



Financial Statements  
December 31, 2022 and 2021

## Towner County, North Dakota

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**December 31, 2022**

Matt Odermann  
David Lagein  
Doug Berg  
Lance Teubner  
Bob Hallaway  
Joni Morlock  
Wayne Lingen  
Kendall Brehm  
Andy Hillier  
Josh Frey

Commissioner – Chairman  
Commissioner – Vice Chairman  
Commissioner  
Commissioner  
Commissioner  
Auditor/Treasurer  
Superintendent of Schools  
Register of Deeds/Clerk of Court  
Sheriff  
State's Attorney

**December 31, 2021**

Doug Berg  
David Lagein  
Matt Odermann  
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Bob Hallaway  
Joni Morlock  
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Jolene Hoffert  
Andy Hillier  
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Auditor/Treasurer  
Superintendent of Schools  
Register of Deeds/Clerk of Court  
Sheriff  
State's Attorney



CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

Board of County Commissioners  
Towner County  
Cando, North Dakota

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, North Dakota (the County) as of and for the years ended December 31, 2022 and 2021, and the related notes to the modified cash basis financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, North Dakota as of December 31, 2022 and 2021, and the respective changes in modified cash basis financial position thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1 to the financial statements.

#### ***Basis for Opinions***

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

#### ***Emphasis of Matter - Change of Accounting Method***

As discussed in Note 10 to the financial statements, the County has elected to use the modified cash basis of accounting effective January 1, 2021. Accordingly, a restatement has been made to the net position of the governmental activities and component units and fund balance of each major fund and nonmajor governmental funds as of January 1, 2021, to remove items not reported under the modified cash basis of accounting. Our opinions are not modified with respect to this matter.

### ***Emphasis of Matter - Correction of Error***

As discussed in Note 10 to the financial statements, the County has identified a special revenue fund that was omitted from the financial statements as of December 31, 2020. Accordingly, a restatement has been made to the net position of the governmental activities and fund balance of the nonmajor governmental funds as of January 1, 2021, to correct this error. Our opinions are not modified with respect to this matter.

### ***Emphasis of Matter – 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 basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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 Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.



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

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

### ***Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The budgetary comparison schedules, combining schedules of net position – discretely presented component units, and combining schedules of activities – discretely presented component units are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 GAAS. In our opinion, the budgetary comparison schedules, combining schedules of net position – discretely presented component units, and combining schedules of activities – discretely presented component units are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the listing of county officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2023, on our consideration of Towner County, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Towner County, North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Towner County, North Dakota's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
September 11, 2023

Towner County, North Dakota  
Statement of Net Position – Modified Cash Basis - 2022  
December 31, 2022

	Primary Government <u>Governmental Activities</u>	Component <u>Units</u>
Assets		
Cash and investments	\$ 6,243,270	\$ 797,692
Capital assets not being depreciated		
Land	130,490	-
Construction in progress	413,302	-
Capital assets (net of accumulated depreciation)		
Buildings	35,971	85,369
Equipment	604,467	-
Infrastructure	5,367,560	-
Small equipment	4,100	-
	<u>6,555,890</u>	<u>85,369</u>
Total capital assets, net		
	<u>6,555,890</u>	<u>85,369</u>
Total assets	<u>12,799,160</u>	<u>883,061</u>
Net Position		
Net investment in capital assets	6,555,890	85,369
Restricted for		
General government	117,471	-
Highways and bridges	2,527,734	-
Flood repair	175,764	-
Health and welfare	34,543	224,080
Conservation of natural resources	149,442	573,612
Emergency	347,745	-
Unrestricted	2,890,571	-
	<u>2,890,571</u>	<u>-</u>
Total net position	<u>\$ 12,799,160</u>	<u>\$ 883,061</u>



**Towner County, North Dakota**  
**Statement of Activities – Modified Cash Basis -2022**  
**Year Ended December 31, 2022**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units
					Governmental Activities	
Primary government						
Governmental activities						
General government	\$ 1,461,883	\$ 465,743	\$ 25,666	\$ -	\$ (970,474)	\$ -
Public safety	714,221	134,230	44,756	-	(535,235)	-
Highways and bridges	2,332,947	600,153	1,521,230	-	(211,564)	-
Health and welfare	75,000	-	-	-	(75,000)	-
Culture and recreation	12,821	-	-	-	(12,821)	-
Conservation of natural resources	224,037	53,707	5,450	-	(164,880)	-
Economic development	8,000	-	-	-	(8,000)	-
Total primary government	<u>\$ 4,828,909</u>	<u>\$ 1,253,833</u>	<u>\$ 1,597,102</u>	<u>\$ -</u>	<u>(1,977,974)</u>	<u>-</u>
Component units						
Conservation of natural resources	\$ 63,983	\$ -	\$ -	\$ -	-	(63,983)
Health and welfare	360,776	78,451	227,444	-	-	(54,881)
Total component units	<u>\$ 424,759</u>	<u>\$ 78,451</u>	<u>\$ 227,444</u>	<u>\$ -</u>	<u>-</u>	<u>(118,864)</u>
General revenues						
Property Taxes					2,539,302	227,349
Unrestricted state grants/aid					402,877	-
Gain on sale of capital assets					31,203	-
Unrestricted investment earnings					15,215	1,216
Miscellaneous revenue					31,491	5,923
Total general revenues					3,020,088	234,488
Change in net position					1,042,114	115,624
Net position - January 1					11,757,046	767,437
Net position - December 31					<u>\$ 12,799,160</u>	<u>\$ 883,061</u>

Towner County, North Dakota  
Balance Sheet – Governmental Funds – Modified Cash Basis - 2022  
December 31, 2022

	General	County Road and Bridge	HB1505	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	<u>\$ 2,893,498</u>	<u>\$ 1,170,104</u>	<u>\$ 322,401</u>	<u>\$ 1,857,267</u>	<u>\$ 6,243,270</u>
Fund Balances					
Restricted for					
General government	\$ -	\$ -	\$ -	\$ 117,471	\$ 117,471
Highways and bridges	-	1,170,104	322,401	1,035,229	2,527,734
Flood repair	-	-	-	175,764	175,764
Health and welfare	-	-	-	34,543	34,543
Conservation of natural resources	-	-	-	149,442	149,442
Emergency	-	-	-	347,745	347,745
Unassigned	<u>2,893,498</u>	<u>-</u>	<u>-</u>	<u>(2,927)</u>	<u>2,890,571</u>
Total fund balances	<u>\$ 2,893,498</u>	<u>\$ 1,170,104</u>	<u>\$ 322,401</u>	<u>\$ 1,857,267</u>	<u>\$ 6,243,270</u>

