,080.06					(576,624.78)	862,455.28
Total fund balance	1,439,080.06	1,728,717.84	262,993.87	47,688.09	222,772.91	565,728.73	4,266,981.50

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
 SHEET TO THE STATEMENT OF NET POSITION
 DECEMBER 31, 2015

Total Fund Balances for Governmental Funds	4,266,981.50
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Total net position reported for governmental 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 governmental funds

Cost of capital assets	11,133,331.03	
Less accumulated depreciation	5,799,556.36	
Net capital assets		5,333,774.67

Property taxes 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.

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities- both current and long-term are reported in the statement of net position.

Accrued vacation payable	
Bonds payable	
Leases payable	
Notes payable	-

Total Net Position of Governmental Activities	9,600,756.17
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The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

	GENERAL	HIGHWAY FUNDS	SOCIAL SERVICE FUND	SOCIAL SECURITY FUND	WEED CONTROL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	554,967.06	687,737.34	597,580.98	280,153.96	107,569.22	726,819.65	2,954,828.21
Intergovernmental	617,846.46	2,171,871.45	211,374.53	45,350.75	18,672.52	359,639.06	3,424,754.77
Charges for services	147,056.25	338,085.22		82,504.63	109,224.81	143,411.14	820,282.05
Interest and other	181,274.29	45,091.04	24,065.61			110,856.25	361,287.19
Total Revenues	1,501,144.06	3,242,785.05	833,021.12	408,009.34	235,466.55	1,340,726.10	7,561,152.22
Current:							
General government	904,426.50			475,688.07		579,835.80	1,959,950.37
Public safety	574,822.25					221,382.31	796,204.56
Health and welfare			713,617.83			(0.00)	713,617.83
Highways		3,240,080.01				1,409,378.57	4,649,458.58
Economic development						58,606.61	58,606.61
Weed control					287,325.95	-	287,325.95
Capital outlay							-
Debt Service							-
Principal		-					-
Interest expense							-
Total Expenditures	1,479,248.75	3,240,080.01	713,617.83	475,688.07	287,325.95	2,269,203.29	8,465,163.90
Excess revenues (expenditur	21,895.31	2,705.04	119,403.29	(67,678.73)	(51,859.40)	(928,477.19)	(904,011.68)
Other Financing Sources (Uses):							
Transfers in	-	688,321.12	560,969.98			503,300.38	1,752,591.48
Transfers out	(21,853.05)	(682,851.78)	(494,080.46)	-		(553,806.19)	(1,752,591.48)
Bond proceeds		-				-	-
Total other financing source:	(21,853.05)	5,469.34	66,889.52	-	-	(50,505.81)	-
Net change in fund balances	42.26	8,174.38	186,292.81	(67,678.73)	(51,859.40)	(978,983.00)	(904,011.68)
Fund balance- beginning	1,439,080.06	1,720,543.46	76,701.06	115,366.82	274,632.31	1,544,669.47	5,170,993.18
Fund balance- ending	1,439,122.32	1,728,717.84	262,993.87	47,688.09	222,772.91	565,686.47	4,266,981.50

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances- Total Governmental Funds (904,011.68)

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

Governmental funds report capital outlay 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	1,592,567.75	
Current year depreciation expense	278,139.33	1,314,428.42

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position -

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 decrease in taxes received

Change in Net Position of Governmental Activities 410,416.74

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2015

AGENCY
FUNDS

ASSETS

Cash and investments	1,210,254.01
Accounts receivable	
Taxes receivable	
Intergovernmental receivable	
Due from County Treasurer	

Total Assets	1,210,254.01
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LIABILITIES

Prepaid taxes	837,278.85
Due to Other Groups	372,975.16
Deferred revenue	

Total liabilities	1,210,254.01
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NET POSITION

Total Net Position	-
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The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY

COMBINING STATEMENT OF NET POSITION- COMPONENT UNITS

DECEMBER 31, 2015

	WATER RESOURCE	WILLOW CREEK WATER RESOURCE	EATON IRRIGATION DISTRICT	TOTAL
ASSETS				
Cash and investments	225,568.31	62,072.50	123,980.72	411,621.53
Accounts receivable				-
Taxes receivable				-
Intergovernmental receivable				-
Contract for deed				-
Capital assets (net of accumulated depreciation)				-
Total Assets	225,568.31	62,072.50	123,980.72	411,621.53
LIABILITIES				
Accounts Payable				-
Prepaid taxes				-
Deferred revenue				-
Long-term liabilities:				
Due within one year:				
Bonds payable				-
Notes payable				-
Due after one year:				
Bonds payable				-
Notes payable				-
Total liabilities	-	-	-	-
NET POSITION				
Invested in capital assets, net of related debt				-
Restricted for:				
Capital projects				-
Debt service				-
Unrestricted	225,568.31	62,072.50	123,980.72	411,621.53
Total Net Position	225,568.31	62,072.50	123,980.72	411,621.53

