

**MCHENRY COUNTY
TOWNER, NORTH DAKOTA**

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021**

MCHENRY COUNTY

Table of Contents

	Page

Officials	1
Independent Auditor's Report	2-4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet- Governmental Funds	7
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	9
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	10
Statement of Fiduciary Net Position- Fiduciary Funds	11
Statement of Changes in Fiduciary Net Position	12
Notes to Combined Financial Statement	13-20

MCHENRY COUNTY
LIST OF OFFICIALS
DECEMBER 31, 2021

Commissioners:	Bryan Bruner Arman Anderson Larry Haman Brady Nelson David Medalen
Auditor:	Darlene Carpenter
Treasurer:	Linda Fairbrother
Sheriff:	Trey Skager
County Recorder:	Helen Lehman
States Attorney:	Joshua Frey

Harold J. Rotunda
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT

To the Governing Board
McHenry County
Towner, North Dakota

Opinion

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of McHenry County, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise McHenry County's basic financial statements as listed in the table of contents.

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, each major fund, the discretely presented component units, and the aggregate remaining fund information of McHenry County as of December 31, 2021, and the respective changes in modified cash basis financial position for the year then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinions

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of McHenry County and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Emphasis of Matter-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 accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 McHenry County's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation in the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about McHenry County's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated June 1, 2024, 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 grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the County's 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.

Fargo, North Dakota
June 1, 2024

MCHENRY COUNTY
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
DECEMBER 31, 2021

	Governmental Activities	Component Units Water Resource District	Willow Creek Water Resource Dist	Eaton Dam
ASSETS				
Current assets:				
Cash and investments	7,888,959.89	898,581.36	108,630.40	77,758.29
Non-current assets:				
Capital assets (net of accumulated depreciation)	8,868,879.59			
Total Assets	16,757,839.48	898,581.36	108,630.40	77,758.29
LIABILITIES				
Current liabilities:				
Non-current liabilities				
Total liabilities	-	-	-	-
NET POSITION				
Net investment capital assets	8,868,879.59	-	-	-
Restricted for:				
Highway	3,581,762.04			
Emergency	581,547.62			
Flood	227,110.28			
Economic development	40,328.66			
Unrestricted	3,458,211.29	898,581.36	108,630.40	77,758.29
Total net position	16,757,839.48	898,581.36	108,630.40	77,758.29

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

MCHENRY COUNTY

STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2021

		Program Revenues			Revenue & Changes in net position
	Expenses	Charges for Services	Operating grants and Contributions	Capital grants and Contributions	Governmental Activities
Governmental activities:					
General government	2,011,834.02				(2,011,834.02)
Public safety	1,017,216.74	156,055.30			(861,161.44)
Highways and streets	2,215,546.17	363,749.37	1,146,749.47		(705,047.33)
Economic development	-				-
Weed control	342,566.48	153,711.59	29,336.84		(159,518.05)
					-
					-
Total Governmental Activities	5,587,163.41	673,516.26	1,176,086.31	-	(3,737,560.84)
Component Unit					
Water Resource District	83,170.85				(83,170.85)
Willow Creek Water Res Dist	10,275.40				(10,275.40)
Eaton Dam	2,369.00				(2,369.00)
			Component Units		
	Governmental		Water Resource	Willow Creek	Eaton Dam
Net expense	(3,737,560.84)		District	Water Resource Dist	
General Revenues			(83,170.85)	(10,275.40)	(2,369.00)
Property taxes	2,708,091.01		153,634.65	9,262.64	30,003.87
Intergovernmental	1,456,697.31				
Charges	168,229.47				
Interest	116,348.51		12,720.98	134.42	
Other	177,641.56				
Total General Revenues	4,627,007.86		166,355.63	9,397.06	30,003.87
Transfers in (out)	-				
Change in Net Position	889,447.02		83,184.78	(878.34)	27,634.87
Net Position- January 1	15,868,392.46		815,396.58	109,508.74	50,123.42
Net Position- December 31	16,757,839.48		898,581.36	108,630.40	77,758.29

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

MCHENRY COUNTY
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2021

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL
ASSETS			
Cash and investments	3,031,017.57	4,857,942.32	7,888,959.89
Accounts receivable			-
Intergovernmental receivable			-
 Total Assets	 3,031,017.57	 4,857,942.32	 7,888,959.89
LIABILITIES			
Accounts Payable			-
			-
Total Liabilities	-	-	-
 FUND BALANCE			
Restricted for			
Highway		3,581,762.04	3,581,762.04
Emergency		581,547.62	581,547.62
Flood		227,110.28	227,110.28
Economic development		40,328.66	40,328.66
Assigned for General Government		527,563.37	527,563.37
Unassigned	3,031,017.57	(100,369.65)	2,930,647.92
Total Fund Balance	3,031,017.57	4,857,942.32	7,888,959.89
Total liabilities and fund balances	3,031,017.57	4,857,942.32	7,888,959.89