Towner County, North Dakota

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Funds –  
Modified Cash Basis - 2022  
December 31, 2022

Total fund balances for governmental funds		\$ 6,243,270
Total net position reported for government activities in the statement of net position is different because		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 10,833,712	
Less accumulated depreciation	<u>(4,277,822)</u>	
Net capital assets		<u>6,555,890</u>
Total net position of governmental activities		<u>\$ 12,799,160</u>

**Towner County, North Dakota**  
**Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash**  
**Basis - 2022**  
**Year Ended December 31, 2022**

	General	County Road and Bridge	HB1505	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 2,091,003	\$ 279,532	\$ -	\$ 168,767	\$ 2,539,302
Intergovernmental	402,877	69,787	700,151	803,135	1,975,950
Licenses, permits and fees	1,390	-	-	-	1,390
Charges for services	440,600	558,037	-	-	998,637
Fines and forfeits	-	-	-	157,983	157,983
Interest income	15,215	-	-	421	15,636
Miscellaneous	55,520	41,695	-	53,707	150,922
<b>Total revenues</b>	<b>3,006,605</b>	<b>949,051</b>	<b>700,151</b>	<b>1,184,013</b>	<b>5,839,820</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	1,411,751	-	-	76,926	1,488,677
Public safety	615,685	-	-	43,121	658,806
Highways	-	1,292,184	-	656,483	1,948,667
Health and welfare	75,000	-	-	-	75,000
Culture and recreation	12,821	-	-	-	12,821
Conservation	-	-	-	195,631	195,631
Economic development	8,000	-	-	-	8,000
Capital outlay	79,229	65,211	377,750	344,983	867,173
<b>Total expenditures</b>	<b>2,202,486</b>	<b>1,357,395</b>	<b>377,750</b>	<b>1,317,144</b>	<b>5,254,775</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>804,119</b>	<b>(408,344)</b>	<b>322,401</b>	<b>(133,131)</b>	<b>585,045</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	67,698	573,420	-	31,852	672,970
Transfers out	(519,908)	-	-	(153,062)	(672,970)
Sale of assets	-	127,000	-	-	127,000
<b>Total Other Financing Sources (Uses)</b>	<b>(452,210)</b>	<b>700,420</b>	<b>-</b>	<b>(121,210)</b>	<b>127,000</b>
<b>Net Change in Fund Balances</b>	<b>351,909</b>	<b>292,076</b>	<b>322,401</b>	<b>(254,341)</b>	<b>712,045</b>
<b>Fund Balance - January 1</b>	<b>2,541,589</b>	<b>878,028</b>	<b>-</b>	<b>2,111,608</b>	<b>5,531,225</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,893,498</b>	<b>\$ 1,170,104</b>	<b>\$ 322,401</b>	<b>\$ 1,857,267</b>	<b>\$ 6,243,270</b>

Towner County, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to  
the Statement of Activities – Governmental Funds – Modified Cash Basis - 2022  
Year Ended December 31, 2022

Net change in fund balance - total governmental funds		\$	712,045
The change in net position reported for governmental activities in the statement of activities is different because			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year			
Current year capital outlay	\$	867,173	
Current year depreciation expense		<u>(441,307)</u>	425,866
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position			<u>(95,797)</u>
Change in net position of governmental activities		\$	<u><u>1,042,114</u></u>

Towner County, North Dakota  
Statement of Net Position – Modified Cash Basis - 2021  
December 31, 2021

	Primary Government <u>Governmental Activities</u>	<u>Component Units</u>
Assets		
Cash and investments	\$ 5,531,225	\$ 678,907
Capital assets not being depreciated		
Land	130,490	-
Construction in progress	52,402	-
Capital assets (net of accumulated depreciation)		
Buildings	24,408	88,530
Equipment	883,417	-
Infrastructure	5,130,501	-
Small equipment	4,603	-
Total capital assets, net	<u>6,225,821</u>	<u>88,530</u>
Total assets	<u>11,757,046</u>	<u>767,437</u>
Net Position		
Net investment in capital assets	6,225,821	88,530
Restricted for		
General government	36,067	-
Highways and bridges	2,315,643	-
Flood repair	93,103	-
Health and welfare	13,811	554,035
Conservation of natural resources	187,829	124,872
Emergency	347,745	-
Unrestricted	<u>2,537,027</u>	<u>-</u>
Total net position	<u><u>\$ 11,757,046</u></u>	<u><u>\$ 767,437</u></u>



**Towner County, North Dakota**  
**Statement of Activities – Modified Cash Basis - 2021**  
**Year Ended December 31, 2021**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units
					Governmental Activities	
Primary government						
Governmental activities						
General government	\$ 1,553,388	\$ 288,520	\$ 42,762	\$ -	\$ (1,222,106)	\$ -
Public safety	762,631	225,188	61,428	-	(476,015)	-
Highways and bridges	1,709,753	305,276	576,372	-	(828,105)	-
Culture and recreation	17,818	-	-	-	(17,818)	-
Conservation of natural resources	269,083	50,836	450	-	(217,797)	-
Economic development	8,000	-	-	-	(8,000)	-
Total primary government	<u>\$ 4,320,673</u>	<u>\$ 869,820</u>	<u>\$ 681,012</u>	<u>\$ -</u>	<u>(2,769,841)</u>	<u>-</u>
Component units						
Conservation of natural resources	\$ 103,693	\$ -	\$ -	\$ -	-	(103,693)
Health and welfare	382,055	41,289	248,124	-	-	(92,642)
Total component units	<u>\$ 485,748</u>	<u>\$ 41,289</u>	<u>\$ 248,124</u>	<u>\$ -</u>	<u>-</u>	<u>(196,335)</u>
General revenues						
Property Taxes					2,397,249	220,633
Unrestricted state grants/aid					426,533	-
Loss on sale of capital assets					(31,008)	-
Unrestricted investment earnings					8,783	1,606
Miscellaneous revenue					33,750	-
Total general revenues					<u>2,835,307</u>	<u>222,239</u>
Change in net position					65,466	25,904
Net position - January 1, as restated (Note 10)					<u>11,691,580</u>	<u>741,533</u>
Net position - December 31					<u>\$ 11,757,046</u>	<u>\$ 767,437</u>

