



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

McHenry County

Towner, North Dakota

Audit Report for the Years Ended December 31, 2019 and 2018

Client Code: PS25000



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Office of the
State Auditor

MCHENRY COUNTY

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MCHENRY COUNTY

County Officials and Audit Personnel

December 31, 2019 and 2018

**2019
COUNTY OFFICIALS**

Bryan Brunner	Chairman
David Medalen	Commissioner
Harry Bergstad	Commissioner
Larry Haman	Commissioner
Gregg Boutilier	Commissioner
Darlene Carpenter	County Auditor
Linda Fairbrother	County Treasurer
Trey Skager	Sheriff
Helen Lehmann	County Recorder
Joshua Frey	States Attorney

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Michael Schmitcke, CPA	Audit In-Charge

**2018
COUNTY OFFICIALS**

David Medalen	Chairman
Bryan Brunner	Commissioner
Harry Bergstad	Commissioner
Larry Haman	Commissioner
Gregg Boutilier	Commissioner
Darlene Carpenter	County Auditor
Linda Fairbrother	County Treasurer
Trey Skager	Sheriff
Helen Lehmann	County Recorder
Joshua Frey	States Attorney

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Michael Schmitcke, CPA	Audit In-Charge



INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
McHenry County
Towner, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McHenry County, North Dakota, as of and for the years ended December 31, 2019 and December 31, 2018, and the related notes to the financial statements, which collectively comprise McHenry 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 to the financial statements; 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

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

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

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

Summary of Opinions

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Governmental Activities	Adverse
Aggregate Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on the Governmental Activities

Management has not recorded capital assets in the governmental activities and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable. \$10,175,125 in net capital assets were removed from the prior reporting period as described in Note 2 as management does not maintain capital asset records and was unable to provide support for the 2018 beginning capital asset balance.

Adverse Opinions on the Governmental Activities

In our opinion, because of the effects of the matter described in the "Basis for Adverse Opinions on the Governmental Activities" paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of McHenry County, North Dakota as of December 31, 2019 and December 31, 2018, and the changes in financial position thereof for each of the years then ended.

Unmodified Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, major funds and the aggregate remaining fund information of the governmental funds of McHenry County as of December 31, 2019 and December 31, 2018, and the respective changes in financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis of Accounting

We 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the 2018 financial statements have been restated to correct misstatements. Our opinion was modified with respect to this matter as shown in the "Summary of Opinions" above.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McHenry County's basic financial statements. *The budgetary comparison schedules and notes to the supplementary information* are presented for purposes of additional analysis and is not a required part of the financial statements.

The *budgetary comparison schedules and notes to the supplementary information* are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic 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. Because of the significance of the matter disclosed in the "Basis for Adverse Opinions on the Governmental Activities" paragraph, it is inappropriate to, and the auditor does not, express an opinion on the supplementary information.

MC HENRY COUNTYIndependent Auditor's Report - Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022 on our consideration of McHenry County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McHenry County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
March 28, 2022

MCHENRY COUNTY

Statement of Net Position – Modified Cash Basis

December 31, 2019

	Primary Government	Component Units		
	Governmental Activities	Water Resource District	Eaton Irrigation District	Willow Creek Water Resource District
ASSETS				
Cash and Investments	\$ 6,160,944	\$ 782,308	\$ 61,177	\$ 102,206
NET POSITION				
Restricted				
Public Safety	\$ 389,501	\$ -	\$ -	\$ -
Highways	2,824,606	-	-	-
Flood Repair	304,244	-	-	-
Health and Welfare	264,665	-	-	-
Economic Development	40,327	-	-	-
Conservation of Natural Resources	59,795	782,308	61,177	102,206
Emergencies	657,547	-	-	-
General Government	4,080	-	-	-
Unrestricted	1,616,179	-	-	-
Total Net Position	\$ 6,160,944	\$ 782,308	\$ 61,177	\$ 102,206

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

MCHENRY COUNTY

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Units		
				Governmental Activities	Water Resource District	Eaton Irrigation District	Willow Creek Water Resource District
Primary Government							
General Government	\$ 1,420,642	\$ 65,511	\$ 77,582	\$ (1,277,549)	\$ -	\$ -	\$ -
Public Safety	1,053,267	271,660	30,537	(751,070)	-	-	-
Highways	2,104,362	321,517	1,557,409	(225,436)	-	-	-
Health and Welfare	645,752	-	772,894	127,142	-	-	-
Culture and Recreation	11,912	-	-	(11,912)	-	-	-
Conser. of Natural Resources	493,531	-	-	(493,531)	-	-	-
Emergency	5,800	-	-	(5,800)	-	-	-
Flood Repair	39,189	-	103,522	64,333	-	-	-
Total Primary Government	\$ 5,774,455	\$ 658,688	\$ 2,541,944	\$ (2,573,823)	\$ -	\$ -	\$ -
Component Unit							
Water Resource District	\$ 23,882	\$ -	\$ -		\$ (23,882)	\$ -	\$ -
Eaton Irrigation District	30,782	-	-		-	(30,782)	-
Willow Creek Water Resource District	1,474	-	-		-	-	(1,474)
Total Component Units	\$ 56,138	\$ -	\$ -		\$ (23,882)	\$ (30,782)	\$ (1,474)
General Revenues							
Property Taxes				\$ 2,312,725	\$ 170,097	\$ 23,048	\$ 8,065
Non Restricted Grants and Contributions				695,558	10,574	-	-
Interest Revenue				70,967	5,687	-	114
Miscellaneous Revenue				281,256	876	-	11
Total General Revenues				\$ 3,360,506	\$ 187,234	\$ 23,048	\$ 8,190
Change in Net Position				\$ 786,683	\$ 163,352	\$ (7,734)	\$ 6,716
Net Position - January 1				\$ 5,374,261	\$ 618,956	\$ 68,911	\$ 95,490
Net Position - December 31				\$ 6,160,944	\$ 782,308	\$ 61,177	\$ 102,206