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY

COMBINING STATEMENT OF ACTIVITIES- COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2015

	WATER RESOURCE	WILLOW CREEK WATER RESOURCE	EATON IRRIGATION DISTRICT	TOTAL
Expenditures				
General government				-
Public safety				-
Highways and streets	34,050.88	3,437.92	28,003.48	65,492.28
Economic development				-
Other capital outlays				-
Interest expense				-
Depreciation- Unallocated				-
Total Expenditures	34,050.88	3,437.92	28,003.48	65,492.28
Revenue				
Property taxes	64,888.78	3,633.29	16,662.88	85,184.95
Intergovernmental	3,193.32	7,798.26	21,318.85	32,310.43
Charges for services				-
Miscellaneous	325.53			325.53
Interest income	1,006.77	82.11	527.12	1,616.00
Total Revenues	69,414.40	11,513.66	38,508.85	119,436.91
Change in Net Position	35,363.52	8,075.74	10,505.37	53,944.63
Net Position- January 1	190,204.79	53,996.76	113,475.35	357,676.90
Net Position- December 31	225,568.31	62,072.50	123,980.72	411,621.53

The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
TOWNER, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McHenry County (County) have been prepared in conformity with the modified cash basis. 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 the 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 the County to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the County.

Based on these criteria, there are three component units: McHenry County Water Resource District, Willow Creek Water Resource District and Eaton Dam Maintenance.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

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

MCHENRY COUNTY

Notes to Financial Statements- Continued

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

General Fund. The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Highway- The Highway fund is used to account for highway activity for the County. Primary revenue sources are taxes and state aid.

Social service- The Social Service fund is used to account for health and welfare activity for the County. Primary revenue sources are taxes and state aid.

Social Security- The Social Security fund is used to account for payroll taxes and technology costs for the County. Primary revenue sources are taxes.

Weed Control- The Weed Control fund is used to account for weed control for the County. Primary revenue source is taxes.

The County also reports the following fund types:

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 fund is used to account for various deposits of other governments funds.

MCHENRY COUNTY

Notes to Financial Statements- Continued

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

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

MCHENRY COUNTY
Notes to Financial Statements- Continued

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. Budgets

Based upon available financial information and requests by the department heads, the commission and auditor prepares the County budget. The budget is prepared for the general and other funds that have a tax levy on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

County taxes are levied by the county commission on or before the October meeting. 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.

E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the County during the year ended December 31, 2015 consist of certificates of deposit stated at fair value with maturities in excess of 3 months.

MCHENRY COUNTY
Notes to Financial Statements- Continued

G. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental 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. Net estimated historical cost was used to value the majority of assets acquired prior to January 1, 2004. Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. 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 of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

Permanent Buildings	50
Equipment	10
Infrastructure	20

H. Long-Term Obligations

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

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.

MCHENRY COUNTY

Notes to Financial Statements- Continued

I. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the County Commission-the County's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - This classification reflects the amounts constrained by the County's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the County's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

The commission has not set a minimum fund balance for any funds.

MCHENRY COUNTY
Notes to Financial Statements- Continued

J. 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. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board did not amended the County budget during 2015.

EXPENDITURES OVER APPROPRIATIONS

The County did not overspend any funds budget. No remedial action is required.

NOTE 3 DEPOSITS AND INVESTMENTS

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 deposit not covered by insurance or bonds.

MCHENRY COUNTY

Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any County, City, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States, or such other securities approved by the banking board.

At December 31, 2015, the County's carrying amount of deposits was \$5,477,236. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$5,227,236 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the County to invest in:(1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.(2) 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.(3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.(4) Obligations of the state.

Concentration of Credit Risk

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

MCHENRY COUNTY
Notes to Financial Statements- Continued

NOTE 4: PROPERTY TAXES

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

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

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and 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 on property taxes 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 discount on the property taxes.

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2015:

	Balance January 1	Increases	Decreases	Balance December 31
Infrastructure	3,767,289	1,517,038		2,031,587
Bldgs and Improvements	4,949,758			4,949,758
Vehicles	601,054	75,530		526,216
Equipment	222,662			195,462
Total	9,540,763	1,592,568		5,671,436
Less accumulated depreciation for:				
Infrastructure	150,692	211,373		362,065
Buildings & Improve	4,844,603	3,345		4,847,948
Vehicles	334,293	56,025		390,318
Equipment	191,829	7,397		199,226
Total Accumulated Dep	5,521,417	278,139		5,799,556
Net	4,019,346			5,333,775

Depreciation Expense was charged to functions/programs of the County as follows:

Highways	212,355
Public safety	30,284
General government	35,500
Total Dep Exp-Gov Activities	278,139

MCHENRY COUNTY
Notes to Financial Statements- Continued

NOTE 6. DEFICIT IN FUND BALANCE

The County has a deficit of \$9,591 in the Jail Fund. This deficit will be eliminated by transfers and taxes.