Towner County, North Dakota  
Balance Sheet – Governmental Funds – Modified Cash Basis - 2021  
December 31, 2021

	General	Farm to Market	County Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	<u>\$ 2,541,589</u>	<u>\$ 799,535</u>	<u>\$ 878,028</u>	<u>\$ 1,312,073</u>	<u>\$ 5,531,225</u>
Fund Balances					
Restricted for					
General government	\$ -	\$ -	\$ -	\$ 36,067	\$ 36,067
Highways and bridges	-	799,535	878,028	638,080	2,315,643
Flood repair	-	-	-	93,103	93,103
Health and welfare	-	-	-	13,811	13,811
Conservation of natural resources	-	-	-	187,829	187,829
Emergency	-	-	-	347,745	347,745
Unassigned	<u>2,541,589</u>	<u>-</u>	<u>-</u>	<u>(4,562)</u>	<u>2,537,027</u>
Total fund balances	<u>\$ 2,541,589</u>	<u>\$ 799,535</u>	<u>\$ 878,028</u>	<u>\$ 1,312,073</u>	<u>\$ 5,531,225</u>

Towner County, North Dakota

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Funds –  
Modified Cash Basis - 2021  
December 31, 2021

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Total fund balances for governmental funds		\$ 5,531,225
Total net position reported for government activities in the statement of net position is different because		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 10,216,443	
Less accumulated depreciation	<u>(3,990,622)</u>	
Net capital assets		<u>6,225,821</u>
Total net position of governmental activities		<u>\$ 11,757,046</u>

**Towner County, North Dakota**  
**Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash**  
**Basis - 2021**  
**Year Ended December 31, 2021**

	General	Farm to Market	County Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 1,743,012	\$ 192,550	\$ 284,786	\$ 176,901	\$ 2,397,249
Intergovernmental	449,225	-	53,238	586,665	1,089,128
Licenses, permits and fees	2,145	-	-	-	2,145
Charges for services	401,017	-	274,461	-	675,478
Fines and forfeits	1,250	-	-	109,296	110,546
Interest income	8,783	747	-	-	9,530
Miscellaneous	52,167	-	30,068	50,836	133,071
Total revenues	<u>2,657,599</u>	<u>193,297</u>	<u>642,553</u>	<u>923,698</u>	<u>4,417,147</u>
<b>Expenditures</b>					
<b>Current</b>					
General government	1,431,655	-	-	139,613	1,571,268
Public safety	674,954	-	-	51,087	726,041
Highways	63,080	-	983,653	272,748	1,319,481
Culture and recreation	17,818	-	-	-	17,818
Conservation	-	-	-	202,539	202,539
Economic development	8,000	-	-	-	8,000
Capital outlay	-	156,699	15,043	21,357	193,099
Total expenditures	<u>2,195,507</u>	<u>156,699</u>	<u>998,696</u>	<u>687,344</u>	<u>4,038,246</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>462,092</u>	<u>36,598</u>	<u>(356,143)</u>	<u>236,354</u>	<u>378,901</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	45,764	-	153,306	-	199,070
Transfers out	-	(153,306)	-	(45,764)	(199,070)
Sale of assets	-	-	116,000	-	116,000
Total Other Financing Sources (Uses)	<u>45,764</u>	<u>(153,306)</u>	<u>269,306</u>	<u>(45,764)</u>	<u>116,000</u>
Net Change in Fund Balances	507,856	(116,708)	(86,837)	190,590	494,901
Fund Balance - January 1, as Restated (Note 10)	<u>2,033,733</u>	<u>916,243</u>	<u>964,865</u>	<u>1,121,483</u>	<u>5,036,324</u>
Fund Balance - December 31	<u>\$ 2,541,589</u>	<u>\$ 799,535</u>	<u>\$ 878,028</u>	<u>\$ 1,312,073</u>	<u>\$ 5,531,225</u>

Towner County, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to  
the Statement of Activities – Governmental Funds – Modified Cash Basis - 2021  
Year Ended December 31, 2021

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Net change in fund balance - total governmental funds		\$	494,901
The change in net position reported for governmental activities in the statement of activities is different because			
Governmental funds report capital outlays as expenditures.			
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year			
Current year capital outlay	\$	193,099	
Current year depreciation expense		<u>(475,526)</u>	(282,427)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position			<u>(147,008)</u>
Change in net position of governmental activities		\$	<u>65,466</u>

Towner County, North Dakota  
Statements of Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis  
December 31, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
Assets		
Cash and investments	<u>\$ 1,351,627</u>	<u>\$ 1,250,567</u>
Net Position		
Restricted	<u>\$ 1,351,627</u>	<u>\$ 1,250,567</u>



Towner County, North Dakota  
Statements of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis  
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Additions		
Tax collections for other governments	\$ 4,065,101	\$ 4,025,486
Grant collection for other governments	59,946	72,204
Miscellaneous collections	<u>21,368</u>	<u>15,468</u>
Total revenues	<u>4,146,415</u>	<u>4,113,158</u>
Deductions		
Tax disbursements to other governments	4,019,329	4,110,344
Grant disbursements to other governments	6,874	75,199
Miscellaneous disbursements	<u>19,152</u>	<u>6,584</u>
Total expenditures	<u>4,045,355</u>	<u>4,192,127</u>
Change in net position	101,060	(78,969)
Net position, beginning	<u>1,250,567</u>	<u>1,329,536</u>
Net position, ending	<u><u>\$ 1,351,627</u></u>	<u><u>\$ 1,250,567</u></u>

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of Towner County, North Dakota, ("the County") have been prepared in conformity with the modified cash basis of accounting. 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 it is financially accountable and other organizations for which the nature and significance of their relationships with the County are such that exclusion would cause its 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 its operational or financial relationship with the County.

**Component Units**

In conformity with a modified cash basis, 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 column in the government wide financial statements include the financial data of the County's two component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

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

Towner County Health District ("Health District") - The County's governing board appoints a voting majority of the members of the Health District's board. The County has the authority to approve or modify the Health District authority's operational and capital budgets. The County also must approve the tax levy established by the Health District.