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

MCHENRY COUNTY

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2019

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,616,179	\$ 4,544,765	\$ 6,160,944
FUND BALANCES			
Restricted			
Public Safety	\$ -	\$ 389,501	\$ 389,501
Highways	-	2,824,606	2,824,606
Flood Repair	-	304,244	304,244
Health and Welfare	-	264,665	264,665
Economic Development	-	40,327	40,327
Conservation of Natural Resources	-	59,795	59,795
Emergency	-	657,547	657,547
General Government	-	4,080	4,080
Unassigned	1,616,179	-	1,616,179
Total Fund Balances	\$ 1,616,179	\$ 4,544,765	\$ 6,160,944

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

MCHENRY COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2019

Total <i>Fund Balances</i> for Governmental Funds	<u>\$ 6,160,944</u>
Total <i>Net Position</i> of Governmental Activities	<u><u>\$ 6,160,944</u></u>

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

MCHENRY COUNTYStatement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2019

	General	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 1,052,840	\$ 1,259,885	\$ 2,312,725
Intergovernmental	638,913	2,598,590	3,237,503
Charges for Services	222,421	423,183	645,604
Licenses, Permits and Fees	6,635	6,448	13,083
Interest Income	70,967	-	70,967
Miscellaneous	116,850	164,406	281,256
Total Revenues	\$ 2,108,626	\$ 4,452,512	\$ 6,561,138
EXPENDITURES			
Current			
General Government	\$ 1,418,518	\$ 2,124	\$ 1,420,642
Public Safety	716,688	336,579	1,053,267
Highways	-	1,664,109	1,664,109
Health and Welfare	-	645,752	645,752
Culture and Recreation	11,912	-	11,912
Conser. of Natural Resources	-	493,531	493,531
Emergency	-	5,800	5,800
Flood Repair	-	39,189	39,189
Capital Outlay	-	440,253	440,253
Total Expenditures	\$ 2,147,118	\$ 3,627,337	\$ 5,774,455
Excess (Deficiency) of Revenues Over Expenditures	\$ (38,492)	\$ 825,175	\$ 786,683
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 132	\$ 893,952	\$ 894,084
Transfers Out	(6,671)	(887,413)	(894,084)
Total Other Financing Sources and Uses	\$ (6,539)	\$ 6,539	\$ -
Net Change in Fund Balances	\$ (45,031)	\$ 831,714	\$ 786,683
Fund Balance - January 1	\$ 1,661,210	\$ 3,713,051	\$ 5,374,261
Fund Balance - December 31	\$ 1,616,179	\$ 4,544,765	\$ 6,160,944

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

MCHENRY COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2019

Net Change in <i>Fund Balances</i> - Total Governmental Funds	<u>\$ 786,683</u>
Change in <i>Net Position</i> of Governmental Activities	<u><u>\$ 786,683</u></u>

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

MCHENRY COUNTY

Statement of Fiduciary Assets & Liabilities – Agency Funds – Modified Cash Basis
December 31, 2019

ASSETS

Cash and Cash Equivalents	<u>\$ 1,905,491</u>
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LIABILITIES

Due to Other Governments	<u>\$ 1,905,491</u>
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The notes to the financial statements are an integral part of this statement.

MCHENRY COUNTY

Statement of Net Position – Modified Cash Basis

December 31, 2018

	Primary Government	Component Units		
	Governmental Activities	Water Resource District	Eaton Irrigation District	Willow Creek Water Resource District
ASSETS				
Cash and Investments	\$ 5,374,261	\$ 618,956	\$ 68,911	\$ 95,490
NET POSITION				
Restricted				
Public Safety	\$ 533,875	\$ -	\$ -	\$ -
Highways	2,169,206	-	-	-
Flood Repair	261,297	-	-	-
Health and Welfare	105,382	-	-	-
Economic Development	40,314	-	-	-
Conservation of Natural Resources	85,804	618,956	68,911	95,490
Emergencies	514,401	-	-	-
General Government	2,772	-	-	-
Unrestricted	1,661,210	-	-	-
Total Net Position	\$ 5,374,261	\$ 618,956	\$ 68,911	\$ 95,490