The County has a deficit of \$733,868 in the Emergency Fund. This deficit will be eliminated by taxes and grants.

NOTE 7: TRANSFERS

The County transfers operating revenues between funds. A schedule of the transfers is on page 36.

NOTE 9: PENSION PLANS

NORTH DAKOTA PUBLIC EMPLOYEE RETIREMENT SYSTEM (NDPERS)

The County participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. DESCRIPTION OF PENSION PLAN

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

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

MCHENRY COUNTY
Notes to Financial Statements- Continued

B. PENSION BENEFITS

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85) or at normal retirement age of (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

C. DEATH AND DISABILITY BENEFITS

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

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

MCHENRY COUNTY
Notes to Financial Statements- Continued

D. REFUNDS OF MEMBER ACCOUNT BALANCE

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

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

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

E. MEMBER AND EMPLOYER CONTRIBUTIONS

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

F. PENSION EXPENSE RELATED TO PENSIONS

\$150,211 reported as expense related to pensions resulting from Employer contributions for the year ended December 31, 2015.

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

MCHENRY COUNTY
Notes to Financial Statements- Continued

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of

MCHENRY COUNTY

Notes to Financial Statements- Continued

future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

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

NOTE 12: RISK MANAGEMENT

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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. The County pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$500,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The County has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

MCHENRY COUNTY
 FUND ACTIVITY
 DECEMBER 31, 2015

	BEGINNING BALANCE	REVENUE	EXPENSE	TRANSFERS IN(OUT)	ENDING BALANCE
	-----	-----	-----	-----	-----
1000 GENERAL	1,439,080.06	1,501,144.06	1,479,248.75	(21,853.05)	1,439,122.32
2110 FARM TO MARKET	251,198.19	1,647,599.61	1,836,019.46		62,778.34
2120 COUNTY MAINTENANCE	52,469.03	73,405.94	30,891.24		94,983.73
2130 COUNTY ROAD & BRIDGE	246.47	684,601.72	1,373,169.31	688,321.12	-
2136 FLOOD 2001	8,810.63		8,810.63		0.00
2139 FLOOD 2005	3,796.09		3,796.09		(0.00)
2141 FLOOD 2009	76,280.30		4,393.28	(2,867.00)	69,020.02
2142 FLOOD 2010	95,569.99		40,368.84		55,201.15
2143 FLOOD 2011	702,298.45	226,616.41	317,637.30	(411,775.23)	199,502.33
2144 FLOOD 2013	267,530.18	-	119,037.84		148,492.34
2145 FLOOD 2014	153,768.93		22,255.15	(72,274.44)	59,239.34
2150 HIGHWAY TAX	1,416,629.77	837,177.78	-	(682,851.78)	1,570,955.77
2210 SOCIAL SERVICE	114.57	150,562.98	644,758.01	494,080.46	-
2230 HUMAN SERVICE	76,586.49	682,458.14	68,859.82	(427,190.94)	262,993.87
2240 EMERGENCY HUMAN SER	66,889.52		-	(66,889.52)	-
2260 INSURANCE RESERVE	6,527.75	19,041.76	17,413.00		8,156.51
2270 ADVERTISING	10,123.18	55.00			10,178.18
2710 COUNTY MOTOR POOL	553.35	1,689.20	1,092.10		1,150.45
2770 JOB DEVELOPMENT	84,406.06	61,471.39	58,606.61		87,270.84
2790 SENIOR CITIZENS	-	66,740.68	66,740.68		-
2830 HAZARDOUS CHEMICAL	12,058.29	1,375.00	126.13		13,307.16
2850 911/WIRELESS	116,888.03	27,100.49	37,411.75		106,576.77
2850 EMERGENCY WIRELESS	277,741.88	51,039.15	31,933.38		296,847.65
2910 EMERGENCY	(576,624.78)	254,389.13	893,079.44	481,447.33	(733,867.76)
2915 COMPREHENSIVE HEALTH	196,839.12	324,523.78	292,839.54		228,523.36
2920 VETERANS SERVICE	3,513.98	9,416.15	13,204.47		(274.34)
2930 SOCIAL SECURITY	115,366.82	408,009.34	475,688.07		47,688.09
2940 COUNTY PARK	29,102.90	12,186.86	15,335.29		25,954.47
2960 COUNTY AGENT	-	81,886.41	103,739.46	21,853.05	-
2970 WEED CONTROL	274,632.31	235,466.55	287,325.95		222,772.91
2980 JAIL	8,596.12	203,194.69	221,382.31		(9,591.50)
	-----	-----	-----	-----	-----
	5,170,993.68	7,561,152.22	8,465,163.90	(0.00)	4,266,982.00