**Government-Wide and Fund Financial Statements**

**Government-Wide Statements** – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities are normally supported by taxes and intergovernmental revenues and non-exchange transactions. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

The County reports the following major governmental funds:

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

**County Road and Bridge Fund** – This fund accounts for financial resources that exist for maintaining and improving the county's roads and bridges. The major sources of revenues are a restricted tax levy and charges for services provided to cities and townships for road maintenance.

**HB1505 Fund** – This fund accounts for financial resources that exist as a result of appropriations under House Bill 1505 for road and bridge construction projects. The major source of revenue is intergovernmental appropriations from the State of North Dakota. This fund is considered to be a major fund only for the year ended December 31, 2022.

**Farm to Market Fund** – This fund accounts for financial resources that exist for maintaining and improving the county's farm-to-market roads and bridges. The major source of revenue is a property tax levy. This fund is considered to be a major fund only for the year ended December 31, 2021.

Additionally, the County reports the following fiduciary fund type:

**Custodial Funds** – These funds account for assets by the County in a custodial capacity as an agent on behalf of others. The County's fiduciary funds are used to account for property taxes, grants, and miscellaneous revenues collected on behalf of other governments.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. 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.

Governmental funds are reported using the current financial 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.

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 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.

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

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



## **Fund Balance Classifications**

### **Government-wide Statements**

Fund balance is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

### **Fund Balance Classification Policies and Procedures**

The County classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by management.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The County uses *restricted* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

### **Cash and Investments**

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with a maturity date of 90 days or less.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

**Legal Compliance – Budgets**

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 current budget, except for property taxes, may be amended throughout the year for revenues or appropriations anticipated when the budget was prepared. NDCC 57-15-31.1. Each budget is controlled by the County auditor at the revenue and expenditure function/object level. All appropriations lapse at year-end. When expenditures are in excess of appropriations, the County will fund these items through revenues in excess of budget, cash reserves of the fund, or from a cash transfer from other funds.

The County holds public hearings regarding disbursements. All tax levies and all taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04. The County commissioners meet on or before October to 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.

**Capital Assets**

Capital assets include buildings, equipment, and infrastructure. Assets are reported in the governmental activities’ column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	50 years
Equipment	3 to 20 years
Infrastructure	50 years
Small Equipment	5 to 10 years

**Tax Revenues**

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

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



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

### Interfund Transactions

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

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

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

### Note 2 - Stewardship, Compliance, and Accountability

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.

For the year ended December 31, 2022, the following funds had expenditures in excess of appropriations:

County Road and Bridge	\$ 231,637
HB1505	377,750
Nonmajor Governmental Funds	
Court	72,546
Farm to Market	90,655
Highway Tax	231,309
FEMA 2017	7,739
Stone Garden Grant	43,121
Weed Control	24,084
ARPA	145,554

These expenditures in excess were funded by a combination of revenues in excess of budget and existing fund balance.

For the year ended December 31, 2021, the following funds had expenditures in excess of appropriations:

Farm to Market	\$ 6,699
County Road and Bridge	96,173
Nonmajor Governmental Funds	
Court	116,547
FEMA 2017	1,171
Stone Garden Grant	51,087
County Agent	2,833
Weed Control	42,605
ARPA	21,357

These expenditures in excess were funded by a combination of revenues in excess of budget and existing fund balance.

### **Note 3 - Deposits and Investments**

#### **Deposits**

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

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 December 31, 2022, the pooled bank balance of the County funds was \$4,695,468. The carrying amount of deposits was \$4,742,324, which consisted of County deposits and custodial fund deposits. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance. The remaining balance of \$3,736,268 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2022, Towner County Water Resource District, a discretely presented component unit of the County, had a carrying amount of deposits of \$573,612, and a bank balance of \$573,612. The bank balance was covered by Federal Depository Insurance of \$434,585 and the remaining balance was collateralized with securities held by the pledge financial institution's agent in the Water Resource District's name.

At December 31, 2022, Towner County Health District, a discretely presented component unit of the County, had a carrying amount of deposits of \$224,080, and a bank balance of \$235,401. The bank balance was covered by Federal Depository Insurance of \$235,401.

At December 31, 2021, the pooled bank balance of the County funds was \$5,051,380. The carrying amount of deposits was \$4,938,312, which consisted of County deposits and custodial fund deposits. Of the bank balances, \$1,500,000 was covered by Federal Depository Insurance. The remaining balance of \$5,549,114 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2021, Towner County Water Resource District, a discretely presented component unit of the County, had a carrying amount of deposits of \$554,035, and a bank balance of \$554,035. The bank balance was covered by Federal Depository Insurance of \$495,978 and the remaining balance was collateralized with securities held by the pledge financial institution's agent in the Water Resource District's name.

At December 31, 2021, Towner County Health District, a discretely presented component unit of the County, had a carrying amount of deposits of \$124,872, and a bank balance of \$126,573. The bank balance was covered by Federal Depository Insurance of \$126,573.

### **Investments**

**Interest Rate Risk** – The County does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates, nor do the fiduciary funds or component units. Investments are reported at cost. The County's investments consist of U.S. government obligations and certificates of deposit.

**Credit Risk** - The County may invest idle funds as authorized in North Dakota Statutes, as follows:

1. Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an Act of Congress.
2. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
3. Certificates of Deposit fully insured by the federal deposit insurance corporation.
4. Obligations of the state.

# Towner County, North Dakota

Notes to Financial Statements

December 31, 2022 and 2021

Concentration of Credit Risk - The County does not have a limit on the amount the district may invest in any one issuer.

Investments at December 31, 2022, were as follows:

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Total</u>	<u>Fair Value</u>
Primary Government				
Marketable Securities				
US Treasury Bills	\$ 1,180,169	\$ -	\$ 1,180,169	\$ 1,190,924
US Treasury Notes	781,364	-	781,364	780,312
US Government Bonds	400,240	-	400,240	399,747
	<u>2,361,773</u>	<u>-</u>	<u>2,361,773</u>	<u>2,370,983</u>
Certificates of Deposit	<u>265,800</u>	<u>225,000</u>	<u>490,800</u>	<u>N/A</u>
	<u>\$ 2,627,573</u>	<u>\$ 225,000</u>	<u>\$ 2,852,573</u>	<u>N/A</u>
Health District Component Unit				
Certificates of Deposit	<u>\$ 22,768</u>	<u>\$ -</u>	<u>\$ 22,768</u>	<u>N/A</u>

In accordance with the modified cash basis of accounting, investments in securities are recorded at cost. The fair value levels above are considered Level 1 which consist of inputs to the valuation methodology that are unadjusted quoted prices for identical assets in active markets that the County has the ability to access.