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

MCHENRY COUNTY

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Units		
				Governmental Activities	Water Resource District	Eaton Irrigation District	Willow Creek Water Resource District
Primary Government							
General Government	\$ 1,371,052	\$ 84,624	\$ 92,586	\$ (1,193,842)	\$ -	\$ -	\$ -
Public Safety	924,620	270,641	215,902	(438,077)	-	-	-
Highways	1,998,619	284,932	1,226,320	(487,367)	-	-	-
Health and Welfare	691,776	-	710,163	18,387	-	-	-
Culture and Recreation	5,761	-	-	(5,761)	-	-	-
Conser. of Natural Resources	346,607	-	-	(346,607)	-	-	-
Emergency	24,175	-	-	(24,175)	-	-	-
Flood Repair	23,306	-	1,285,880	1,262,574	-	-	-
Total Primary Government	\$ 5,385,916	\$ 640,197	\$ 3,530,851	\$ (1,214,868)	\$ -	\$ -	\$ -
Component Unit							
Water Resource District	\$ 75,908	\$ -	\$ -	\$ (75,908)	\$ -	\$ -	\$ -
Eaton Irrigation District	47,284	-	10,200	-	-	(37,084)	-
Willow Creek Water Resource District	496	-	-	-	-	-	(496)
Total Component Units	\$ 123,688	\$ -	\$ 10,200	\$ (75,908)	\$ (37,084)	\$ (496)	\$ (496)
General Revenues							
Property Taxes				\$ 2,220,841	\$ 159,579	\$ 16,887	\$ 7,948
Non Restricted Grants and Contributions				620,552	83,481	-	-
Interest Revenue				44,138	4,105	-	115
Miscellaneous Revenue				292,560	287	3,296	30
Total General Revenues				\$ 3,178,091	\$ 247,452	\$ 20,183	\$ 8,093
Change in Net Position				\$ 1,963,223	\$ 171,544	\$ (16,901)	\$ 7,597
Net Position - January 1				\$ 13,586,163	\$ 508,061	\$ 85,812	\$ 87,893
Prior Period Adjustment				\$ (10,175,125)	\$ (60,649)	\$ -	\$ -
Net Position - January 1 as restated				\$ 3,411,038	\$ 447,412	\$ 85,812	\$ 87,893
Net Position - December 31				\$ 5,374,261	\$ 618,956	\$ 68,911	\$ 95,490

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

MCHENRY COUNTY

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2018

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,661,210	\$ 3,713,051	\$ 5,374,261
FUND BALANCES			
Restricted			
Public Safety	\$ -	\$ 533,875	\$ 533,875
Highways	-	2,169,206	2,169,206
Flood Repair	-	261,297	261,297
Health and Welfare	-	105,382	105,382
Economic Development	-	40,314	40,314
Conservation of Natural Resources	-	85,804	85,804
Emergency	-	514,401	514,401
General Government	-	2,772	2,772
Unassigned	1,661,210	-	1,661,210
Total Fund Balances	<u>\$ 1,661,210</u>	<u>\$ 3,713,051</u>	<u>\$ 5,374,261</u>

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

MCHENRY COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2018

Total <i>Fund Balances</i> for Governmental Funds	<u>\$ 5,374,261</u>
Total <i>Net Position</i> of Governmental Activities	<u><u>\$ 5,374,261</u></u>

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

MCHENRY COUNTYStatement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2018

	General	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 915,501	\$ 1,305,340	\$ 2,220,841
Intergovernmental	641,803	3,509,601	4,151,404
Charges for Services	240,149	337,036	577,185
Licenses, Permits and Fees	8,255	54,757	63,012
Interest Income	44,138	-	44,138
Miscellaneous	92,448	200,111	292,559
Total Revenues	\$ 1,942,294	\$ 5,406,845	\$ 7,349,139
EXPENDITURES			
Current			
General Government	\$ 1,370,548	\$ 504	\$ 1,371,052
Public Safety	660,810	263,810	924,620
Highways	-	1,774,441	1,774,441
Health and Welfare	21,527	670,249	691,776
Culture and Recreation	5,761	-	5,761
Conser. of Natural Resources	-	346,607	346,607
Emergency	-	24,175	24,175
Flood Repair	-	23,306	23,306
Capital Outlay	-	224,178	224,178
Total Expenditures	\$ 2,058,646	\$ 3,327,270	\$ 5,385,916
Excess (Deficiency) of Revenues Over Expenditures	\$ (116,352)	\$ 2,079,575	\$ 1,963,223
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 87,701	\$ 2,468,385	\$ 2,556,086
Transfers Out	(21,913)	(2,534,173)	(2,556,086)
Total Other Financing Sources and Uses	\$ 65,788	\$ (65,788)	\$ -
Net Change in Fund Balances	\$ (50,564)	\$ 2,013,787	\$ 1,963,223
Fund Balance - January 1	\$ 1,936,994	\$ 1,474,044	\$ 3,411,038
Prior Period Adjustment	\$ (225,220)	\$ 225,220	\$ -
Fund Balance - January 1 as restated	\$ 1,711,774	\$ 1,699,264	\$ 3,411,038
Fund Balance - December 31	\$ 1,661,210	\$ 3,713,051	\$ 5,374,261

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

MCHENRY COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2018

Net Change in <i>Fund Balances</i> - Total Governmental Funds	<u>\$ 1,963,223</u>
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Change in <i>Net Position</i> of Governmental Activities	<u><u>\$ 1,963,223</u></u>
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The notes to the financial statements are an integral part of this statement.

MCHENRY COUNTY

Statement of Fiduciary Assets & Liabilities – Agency Funds – Modified Cash Basis
December 31, 2018

ASSETS

Cash and Cash Equivalents	<u>\$ 2,024,868</u>
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LIABILITIES

Due to Other Governments	<u>\$ 2,024,868</u>
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The notes to the financial statements are an integral part of this statement.