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, 2021

Total Fund Balances for Governmental Funds	7,888,959.89
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Total net assets reported for governmental activities in the statement of net assets is different because:

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

Cost of capital assets	16,981,729.68	
Less accumulated depreciation	8,112,850.09	
Net capital assets		8,868,879.59

Total Net Assets of Governmental Activities	16,757,839.48
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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, 2021

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL
Property taxes	1,318,616.17	1,389,474.84	2,708,091.01
Intergovernmental	1,355,310.78	1,277,472.84	2,632,783.62
Charges for services	156,055.30	621,216.45	777,271.75
Interest and other	343,823.94	14,640.11	358,464.05
Total Revenues	3,173,806.19	3,302,804.24	6,476,610.43
Current:			
General government	1,596,423.21	375,946.93	1,972,370.14
Public safety	690,954.98	365,725.64	1,056,680.62
Health and welfare		-	-
Highways		1,663,060.51	1,663,060.51
Weed Control		342,566.48	342,566.48
Culture and recreation			-
Capital outlay			-
Debt Service			-
Principal			-
Interest expense			-
Total Expenditures	2,287,378.19	2,747,299.56	5,034,677.75
Excess revenues (expenditures)	886,428.00	555,504.68	1,441,932.68
Other Financing Sources (Uses):			
Transfers in		824,806.46	824,806.46
Transfers out	(16,096.04)	(808,710.42)	(824,806.46)
Bond proceeds		-	-
Total other financing sources and uses	(16,096.04)	16,096.04	(0.00)
Net change in fund balances	870,331.96	571,600.72	1,441,932.68
Fund balance- beginning	2,160,685.61	4,286,341.60	6,447,027.21
Fund balance- ending	3,031,017.57	4,857,942.32	7,888,959.89

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, 2021

Net Change in Fund Balances- Total Governmental Funds	1,441,932.68
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The change in net assets 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	-	
Current year depreciation expense	552,485.66	(552,485.66)

Change in Net Assets of Governmental Activities	889,447.02
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The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY

STATEMENT OF FIDUCIARY NET POSITION- FIDUCIARY FUNDS- MODIFIED CASH BASIS

DECEMBER 31, 2021

CUSTODIAL

FUNDS

ASSETS

Cash and investments	1,372,826.99
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Total Assets	1,372,826.99
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LIABILITIES

Property taxes paid in advance	780,299.01
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Total Liabilities	- 780,299.01
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NET POSITION

Restricted for other governments	592,527.98
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The accompanying notes are an integral part of these financial statements.

MCHENRY COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION- FIDUCIARY FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2021

	CUSTODIAL FUNDS
Additions	
Property taxes and Intergovernmental Revenue	7,927,861.47
Deductions	
Payments to other governments	7,794,286.54
Change in Net Position	133,574.93
Net Position, beginning	458,953.05
Net Position, ending	592,527.98

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

MCHENRY COUNTY
TOWNER, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 discretely component units:

Water Resource District- The Commission appoints all Board members and approves its tax levy. The Commission can approve, disapprove or amend the District's budget.

Willow Creek Water Resource District- The Commission appoints all Board members and approves its tax levy. The Commission can approve, disapprove or amend the District's budget.

Eaton Dam Maintenance- The Commission appoints all Board members and approves its tax levy. The Commission can approve, disapprove or amend the District's budget.

The Component Units do not present separate financial statements.

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.

Special Revenue Fund- This fund accounts for financial resources that exist for special purposes. The major sources of revenues is property taxes, sales taxes and intergovernmental revenues.

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.

C. Measurement Focus and Basis of Accounting

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.

MCHENRY COUNTY

Notes to Financial Statements- Continued

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.

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.

MCHENRY COUNTY
Notes to Financial Statements- Continued

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, 2021 consist of certificates of deposit stated at fair value with maturities in excess of 3 months.

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.

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.

MCHENRY COUNTY

Notes to Financial Statements- Continued

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 2021.

EXPENDITURES OVER APPROPRIATIONS

The County did not overspend any funds budget.

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.

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, 2021, the County's carrying amount of deposits was \$9,261,787. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2021, the Water Resource District, Willow Creek Water Resource District, and Eaton Dam's carrying amount of deposits was \$898,581, 108,630, and \$77,758 respectively. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

MCHENRY COUNTY
Notes to Financial Statements- Continued

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.