Investments at December 31, 2021, were as follows:

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Total</u>
Primary Government			
Certificates of Deposit	<u>\$ 1,843,480</u>	<u>\$ -</u>	<u>\$ 1,843,480</u>
Health District Component Unit			
Certificates of Deposit	<u>\$ 22,683</u>	<u>\$ -</u>	<u>\$ 22,683</u>

**Note 4 - Capital Assets****Primary Government**

The following is a summary of changes in capital assets for the year ended December 31, 2022:

<u>Governmental Activities</u>	<u>Balance January 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2022</u>
Capital assets not being depreciated				
Land	\$ 130,490	\$ -	\$ -	\$ 130,490
Construction in progress	52,402	360,900	-	413,302
Total capital assets, not being depreciated	182,892	360,900	-	543,792
Capital assets being depreciated				
Buildings	392,500	12,952	-	405,452
Equipment	3,034,361	90,605	249,904	2,875,062
Infrastructure	6,529,809	402,716	-	6,932,525
Small equipment	76,881	-	-	76,881
Total capital assets being depreciated	10,033,551	506,273	249,904	10,289,920
Less accumulated depreciation for				
Buildings	368,092	1,389	-	369,481
Equipment	2,150,944	273,758	154,107	2,270,595
Infrastructure	1,399,308	165,657	-	1,564,965
Small equipment	72,278	503	-	72,781
Total accumulated depreciation	3,990,622	441,307	154,107	4,277,822
Total capital assets being depreciated, net	6,042,929	64,966	95,797	6,012,098
Governmental activities - capital assets, net	\$ 6,225,821	\$ 425,866	\$ 95,797	\$ 6,555,890

Depreciation expense for the year ended December 31, 2022, was charged to functions/programs of the County as follows:

<u>Governmental Activities</u>	
General Government	\$ 5,377
Public Safety	23,244
Highways and Bridges	371,328
Conservation of Natural Resources	41,358
Total depreciation expense - governmental activities	<u>\$ 441,307</u>

The following is a summary of changes in capital assets for the year ended December 31, 2021:

<u>Governmental Activities</u>	<u>January 1, 2021, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2021</u>
Capital assets not being depreciated				
Land	\$ 11,150	\$ 119,340	\$ -	\$ 130,490
Construction in progress	-	52,402	-	52,402
Total capital assets, not being depreciated	<u>11,150</u>	<u>171,742</u>	<u>-</u>	<u>182,892</u>
Capital assets being depreciated				
Buildings	392,500	-	-	392,500
Equipment	3,248,202	21,357	235,198	3,034,361
Infrastructure	6,529,809	-	-	6,529,809
Small equipment	76,881	-	-	76,881
Total capital assets being depreciated	<u>10,247,392</u>	<u>21,357</u>	<u>235,198</u>	<u>10,033,551</u>
Less accumulated depreciation for				
Buildings	366,865	1,227	-	368,092
Equipment	1,928,583	310,551	88,190	2,150,944
Infrastructure	1,236,063	163,245	-	1,399,308
Small equipment	71,775	503	-	72,278
Total accumulated depreciation	<u>3,603,286</u>	<u>475,526</u>	<u>88,190</u>	<u>3,990,622</u>
Total capital assets being depreciated, net	<u>6,644,106</u>	<u>(454,169)</u>	<u>147,008</u>	<u>6,042,929</u>
Governmental activities - capital assets, net	<u>\$ 6,655,256</u>	<u>\$ (282,427)</u>	<u>\$ 147,008</u>	<u>\$ 6,225,821</u>



Towner County, North Dakota  
Notes to Financial Statements  
December 31, 2022 and 2021

Depreciation expense for the year ended December 31, 2021, was charged to functions/programs of the County as follows:

<u>Governmental Activities</u>	
General Government	\$ 3,477
Public Safety	36,590
Highways and Bridges	368,915
Conservation of Natural Resources	<u>66,544</u>
Total depreciation expense - governmental activities	<u>\$ 475,526</u>

**Component Units**

The following is a summary of changes in capital assets for the year ended December 31, 2022:

<u>Discretely Presented Component Units</u>	<u>Balance January 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2022</u>
Capital assets being depreciated				
Buildings	\$ 94,854	\$ -	\$ -	\$ 94,854
Less accumulated depreciation for				
Buildings	<u>6,324</u>	<u>3,161</u>	<u>-</u>	<u>9,485</u>
Component units - capital assets, net	<u>\$ 88,530</u>	<u>\$ (3,161)</u>	<u>\$ -</u>	<u>\$ 85,369</u>

Depreciation expense of \$3,161 was charged to the Health District for the year ended December 31, 2022.

The following is a summary of changes in capital assets for the year ended December 31, 2021:

<u>Discretely Presented Component Units</u>	<u>Balance January 1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2021</u>
Capital assets being depreciated				
Buildings	\$ 94,854	\$ -	\$ -	\$ 94,854
Less accumulated depreciation for				
Buildings	<u>3,162</u>	<u>3,162</u>	<u>-</u>	<u>6,324</u>
Component units - capital assets, net	<u>\$ 91,692</u>	<u>\$ (3,162)</u>	<u>\$ -</u>	<u>\$ 88,530</u>

Depreciation expense of \$3,162 was charged to the Health District for the year ended December 31, 2021.

**Note 5 - Interfund Transfers**

Interfund transfers were used to move revenues from the funds that are required to collect them to funds that are allowed to expend them and to subsidize other programs. Transfers were also made to close out funds and to finance various road projects. The following is a reconciliation between transfers in and out for the year ended December 31, 2022:

Funds	Transfers In	Transfers Out
General Fund	\$ 67,698	\$ 519,908
County Road and Bridge Fund	573,420	-
Nonmajor Governmental Funds	31,852	153,062
Total transfers	<u>\$ 672,970</u>	<u>\$ 672,970</u>

The following is a reconciliation between transfers in and out for the year ended December 31, 2021:

Funds	Transfers In	Transfers Out
General Fund	\$ 45,764	\$ -
Farm to Market Fund	-	153,306
County Road and Bridge Fund	153,306	-
Nonmajor Governmental Funds	-	45,764
Total transfers	<u>\$ 199,070</u>	<u>\$ 199,070</u>

**Note 6 - Pension Plans****North Dakota Public Employees Retirement System (Main System and Law Enforcement System)**

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

The NDPERS Main System 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.