MCHENRY COUNTY

Notes to the Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of McHenry County ("County") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the County. The County has considered all potential component units for which the County is financially accountable and other organizations for which the nature and significance of their relationships with the County are 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, the component units discussed below are included within the County's reporting entity because of the significance of their operational or financial relationships with the County.

Component Units

In conformity with the modified cash basis of accounting principles, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

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

McHenry County Water Resource District – The County's governing board appoints a voting majority of the members of the Water Resource District board. The County's governing body has the authority to disapprove, amend, or approve the Water Resource District budget. The County also must approve the tax levy established by the Water Resource District.

Willow Creek Water Resource District – The County's governing board appoints a voting majority of the members of the Willow Creek Water Resource District board. The County's governing body has the authority to disapprove, amend, or approve the Willow Creek Water Resource District budget. The County also must approve the tax levy established by the Willow Creek Water Resource District.

Eaton Irrigation District – The County's governing board appoints a voting majority of the members of the Irrigation District board. The County's governing body has the authority to disapprove, amend, or approve the Irrigation District budget. The County also must approve the tax levy established by the Irrigation District.

Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the County (primary government) and its component unit. 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 the 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 taxes, interest and non-restricted grants and contributions, are presented as general revenues.

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

The County reports the following major governmental fund:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the general government.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Additionally, the County reports the following fund type:

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets and long-term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

If the County utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the County consist of certificates of deposit stated at cost with maturities in excess of three months.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position. When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension note disclosure. Note 6, is shown as additional information to the users of the financial statements.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net OPEB liability is not reported under the modified cash basis of accounting, but the information disclosed in the OPEB note disclosure. Note 7, is shown as additional information to the users of the financial statements.

Fund Balances

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

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balance shall mean the portion of the gross fund balance that is not expendable (such as inventories) or is legally earmarked for a specific use (such as the self-funded reserves program).

Net Position

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

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted state and federal grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund.

MCHENRY COUNTY

Notes to the Financial Statements – Continued

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Net Position as of January 1, 2018 has been restated due to prior period errors as follows:

Governmental Activities	County	Water Resource District
Beginning Net Position, as previously reported	\$ 13,586,163	\$ 508,061
Adjustment to restate the January 1, 2018 Net Position		
Cash Adjustment	-	(60,649)
Capital Assets, Net	(10,175,125)	-
Net Position January 1, as restated	\$ 3,411,038	\$ 447,412

Fund Balance as of January 1, 2018 has been restated due to prior period errors as follows:

	General Fund	Special Revenue Fund
Beginning Fund Balance, as previously reported	\$ 1,936,994	\$ 1,474,044
Adjustment to restate the January 1, 2018 Fund Balance		
Fund Balance Classification Change	(225,220)	225,220
Fund Balance January 1, as restated	\$ 1,711,774	\$ 1,699,264

NOTE 3 DEPOSITS**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the County would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The County does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

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

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

At year ended December 31, 2019, the County's carrying amount of deposits totaled \$8,064,934, and the bank balances totaled \$8,416,809. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, the County's carrying amount of deposits totaled \$7,396,574, and the bank balances totaled \$7,481,395. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

MCHENRY COUNTY**Notes to the Financial Statements – Continued**

At year ended December 31, 2019, the Water Resource District's carrying amount of deposits totaled \$782,308, and the bank balances totaled \$783,283. Of the bank balances, \$258,088 was covered by Federal Depository Insurance. The remaining bank balances, besides \$20,276 of the bank balances which were uninsured and uncollateralized, were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, the Water Resource District's carrying amount of deposits totaled \$618,956, and the bank balances totaled \$622,215. Of the bank balances, \$257,672 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2019, the Willow Creek Water Resource District's carrying amount of deposits totaled \$102,206, and the bank balances totaled \$102,956, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2018, the Willow Creek Water Resource District's carrying amount of deposits totaled \$95,490, and the bank balances totaled \$95,490, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2019, the Eaton Irrigation District's carrying amount of deposits totaled \$61,177, and the bank balances totaled \$90,632, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2018, the Eaton Irrigation District's carrying amount of deposits totaled \$68,911, and the bank balances totaled \$89,219, all of which were covered by Federal Depository Insurance.

NOTE 4 PROPERTY TAXES

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

NOTE 5 OPERATING LEASES

The County is engaged in various operating leases. Total lease payments made during 2019 and 2018 totaled \$261,486 and \$227,155 respectively. Future lease payments are as follows:

	Operating Leases
2020	\$ 146,183
2021	146,183
2022	146,183
2023	146,183
Total	\$ 584,732

NOTE 6 PENSION PLAN**General Information about the NDPERS Pension Plan****North Dakota Public Employees Retirement System (Main System)**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

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

MCHENRY COUNTY

Notes to the Financial Statements – Continued

as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019 and 2018, the employer reported a liability of \$1,627,036 and \$2,431,659 respectively, for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The employer's proportion of the net pension liability was based on the County's share of covered payroll in the main system pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019 and 2018, the Employer's proportion was .138817 and .144089 percent, respectively, which was a decrease of .005272 percent for 2019 and an increase of .008877 percent for 2018.

There were no deferred inflows or outflows of resources reported on the County's financial statements as they are reporting on the modified cash basis of accounting.