MCHENRY COUNTY
 FUND ACTIVITY
 DECEMBER 31, 2015

	BEGINNING BALANCE	REVENUE	EXPENSE	TRANSFERS IN(OUT)	ENDING BALANCE
	-----	-----	-----	-----	-----
7999 PREPAID REAL ESTATE	713,866.80	123,412.05			837,278.85
8001 STATE TAX	-	35,694.60	35,694.60		-
8003 GAME & FISH	23,131.00	6,497.00	29,628.00		-
8004 VICTIM WITNESS FEE	5,665.81	3,925.00	194.46		9,396.35
8005 PAID UNDER PROTEST	-	1,939.78	1,939.78		-
8006 REAL ESTATE ESTIMATE	39.44	7,938.67	7,888.12		89.99
8007 GARRISON CONSERVANC'	-	38,443.10	38,443.10		-
8008 COUNTY EQUALIZATION	0.00	180.84	180.84		0.00
8010 COUNTY CENTENNIAL BO	3,412.22	955.69	906.00		3,461.91
8011 CLERK OF COURT DISTRIC	478.13				478.13
8013 STATE FINES	300.00				300.00
8015 COMMUNITY SERVICE	-				-
8017 FLOOD IRRIGATION MTCE	-	16,587.75	16,587.75		-
8021 SOUTH SCD	-	54,268.55	54,268.55		-
8023 COUNTY LAND SALE	-	5,665.00	5,665.00		-
8024 HEALTH DISTRICT	5,569.57	82,002.83	77,990.25		9,582.15
8028 WILLOW CREEK WRD	-	11,142.64	11,142.64		-
8029 MCHENRY CTY WRD	0.00	148,556.01	148,556.01		-
8030 STATE GRANT LANDS	-	5,422.85	5,422.85		-
8031 DISPLACED HOMEMAKER	-				-
8032 SHERIFFS TRUST	123.10				123.10
8034 STATE INDIGENT DEFENS	-	560.00	525.00		35.00
8035 REGISTER OF DEEDS TRU	48,357.64	18,014.00	10,460.30		55,911.34
8036 COUNTY AGENT SPECIAL	3,668.42	3,413.60	1,843.12		5,238.90
8037 HELPING HAND	44.21				44.21
8040 MOUSE RIVER SCD	(0.00)	6,253.99	6,253.99		(0.00)
8041 NORTH SCD	-	34,329.67	34,329.67		-
8042 SHERIFFS DONATION-CFI	4,501.78	38,182.00	36,210.49		6,473.29
8065 TOBACCO COALITION	158.85	0.08			158.93
8095 PAYROLL DEDUCTION	3,088.22		99.32		2,988.90
8100 CITIES	97.10	775,334.18	775,577.85		(146.57)
8200 PARK DISTRICTS	15.02	80,295.79	80,281.05		29.76
8300 SCHOOL DISTRICTS	(16.79)	3,582,591.97	3,582,608.02		(32.84)
8400 ORGANIZED TOWNSHIPS	130,464.90	1,597,655.64	1,449,388.54	-	278,732.00
8700 FIRE PROTECTION DISTRI	2,174.31	212,976.12	215,039.82		110.61
	-----	-----	-----	-----	-----
	945,139.73	6,892,239.40	6,627,125.12	-	1,210,254.01
	-----	-----	-----	-----	-----
	6,116,133.41	14,453,391.62	15,092,289.02	(0.00)	5,477,236.01

MCHENRY COUNTY

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2015

McHenry County
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Harold J. Rotunda

Certified Public Accountant

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

County Commission
McHenry County
Towner, North Dakota

I 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McHenry County as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered McHenry 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, I do not express an opinion on the effectiveness of internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify one deficiency in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency (2015-1).

Compliance and Other Matters

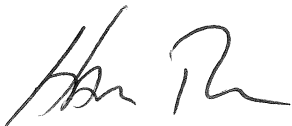
As part of obtaining reasonable assurance about whether McHenry County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and McHenry agreements, noncompliance with which could have a direct and material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

County's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



Harold Rotunda, CPA
December 1, 2016

MCHENRY COUNTY
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED DECEMBER 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	___X___	No
Significant deficiencies identified not Considered to be material weaknesses?	___X___	Yes	_____	No
Noncompliance material to financial statements Noted?	_____	Yes	___X___	No

Section II- Financial Statement Findings

Finding No. 2015-1

Condition

The limited number of staff prevents a proper segregation of duties.

Criteria

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect

Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

MCHENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

Recommendation

While I recognize that the County office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the County.

Client Response

At the present time, the County has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.