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System 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 of the Law Enforcement 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 (55) with three or more years of service. 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 first enrolled in the plan after December 31, 2019 the multiplier was reduced from 2.0% to 1.75%. The plan permits early retirement at ages 50-55 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 or the Law Enforcement 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 or Law Enforcement 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.

### Member and Employer Contributions

Main System 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.

Law Enforcement System member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	9.81%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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 Contributions

During the years ended December 31, 2022 and 2021, the County made employer cash contributions for the pension plans totaling \$129,749 and \$112,725, respectively.



**Note 7 - Other Post-Employment Benefits****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 Contributions**

During the years ended December 31, 2022 and 2021, the County made employer cash contributions for the OPEB plan totaling \$14,069 and \$14,588, respectively.

### **Note 8 - Risk Management**

The County is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2022 and 2021, the County managed its risks as follows:

#### **Liability Insurance**

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. For the County the coverage by NDIRF is limited to losses of one million dollars per occurrence for general liability, one million for automobile, and \$3,182,088 for public assets/mobile equipment and portable property.

#### **Property and Bond Insurance**

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.

The County has workers compensation with the North Dakota Workforce Safety and Insurance. The County pays for a single policy health insurance from a commercial insurance carrier.

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

**Note 9 - Construction Commitments**

As of December 31, 2022, the County had two ongoing construction projects with costs incurred to date of \$413,302. Estimated total cost of these projects is approximately \$3,728,431. Construction is expected to be completed in the fall of 2023.

**Note 10 - Restatement****Change in Accounting Method**

Effective January, 2021, the County has elected to present its financial statements under the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This method was adopted to more accurately reflect how the County is managed. As a result, net position of the governmental activities and the discretely presented component units and fund balances of each major governmental fund and the nonmajor governmental funds at January 1, 2021, have been restated to remove certain assets, deferred inflows of resources, liabilities, and deferred outflows of resources not reported under the modified cash basis of accounting. Additionally, all special revenue funds were previously aggregated and reported as one special revenue fund. These funds have been disaggregated to more accurately reflect the activities of the County. A summary of these changes is included at the end of this note.

**Correction of Error**

During the year ended December 31, 2021, the County identified a special revenue fund that was omitted from the financial statements as of December 31, 2020. As a result, net position of the governmental activities and fund balance of the nonmajor governmental funds at January 1, 2021, have been restated to include these activities. A summary of these changes is included at the end of this note.



Towner County, North Dakota  
Notes to Financial Statements  
December 31, 2022 and 2021

**Net Position**

	Primary Government Governmental Activities	Water Resource District	Component Units Health District	Total
Net position at December 31, 2020, as previously reported	\$ 8,566,457	\$ 575,118	\$ 2,313	\$ 577,431
Removal of items not reported under the modified cash basis of accounting	3,072,336	(3,310)	167,412	164,102
Addition of activities previously omitted	52,787	-	-	-
Net position at January 1, 2021, as restated	<u>\$ 11,691,580</u>	<u>\$ 571,808</u>	<u>\$ 169,725</u>	<u>\$ 741,533</u>

**Fund Balances**

	Primary Government				Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Special Revenue Funds	Farm to Market Fund	County Road and Bridge Fund		
Fund balance at December 31, 2020, as previously reported	\$ 1,586,165	\$ 2,581,428	\$ -	\$ -	\$ -	\$ 4,167,593
Removal of items not reported under the modified cash basis of accounting	447,568	368,376	-	-	-	815,944
Addition of activities previously omitted	-	-	-	-	52,787	52,787
Report special revenue funds on a disaggregated basis	-	(2,949,804)	916,243	964,865	1,068,696	-
Fund balance at January 1, 2021, as restated	<u>\$ 2,033,733</u>	<u>\$ -</u>	<u>\$ 916,243</u>	<u>\$ 964,865</u>	<u>\$ 1,121,483</u>	<u>\$ 5,036,324</u>



Supplementary Information  
December 31, 2022

## Towner County, North Dakota

Towner County, North Dakota  
Budgetary Comparison Schedule – General Fund - 2022  
Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Taxes	\$ 2,188,436	\$ 2,091,003	\$ (97,433)
Intergovernmental	328,517	402,877	74,360
Licenses, permits and fees	1,350	1,390	40
Charges for services	409,471	440,600	31,129
Interest income	10,000	15,215	5,215
Miscellaneous	15,000	55,520	40,520
Total revenues	<u>2,952,774</u>	<u>3,006,605</u>	<u>53,831</u>
Expenditures			
Current			
General government	1,566,341	1,411,751	154,590
Public safety	833,590	615,685	217,905
Health and welfare	75,000	75,000	-
Culture and recreation	13,000	12,821	179
Economic development	8,000	8,000	-
Capital outlay	-	79,229	(79,229)
Total expenditures	<u>2,495,931</u>	<u>2,202,486</u>	<u>293,445</u>
Excess of revenues over expenditures	<u>456,843</u>	<u>804,119</u>	<u>347,276</u>
Other Financing Sources (Uses)			
Transfers in	63,665	67,698	4,033
Transfers out	(519,908)	(519,908)	-
Total other financing sources (uses)	<u>(456,243)</u>	<u>(452,210)</u>	<u>4,033</u>
Net change in fund balances	<u>\$ 600</u>	351,909	<u>\$ 351,309</u>
Fund balance - January 1		<u>2,541,589</u>	
Fund Balance - December 31		<u>\$ 2,893,498</u>	

Towner County, North Dakota  
 Budgetary Comparison Schedule – Road and Bridge Fund - 2022  
 Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Taxes	\$ 285,702	\$ 279,532	\$ (6,170)
Intergovernmental	50,000	69,787	19,787
Charges for services	280,000	558,037	278,037
Miscellaneous	22,000	41,695	19,695
Total revenues	637,702	949,051	311,349
Expenditures			
Current			
Highways	1,125,758	1,292,184	(166,426)
Capital Outlay	-	65,211	(65,211)
Total expenditures	1,125,758	1,357,395	(231,637)
Deficiency of revenues under expenditures	(488,056)	(408,344)	79,712
Other Financing Sources			
Transfers in	488,056	573,420	85,364
Sale of assets	-	127,000	127,000
Total other financing sources	488,056	700,420	212,364
Net change in fund balances	\$ -	292,076	\$ 292,076
Fund balance - January 1		878,028	
Fund Balance - December 31		\$ 1,170,104	