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	10.00%
	36 – 40	7.50%
	41 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.50%, net of investment expenses	
Cost-of-living adjustments	None	

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

MCHENRY COUNTY

Notes to the Financial Statements – Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate Share of the Net Pension Liability	\$ 2,332,819	\$ 1,627,036	\$ 1,034,054

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 7 OPEB PLAN**General Information about the OPEB Plan*****North Dakota Public Employees Retirement System***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019 and 2018, the Employer reported a liability of \$103,933 and \$106,542, respectively, and for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019 and 2018 the Employer's

MCHENRY COUNTY

Notes to the Financial Statements – Continued

proportions were .129401 percent and .135280 percent, respectively.

There were no deferred inflows or outflows of resources reported on the County's financial statements as they are reporting on the modified cash basis of accounting.

Actuarial assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment rate or return	7.25%, net of investment expenses
Cost of living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of re-turn (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major as-set class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
Domestic Fixed Income	40%	2.07%
International Equities	21%	6.95%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

MCHENRY COUNTY

Notes to the Financial Statements – Continued

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate Share of the OPEB Liability	\$ 132,657	\$ 103,933	\$ 79,346

NOTE 8 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the County accounts for in other funds in accordance with budget authority and to subsidize other programs. Transfers were also made to close out funds and to finance various projects.

NOTE 9 RISK MANAGEMENT

The County is exposed to various risks of loss related 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 joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDRF is limited to losses of four million dollars per occurrence for general liability, four million for automobile, and \$2,429,593 for public assets/mobile equipment and portable property.

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

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

MCHENRY COUNTY

Budgetary Comparison Schedule – General Fund

December 31, 2019

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 1,064,903	\$ 1,064,903	\$ 1,052,840	\$ (12,063)
Intergovernmental	473,297	473,297	638,913	165,616
Charges for Services	149,000	149,000	222,421	73,421
Licenses, Permits and Fees	6,450	6,450	6,635	185
Interest Income	35,000	35,000	70,967	35,967
Miscellaneous	57,000	57,000	116,850	59,850
Total Revenues	\$ 1,785,650	\$ 1,785,650	\$ 2,108,626	\$ 322,976
EXPENDITURES				
Current				
General Government	\$ 1,615,066	\$ 1,615,066	\$ 1,418,518	\$ 196,548
Public Safety	564,062	564,062	716,688	(152,626)
Culture and Recreation	15,000	15,000	11,912	3,088
Total Expenditures	\$ 2,194,128	\$ 2,194,128	\$ 2,147,118	\$ 47,010
Excess (Deficiency) of Revenues Over Expenditures	\$ (408,478)	\$ (408,478)	\$ (38,492)	\$ 369,986
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ 132	\$ 132
Transfers Out	-	-	(6,671)	(6,671)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ (6,539)	\$ (6,539)
Net Change in Fund Balance	\$ (408,478)	\$ (408,478)	\$ (45,031)	\$ 363,447
Fund Balance - January 1	\$ 1,661,210	\$ 1,661,210	\$ 1,661,210	\$ -
Fund Balance - December 31	\$ 1,252,732	\$ 1,252,732	\$ 1,616,179	\$ 363,447

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

MCHENRY COUNTY

Budgetary Comparison Schedule –Special Revenue Fund

December 31, 2019

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 1,283,114	\$ 1,283,114	\$ 1,259,885	\$ (23,229)
Intergovernmental	1,593,575	1,593,575	2,598,590	1,005,015
Charges for Services	372,000	372,000	423,183	51,183
Licenses, Permits and Fees	6,000	6,000	6,448	448
Miscellaneous	231,000	231,000	164,406	(66,594)
Total Revenues	\$ 3,485,689	\$ 3,485,689	\$ 4,452,512	\$ 966,823
EXPENDITURES				
Current				
General Government	\$ 1,500	\$ 2,124	\$ 2,124	\$ -
Public Safety	249,138	336,687	336,579	108
Highways	1,850,100	1,973,313	1,664,109	309,204
Flood Repair	210,540	238,115	39,189	198,926
Health and Welfare	690,700	690,700	645,752	44,948
Conser. of Natural Resources	635,895	635,895	493,531	142,364
Emergency	-	5,800	5,800	-
Capital Outlay	270,000	270,000	440,253	(170,253)
Total Expenditures	\$ 3,907,873	\$ 4,152,634	\$ 3,627,337	\$ 525,297
Excess (Deficiency) of Revenues Over Expenditures	\$ (422,184)	\$ (666,945)	\$ 825,175	\$ 1,492,120
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 855,056	\$ 855,056	\$ 893,952	\$ 38,896
Transfers Out	(810,056)	(810,056)	(887,413)	(77,357)
Total Other Financing Sources and Uses	\$ 45,000	\$ 45,000	\$ 6,539	\$ (38,461)
Net Change in Fund Balances	\$ (377,184)	\$ (621,945)	\$ 831,714	\$ 1,453,659
Fund Balance - January 1	\$ 3,713,051	\$ 3,713,051	\$ 3,713,051	\$ -
Fund Balance - December 31	\$ 3,335,867	\$ 3,091,106	\$ 4,544,765	\$ 1,453,659