NOTE 4: PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 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, 2021:

	Balance January 1	Increases	Decreases	Balance December 31
Infrastructure	10,924,323			10,924,323
Bldgs and Improvements	5,114,636			5,114,636
Vehicles	964,708		270,662	694,045
Equipment	248,726			248,726
Total	17,252,392		270,662	16,981,730
Less accumulated depreciation for:				
Infrastructure	2,272,699	436,973		2,709,672
Buildings & Improve	4,896,448	11,995		4,908,443
Vehicles	581,119	87,739	270,662	398,195
Equipment	80,761	15,779		96,540
Total Accumulated Dep	7,831,027	552,486	270,662	8,112,850
Net	9,421,365			8,868,880

Depreciation Expense was charged as follows:

Highways	436,973
Public safety	81,008
General government	28,373
Total Dep Exp-Gov Activities	552,486

MCHENRY COUNTY
Notes to Financial Statements- Continued

NOTE 6. DEFICIT IN FUND BALANCE

The County has a deficit in the Jail Fund- \$100,370. The deficits will be eliminated by transfers, grants and taxes.

NOTE 7: OPERATING LEASES

The County is obligated to the following operating lease agreements at June 30, 2021 are shown below:

2022	302,872
2023	<u>302,872</u>
	605,744

Total lease payments in 2020 was \$302,872.

NOTE 8: PENSION PLANS

The County participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. Following is a brief description of the plan:

PERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. PERS provides for retirement, disability and death benefits to plan members and beneficiaries. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary. Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at the normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

MCHENRY COUNTY
Notes to Financial Statements- Continued

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participants annual covered salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The County is required to contribute 7.12% of each participant's salary as the employer's share. The County is required to contribute 1.14% of each participating covered wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. The County's contributions to PERS for the fiscal years ending December 31, 2021, 2020, and 2019 were \$190,284, \$191,206, and \$228,579, respectively, equal to the required contributions for the year.

PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained on the NDPERS website.

NOTE 9: RISK MANAGEMENT

The County is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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 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.

NOTE 10: TRANSFERS

Transfers are used to 1)move unrestricted revenues to finance various programs 2)move sales tax revenues to fund programs and projects and 3)move revenues from the fund with collection authorization to the debt service funds as debt service principal and interest payments become due.

	Transfer in	Transfer out
General Fund		824,806
Special Revenue Fund	16,096	808,710

MCHENRY COUNTY

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2021

McHenry County
Table of Contents

	Page

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	1-2
Schedule of Findings and Responses	3-4

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S 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

Governing Board
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, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of McHenry County as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated June 1, 2024.

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) as a basis for designing 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 the County's internal control. Accordingly, I do not express an opinion on the effectiveness of the County's internal control.

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

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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be a significant deficiency (2021-001 and 2021-002).

Report on 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 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 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

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the finding identified in my audit and described in the accompanying schedule of findings and responses. The County's responses were 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
Fargo, North Dakota
June 1, 2024

MCHENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001 Segregation of Duties

Criteria

An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled properly.

Condition

The County has one employee who is responsible for most accounting functions. The County auditor collects monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial reports.

Cause

The County is subject to size and budget constraints limiting the number of personnel within the accounting department

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

I recommend the County review its internal controls over accounting functions to determine if additional procedures can be implemented that are cost effective. The Board should constantly be aware of the this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

View of Responsible Officials and Planned Corrective Actions

The Council will review its current monitoring functions and determine if any additional monitoring procedures are warranted. However, due to the small size of the County, it is not cost effective for the County to hire additional accounting personnel to address this deficiency.

MCHENRY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002 Financial Statement Preparation

Criteria

An appropriate system of internal controls requires that a County make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires the County's personnel to maintain a working knowledge of current modified cash basis of accounting required financial statement disclosures.

Condition

The County's personnel prepared periodic financial information for internal use that meets the needs of management and the Council. However, the County currently does not prepare the financial statements, including accompanying note disclosures as required by accounting principles generally accepted in the United States of America. The County elected to have the auditor assist in the preparation of the financial statements and notes.

Cause

The County elected to not allocate resources for the preparation of the financial statements.

Effect

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

Recommendation

I recommend the County consider the additional risk of having the auditor assist in the in the preparation of financial statements and note disclosures and consider preparing them in the future. As a compensating control the County should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

View of Responsible Officials and Planned Corrective Actions

The County will continue to have the auditor prepare the financial statements. It is currently not cost-effective for management to perform the preparation.