Towner County, North Dakota  
 Budgetary Comparison Schedule – HB1505 Fund - 2022  
 Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues			
Intergovernmental	<u>\$ -</u>	<u>\$ 700,151</u>	<u>\$ 700,151</u>
Expenditures			
Capital Outlay	<u>-</u>	<u>377,750</u>	<u>(377,750)</u>
Net change in fund balances	<u><u>\$ -</u></u>	<u>322,401</u>	<u><u>\$ 322,401</u></u>
Fund balance - January 1		<u>-</u>	
Fund Balance - December 31		<u><u>\$ 322,401</u></u>	

Towner County, North Dakota

Combining Schedule of Net Position – Discretely Presented Component Units – Modified Cash Basis - 2022

December 31, 2022

	Water Resource District	Health District	Total Component Units
Assets			
Cash and investments	\$ 573,612	\$ 224,080	\$ 797,692
Capital assets (net of accumulated depreciation)			
Buildings	-	85,369	85,369
Total capital assets, net	-	85,369	85,369
Total assets	573,612	309,449	883,061
Net Position			
Net investment in capital assets	-	85,369	85,369
Restricted for			
Health and welfare	-	224,080	224,080
Conservation of natural resources	573,612	-	573,612
Total net position	\$ 573,612	\$ 309,449	\$ 883,061

# Towner County, North Dakota

## Combining Schedule of Activities – Discretely Presented Component Units – Modified Cash Basis - 2022 Year Ended December 31, 2022

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Water Resource District	Health District	Total Component Units
Component units							
Water resource district	\$ 63,983	\$ -	\$ -	\$ -	\$ (63,983)	\$ -	\$ (63,983)
Health district	360,776	78,451	227,444	-	-	(54,881)	(54,881)
Total component units	<u>\$ 424,759</u>	<u>\$ 78,451</u>	<u>\$ 227,444</u>	<u>\$ -</u>	<u>(63,983)</u>	<u>(54,881)</u>	<u>(118,864)</u>
General revenues							
Property Taxes					82,344	145,005	227,349
Unrestricted investment earnings					1,216	-	1,216
Miscellaneous revenue					-	5,923	5,923
Total general revenues					<u>83,560</u>	<u>150,928</u>	<u>234,488</u>
Change in net position					19,577	96,047	115,624
Net position - January 1					554,035	213,402	767,437
Net position - December 31					<u>\$ 573,612</u>	<u>\$ 309,449</u>	<u>\$ 883,061</u>



Towner County, North Dakota  
 Budgetary Comparison Schedule – General Fund -2021  
 Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Taxes	\$ 1,603,579	\$ 1,743,012	\$ 139,433
Intergovernmental	323,364	449,225	125,861
Licenses, permits and fees	1,350	2,145	795
Charges for services	387,228	401,017	13,789
Fines and forfeits	-	1,250	1,250
Interest income	10,000	8,783	(1,217)
Miscellaneous	15,000	52,167	37,167
	<u>2,340,521</u>	<u>2,657,599</u>	<u>317,078</u>
Total revenues			
Expenditures			
Current			
General government	1,458,874	1,431,655	27,219
Public safety	800,642	674,954	125,688
Highways	-	63,080	(63,080)
Culture and recreation	14,400	17,818	(3,418)
Economic development	8,000	8,000	-
	<u>2,281,916</u>	<u>2,195,507</u>	<u>86,409</u>
Total expenditures			
Excess of revenues over expenditures	<u>58,605</u>	<u>462,092</u>	<u>403,487</u>
Other Financing Sources			
Transfers in	<u>36,295</u>	<u>45,764</u>	<u>9,469</u>
Net change in fund balances	<u>\$ 94,900</u>	507,856	<u>\$ 412,956</u>
Fund balance - January 1, as restated (Note 10)		<u>2,033,733</u>	
Fund Balance - December 31		<u>\$ 2,541,589</u>	

Towner County, North Dakota  
 Budgetary Comparison Schedule – Farm to Market Fund - 2021  
 Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Taxes	\$ 300,100	\$ 192,550	\$ (107,550)
Interest income	3,500	747	(2,753)
Total revenues	<u>303,600</u>	<u>193,297</u>	<u>(110,303)</u>
Expenditures			
Capital Outlay	<u>150,000</u>	<u>156,699</u>	<u>(6,699)</u>
Excess of revenues over expenditures	<u>153,600</u>	<u>36,598</u>	<u>(117,002)</u>
Other Financing Uses			
Transfers out	<u>(153,306)</u>	<u>(153,306)</u>	<u>-</u>
Net change in fund balances	<u>\$ 294</u>	<u>(116,708)</u>	<u>\$ (117,002)</u>
Fund balance - January 1, as restated (Note 10)		<u>916,243</u>	
Fund Balance - December 31		<u>\$ 799,535</u>	

Towner County, North Dakota  
 Budgetary Comparison Schedule – Road and Bridge Fund - 2021  
 Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Taxes	\$ 297,217	\$ 284,786	\$ (12,431)
Intergovernmental	50,000	53,238	3,238
Charges for services	350,000	274,461	(75,539)
Miscellaneous	22,000	30,068	8,068
Total revenues	<u>719,217</u>	<u>642,553</u>	<u>(76,664)</u>
Expenditures			
Current			
Highways	902,523	983,653	(81,130)
Capital Outlay	-	15,043	(15,043)
Total expenditures	<u>902,523</u>	<u>998,696</u>	<u>(96,173)</u>
Deficiency of revenues under expenditures	<u>(183,306)</u>	<u>(356,143)</u>	<u>(172,837)</u>
Other Financing Sources			
Transfers in	153,306	153,306	-
Sale of assets	-	116,000	116,000
Total other financing sources	<u>153,306</u>	<u>269,306</u>	<u>116,000</u>
Net change in fund balances	<u>\$ (30,000)</u>	<u>(86,837)</u>	<u>\$ (56,837)</u>
Fund balance - January 1, as restated (Note 10)		<u>964,865</u>	
Fund Balance - December 31		<u>\$ 878,028</u>	

Towner County, North Dakota

Combining Schedule of Net Position – Discretely Presented Component Units – Modified Cash Basis - 2021  
December 31, 2021