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

MCHENRY COUNTY

Budgetary Comparison Schedule – General Fund

December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 926,925	\$ 926,925	\$ 915,501	\$ (11,424)
Intergovernmental	555,297	555,297	641,803	86,506
Charges for Services	150,500	150,500	240,149	89,649
Licenses, Permits and Fees	6,300	6,300	8,255	1,955
Interest Income	35,000	35,000	44,138	9,138
Miscellaneous	57,000	57,000	92,448	35,448
Total Revenues	<u>\$ 1,731,022</u>	<u>\$ 1,731,022</u>	<u>\$ 1,942,294</u>	<u>\$ 211,272</u>
EXPENDITURES				
Current				
General Government	\$ 1,544,712	\$ 1,544,712	\$ 1,370,548	\$ 174,164
Public Safety	546,972	546,972	660,810	(113,838)
Health and Welfare	25,500	25,500	21,527	3,973
Culture and Recreation	15,000	15,000	5,761	9,239
Total Expenditures	<u>\$ 2,132,184</u>	<u>\$ 2,132,184</u>	<u>\$ 2,058,646</u>	<u>\$ 73,538</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (401,162)</u>	<u>\$ (401,162)</u>	<u>\$ (116,352)</u>	<u>\$ 284,810</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 52,653	\$ 52,653	\$ 87,701	\$ 35,048
Transfers Out	-	-	(21,913)	(21,913)
Total Other Financing Sources and Uses	<u>\$ 52,653</u>	<u>\$ 52,653</u>	<u>\$ 65,788</u>	<u>\$ 13,135</u>
Net Change in Fund Balance	<u>\$ (348,509)</u>	<u>\$ (348,509)</u>	<u>\$ (50,564)</u>	<u>\$ 297,945</u>
Fund Balance - January 1	<u>\$ 1,936,994</u>	<u>\$ 1,936,994</u>	<u>\$ 1,936,994</u>	<u>\$ -</u>
Prior Period Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (225,220)</u>	<u>\$ 225,220</u>
Fund Balance - January 1 Restated	<u>\$ 1,711,774</u>	<u>\$ 1,711,774</u>	<u>\$ 1,711,774</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 1,363,265</u></u>	<u><u>\$ 1,363,265</u></u>	<u><u>\$ 1,661,210</u></u>	<u><u>\$ 297,945</u></u>

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

MCHENRY COUNTY

Budgetary Comparison Schedule –Special Revenue Fund

December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 1,212,543	\$ 1,212,543	\$ 1,305,340	\$ 92,797
Intergovernmental	1,642,435	1,642,435	3,509,601	1,867,166
Charges for Services	346,500	346,500	337,036	(9,464)
Licenses, Permits and Fees	-	-	54,757	54,757
Miscellaneous	24,800	24,800	200,111	175,311
Total Revenues	\$ 3,226,278	\$ 3,226,278	\$ 5,406,845	\$ 2,180,567
EXPENDITURES				
Current				
General Government	\$ 2,500	\$ 2,500	\$ 504	\$ 1,996
Public Safety	266,265	342,427	263,810	78,617
Highways	1,610,450	2,046,749	1,774,441	272,308
Flood Repair	152,150	152,150	23,306	128,844
Health and Welfare	760,433	760,433	670,249	90,184
Conser. of Natural Resources	523,434	523,434	346,607	176,827
Emergency	-	24,175	24,175	-
Capital Outlay	-	-	224,178	(224,178)
Total Expenditures	\$ 3,315,232	\$ 3,851,868	\$ 3,327,270	\$ 524,598
Excess (Deficiency) of Revenues Over Expenditures	\$ (88,954)	\$ (625,590)	\$ 2,079,575	\$ 2,705,165
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 799,000	\$ 799,000	\$ 2,468,385	\$ 1,669,385
Transfers Out	(792,653)	(792,653)	(2,534,173)	(1,741,520)
Total Other Financing Sources and Uses	\$ 6,347	\$ 6,347	\$ (65,788)	\$ (72,135)
Net Change in Fund Balances	\$ (82,607)	\$ (619,243)	\$ 2,013,787	\$ 2,633,030
Fund Balance - January 1	\$ 1,474,044	\$ 1,474,044	\$ 1,474,044	\$ -
Prior Period Adjustment	\$ -	\$ -	\$ 225,220	\$ 225,220
Fund Balance - January 1 Restated	\$ 1,699,264	\$ 1,699,264	\$ 1,699,264	\$ -
Fund Balance - December 31	\$ 1,616,657	\$ 1,080,021	\$ 3,713,051	\$ 2,633,030

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

MCHENRY COUNTY

Notes to the Supplementary Information
For the Years Ended December 31, 2019 and 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

NOTE 2: LEGAL COMPLIANCE BUDGETS

Budget Amendments

The board of County commissioners amended the budget for 2019 and 2018 as follows:

2019	Original Budget	Amendment	Amended Budget
EXPENDITURES/TRANSFERS OUT			
Special Revenue Fund	4,717,929	244,761	4,962,690

2018	Original Budget	Amendment	Amended Budget
EXPENDITURES/TRANSFERS OUT			
Special Revenue Fund	4,107,885	536,636	4,644,521



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

Independent Auditor's Report

Board of County Commissioners
McHenry County
Towner, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McHenry County as of and for the years ended December 31, 2019 and December 31, 2018, and the related notes to the financial statements, which collectively comprise McHenry County's basic financial statements, and have issued our report thereon dated March 28, 2022. Our report gave an adverse opinion on the financial statements of the governmental activities because management of McHenry County did not provide adequate capital asset accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McHenry County's internal control. Accordingly, we do not express an opinion on the effectiveness of McHenry County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2019-002, 2019-003, 2019-005, and 2019-008 that we consider to be material weaknesses.

MCHENRY COUNTY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McHenry County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying *schedule of audit findings* as items 2019-001, 2019-004, 2019-006, and 2019-007.

McHenry County's Response to Findings

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
March 28, 2022

MCHENRY COUNTY

Summary of Auditor's Results

For the Years Ended December 31, 2019 and 2018

Financial Statements

Type of Report Issued:

Governmental Activities

Adverse

Aggregate Discretely Presented Component Units

Unmodified

Major Funds

Unmodified

Aggregate Remaining Fund Information

Unmodified

Internal control over financial reporting

Material weaknesses identified?

 X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

 Yes X None Noted

Noncompliance material to financial statements noted?

 X Yes None Noted

MCHENRY COUNTY

Schedule of Audit Findings

For the Years Ended December 31, 2019 and 2018

2019-001 CAPITAL ASSET SUPPORTING DOCUMENTATION – MATERIAL NONCOMPLIANCE**Condition**

McHenry County does not maintain complete capital asset records which include accumulated depreciation for the governmental activities.

Effect

The omission of capital assets from the financial statements results in an incomplete presentation of McHenry County's financial statements and an adverse opinion on the County's financial statements for governmental activities.

Cause

McHenry County may have been unaware that the County should maintain a capital asset listing including accumulated depreciation.

Criteria

Accounting principles generally accepted in the United States of America require the financial statements include capital assets for governmental activities.

Prior Recommendation

No

Recommendation

We recommend McHenry County establish and maintain capital asset records including accumulated depreciation for governmental activities using historical cost or estimated historical cost for these assets.

McHenry County's Response

McHenry County has reviewed the draft audit report and agrees with finding 2019-001. McHenry County has utilized a private accounting firm for past audits and has not been provided a copy of the capital asset documentation to substantiate the financial records. McHenry County will work to establish and maintain asset records including accumulated depreciation for governmental activities using historical cost or estimated historical cost for these assets.

2019-002 LACK OF SEGREGATION OF DUTIES – COMPONENT UNIT – MATERIAL WEAKNESS

Condition

The McHenry County Water Resource District, Eaton Irrigation District, and Willow Creek Water Resource District each have one secretary who is responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the component units' financial condition whether due to error of fraud.

Cause

Management of the component units has chosen to allocate its economic resources to other functions.

Criteria

Proper internal control according to the COSO framework include controls surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements. The framework dictates there should be sufficient accounting personnel so that duties of employees are properly segregated. Proper segregation of duties would provide better control over the assets of the component units.

Prior Recommendation

No

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Component Unit Response

Due to the small structure of the McHenry County Water Resource District and resources available, no change will be made to the segregation of duties at this time. We may have spot checks completed as the Board determines necessary at their next Board meeting.

Eaton Irrigation District will make sure the bank statements, bills and receipts are reviewed by the president of the board or the complete board at least once a year.

Willow Creek Water Resource District agrees with the finding. We will segregate duties when possible, including spot checks by the board.

2019-003 APPROVAL OF EXPENDITURES – COMPONENT UNIT – MATERIAL WEAKNESS

Condition

During testing it was found that 2 out of 10 expenditures tested totaling \$12,400 were not approved for payment by the Eaton Irrigation District Board.

Effect

Eaton Irrigation District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Eaton Irrigation District does not have an adequate process to ensure all expenditures are properly approved by the board.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to expenditures, management is responsible for ensuring all expenditures are properly approved.

Prior Recommendation

No

Recommendation

We recommend Eaton Irrigation District review and update its current procedures to ensure all expenditures are properly approved by the board.

Component Unit Response

We will make sure the bills are listed and approved in the secretary's reports.

2019-004 UNDERPLEDGED SECURITIES – COMPONENT UNIT – MATERIAL NONCOMPLIANCE

Condition

McHenry County Water Resource District was under pledged by \$22,304 as of December 31, 2019.

Effect

McHenry County Water Resource District is not in compliance with N.D.C.C. §21-04-09.

Cause

McHenry County Water Resource District may not have been aware they were under pledged as of December 31, 2019.

Criteria

N.D.C.C. §21-04-09 states “When securities are pledged to the board of any public corporation, the treasurer or other individual legally charged with the custody of public funds shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits.”

Prior Recommendation

No

Recommendation

We recommend McHenry County Water Resource District maintain adequate pledges of securities in accordance with N.D.C.C. §21-04-09.

Component Unit Response

McHenry County Water Resource District will be in regular contact with Merchants Bank to ensure that a sufficient dollar amount is made in the pledge levels as required by N.D.C.C. §21-04-09.

2019-005 BANK RECONCILIATIONS – COMPONENT UNIT – MATERIAL WEAKNESS

Condition

The component units of McHenry County, which include the Water Resource District, Eaton Irrigation District, and Willow Creek Water Resource District did not prepare bank reconciliations for fiscal years 2018 and 2019.

Effect

There is an increased risk of material misstatement to the financial statements whether due to error or fraud if bank reconciliations are not completed.

Cause

The component units may not have been aware of the importance of preparing timely bank reconciliations.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the bank reconciliations, management is responsible policies and procedures for accurate and timely bank reconciliations.