	Water Resource District	Health District	Total Component Units
Assets			
Cash and investments	\$ 554,035	\$ 124,872	\$ 678,907
Capital assets (net of accumulated depreciation)			
Buildings	-	88,530	88,530
Total assets	<u>554,035</u>	<u>213,402</u>	<u>767,437</u>
Net Position			
Net investment in capital assets	-	88,530	88,530
Restricted for			
Conservation of natural resources	554,035	-	554,035
Health and welfare	-	124,872	124,872
Total net position	<u>\$ 554,035</u>	<u>\$ 213,402</u>	<u>\$ 767,437</u>

# Towner County, North Dakota

## Combining Schedule of Activities – Discretely Presented Component Units – Modified Cash Basis - 2021 Year Ended December 31, 2021

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Water Resource District	Health District
Component units						
Water resource district	\$ 103,693	\$ -	\$ -	\$ -	\$ (103,693)	\$ -
Health district	382,055	41,289	248,124	-	-	(92,642)
Total component units	\$ 485,748	\$ 41,289	\$ 248,124	\$ -	(103,693)	(92,642)
General revenues						
Property Taxes					84,314	136,319
Unrestricted investment earnings					1,606	-
Total general revenues					85,920	136,319
Change in net position					(17,773)	43,677
Net position - January 1, as restated (Note 10)					571,808	169,725
Net position - December 31					\$ 554,035	\$ 213,402
						\$ 767,437



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

Board of County Commissioners  
Towner County  
Cando, 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 modified cash basis financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Towner County, North Dakota ("the County"), as of and for the years ended December 31, 2022 and 2021, and the related notes to the modified cash basis financial statements, which collectively comprise Towner County's basic financial statements and have issued our report thereon dated September 11, 2023.

**Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's modified cash basis 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001, 2022-002, 2022-003, 2022-004, and 2021-001 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's modified cash basis 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 modified cash basis financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2022-006.

## **Towner County's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the County's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The County's responses were not subjected to the other auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on the responses.

## **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 County'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.



Fargo, North Dakota  
September 11, 2023



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**Financial Statement Findings**

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**2022-001      Preparation of Financial Statements  
Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate system for the preparation of the notes to the financial statements.

Condition: The County does not have an internal control system designed to provide for the preparation of the notes to the financial statements being audited.

Cause: The County does not have staff trained in reporting standards for the notes to the financial statements.

Effect: Inadequate control over financial reporting of the County could result in the more than a remote likelihood that the County would not be able to draft accompanying notes to the financial statements without material errors.

Recommendation: Management and the Board should continually be aware of the financial reporting of the County and changes in reporting requirements.

Response: Since it is not cost effective for an organization of our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit-ready financial statements as part of their audit of the County.

**2022-002      Segregation of Duties  
Material Weakness**

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

Condition: The County and component units have a lack of segregation of duties in certain areas due to a limited staff.

Cause: The County and component units have limited staff to adequately segregate duties.

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

Recommendation: All accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the County and component units.

Response: Towner County and its component units recognize this is a serious issue; however, we do not feel it would be a wise use of our resources to employ additional staff for the sole purpose of ensuring segregation of duties. While we realize there is always a possibility, we have so far been able to rely on the integrity of our staff.

**2022-003      Material Journal Entries, including Restatement  
Material Weakness**

Criteria: Proper internal controls include controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: During prior years, the County failed to include a material cash account and the revenues and expenditures receipted and disbursed through that account, resulting in a restatement of net position and nonmajor governmental funds fund balance at January 1, 2021 and material journal entries for the years ended December 31, 2022 and 2021.

Cause: The County does not have an internal control system designed to identify all necessary adjustments.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: Management agrees with the finding. The County will continue to try to identify all of the items that need to be adjusted at year end and make the necessary adjustments.

**2022-004      Lack of Bank Reconciliations for Component Unit  
Material Weakness**

Criteria: Proper internal controls include controls that provide for the timely and accurate completion of bank reconciliations.

Condition: During testing, it was found that bank reconciliations for the Towner County Water Resource District component unit were not accurately completed.

Cause: Towner County Water Resource District has not done year-end reconciliations as there typically minimal reconciling items at year-end.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: Management agrees with the finding. Towner County Water Resource District has minimal transactions and determines it unnecessary to complete monthly bank reconciliations.

**2021-001      Lack of Expenditure Supporting Documentation for Component Unit  
Material Weakness**

Criteria: Proper internal controls include controls that pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Condition: During testing, it was found that the Towner County Health District was unable to provide support for one expenditure tested, totaling \$4,500 in 2021.

Cause: Towner County Health District did not have a proper filing system in place in 2021 to ensure supporting documentation was retained and readily available.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: We recommend Towner County Public Health District ensure all payments for goods and services have supporting documentation. We further recommend Towner County Public Health District review its current record keeping procedures and update, if necessary, to decrease the risk of loss whether due to error or fraud.

Response: Management agrees with the finding. Towner County Health District will establish a formal document retention policy.

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**State Compliance Item**

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**2022-006      Excess Cash Reserves  
Material Noncompliance**

Criteria: N.D.C.C. 11-23-02, item 9, limits the cash reserve in the general fund and special revenue funds to not exceed 75% of the appropriation for that fund.

Condition: At December 31, 2021, the County had cash reserve balances that were in excess of 75% of the annual appropriation for the general fund, two major special revenue funds, and three nonmajor special revenue funds as follows:

<u>Fund</u>	<u>Amount in Excess (rounded)</u>
General Fund	\$759,000
Farm to Market Fund	\$572,000
Road and Bridge Fund	\$224,000
Nonmajor special revenue funds	\$75,000

At December 31, 2022, County had cash reserve balances that were in excess of 75% of the annual appropriation for the general fund, one major special revenue fund, and five non major special revenue funds as follows:

<u>Fund</u>	<u>Amount in Excess (rounded)</u>
General Fund	\$631,000
Road and Bridge Fund	\$326,000
Nonmajor special revenue funds	\$340,000

Cause: The County was not aware of how to properly calculate this specific requirement within N.D.C.C. 11-23-02.

Effect: The County is not in compliance with the cash reserve requirements of N.D.C.C. 11-23-02, causing excess property taxes to be levied during 2021 and 2022.

Recommendation: We recommend that the County adhere to all specific requirements of N.D.C.C. 11-23-02.

Response: Management agrees with the finding. The County will continue to review the requirements of N.D.C.C. 11-23-02, item 9, in the future.