Prior Recommendation

No

Recommendation

We recommend McHenry County Water Resource District, Eaton Irrigation District, and Willow Creek Water Resource District prepare bank reconciliations on a monthly basis.

Component Unit Response

McHenry County Water Resource District will prepare bank reconciliations using the template on the bank statements monthly.

Eaton Irrigation District will do the reconciliations on the back of the bank statements.

Willow Creek Irrigation District agrees with the finding. We will prepare bank reconciliations using the format on the bank statements monthly.

2019-006 BUDGET DOCUMENTATION COMPONENT UNIT – MATERIAL NONCOMPLIANCE

Condition

The Willow Creek Water Resource District did not maintain budget support for the special project expenditure estimates in the budget documents prepared in years 2018 and 2019.

Effect

The estimates for expenditures is a key component in the tax levy calculation in any budget year. Thus, Willow Creek Water Resource District may have improperly calculated the tax levies certified in the budgets.

Cause

Willow Creek Water Resource District may have been unaware of the requirements to maintain proper support for budget estimates.

Criteria

NDCC 57-15-31(a) states, "The amount to be levied by any county, city, township, school district, park district, or other municipality authorized to levy taxes must be computed by deducting from the amount of estimated expenditures for the current fiscal year as finally determined, plus the required reserve fund determined upon by the governing board from the past experience of the taxing district.

Prior Recommendation

No

Recommendation

We recommend that Willow Creek Water Resource District ensure amounts levied in accordance with N.D.C.C. §57-15-31(a) are properly supported.

Component Unit Response

Willow Creek Water Resource District agrees with the finding. We will document projects and estimated costs to support our special projects budget.

2019-007 BUDGET DOCUMENTATION COMPONENT UNIT – MATERIAL NONCOMPLIANCE

Condition

The McHenry County Water Resource District did not maintain budget documentation for the special project expenditure estimate or the year end cash and investment estimate for the 2018 and 2019 budgets.

Effect

The estimates for expenditures and year-end cash are key components in the tax levy calculation in any budget year. Thus, McHenry County Water Resource District may have improperly calculated the tax levies certified in the budgets.

Cause

McHenry County Water Resource District may have been unaware of the requirements to maintain proper support for budget estimates.

Criteria

NDCC 57-15-31(a) states, "The amount to be levied by any county, city, township, school district, park district, or other municipality authorized to levy taxes must be computed by deducting from the amount of estimated expenditures for the current fiscal year as finally determined, plus the required reserve fund determined upon by the governing board from the past experience of the taxing district.

Prior Recommendation

No

Recommendation

We recommend that McHenry County Water Resource District ensure all elements of its budgets are supported and are in accordance with N.D.C.C. §57-15-31(a).

Component Unit Response

General discussions have been held on possible projects that may need to be addressed during the year with a possible dollar amount for each considered. None of these amounts have been put in writing. The McHenry County Water Resource District will include specific documentation for special projects as well as the year end cash and investment estimates.

2019-008 CASH AUDIT ADJUSTMENT COMPONENT UNIT – MATERIAL WEAKNESS

Condition

McHenry County Water Resource District's prepared financial statements initially included a prior period adjustment which decreased cash and net position by \$80,610.

During opening balance testing for cash, a certificate of deposit in the amount of \$19,961 was identified and was subsequently corrected by management. This led to a net prior period adjustment that decreased cash and net position in the amount of \$60,649.

Effect

There is an increased risk of material misstatement of the financial statements whether due to fraud or error.

Cause

McHenry County Water Resource District was unable to reconcile the beginning 2018 audited cash to its financial records.

Criteria

McHenry County Water Resource District is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No

Recommendation

We recommend McHenry County Water Resource District ensure cash presented in its audited financial statements is complete and accurate.

Component Unit Response

The McHenry County Water Resource District has no information as to how this cash difference occurred. We have had no contact during any audits with the auditor that completed the previous audits and do not know where his figures were derived from.

STATE AUDITOR
Joshua C. Gallion



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GOVERNANCE COMMUNICATION

Board of County Commissioners
McHenry County
Towner, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McHenry County, North Dakota, for the year ended December 31, 2019 and December 31, 2018 which collectively comprise McHenry County's basic financial statements, and have issued our report thereon dated March 28, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated September 15, 2021, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

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

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

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by McHenry County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2019 and December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

MCHENRY COUNTY

Governance Communication – Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules list all misstatements detected as a result of audit procedures that were corrected by management.

2018 Adjustments	Client Adjustments		Audit Adjustments		Total Adjustments	
	Debit	Credit	Debit	Credit	Debit	Credit
Governmental Activities						
<u>To Record Capital Asset PPA</u>						
Net Position - Jan 1	10,175,125	-	-	-	10,175,125	-
Capital Asset - Jan 1	-	10,175,125	-	-	-	10,175,125
Water Resource District						
<u>To Record Cash PPA</u>						
Cash - Jan 1	-	80,610	19,961	-	-	60,649
Net Position - Jan 1	80,610	-	-	19,961	60,649	-

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2022.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

McHenry County management was unable to provide sufficient information for the inclusion of capital assets and related depreciation expense into the financial statements.

Other Audit Findings or Issues

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

We do express an adverse opinion on the financial statements of the governmental activities, due to the possible effects of the matter described in the Difficulties Encountered in Performing the Audit paragraph.

MCHENRY COUNTYGovernance Communication – Continued

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

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
March 28, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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