

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**MORTON COUNTY  
WATER RESOURCE DISTRICT  
MANDAN, NORTH DAKOTA**

**(A COMPONENT UNIT OF  
MORTON COUNTY)**

**FOR THE YEAR ENDED DECEMBER 31, 2012**



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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

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For the Year Ended December 31, 2012

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

**LIST OF OFFICIALS**

At December 31, 2012

Wade Bachmeier  
Tony Goetzfried  
George Saxowsky  
Jim Schmidt  
Jamie Wetsch

Chairman  
Vice Chairman  
Manager  
Manager  
Manager

Brenda Winckler

Secretary/Treasurer

Michael Kemnitz  
Karin Brooks

Manager, Missouri West Water System  
Office Manager, Missouri West Water System

**STATE AUDITOR**

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



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

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

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**INDEPENDENT AUDITOR'S REPORT**

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Governing Board  
Morton County Water Resource District  
Mandan, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major fund of the Morton County Water Resource District, component unit of Morton County, Mandan, North Dakota, as of and for the year ended December 31, 2012, and related notes to the financial statements, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major fund of the Morton County Water Resource District, Mandan, North Dakota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 on our consideration of the Morton County Water Resource District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morton County Water Resource District's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
October 23, 2013

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF NET POSITION  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash	\$ 808,617	\$ 274,298	\$ 1,082,915
Investment	18,654	767,173	785,827
Restricted Investment	-	1,134,957	1,134,957
Accounts Receivable	-	151,714	151,714
Taxes Receivable	6,828	-	6,828
Special Assessments Receivable	3,605	-	3,605
Uncertified Special Assessments	184,712	-	184,712
Intangible Assets (net of accumulated amortization):			
Right to Purchase Water	-	757,542	757,542
Capital Assets not being depreciated:			
Land	1,051,788	1,100	1,052,888
Capital Assets (net of accumulated depreciation):			
Infrastructure	6,840,923	10,284,760	17,125,683
Buildings	117,774	5,880	123,654
Equipment/Vehicles	14,372	80,654	95,026
<b>Total Capital Assets</b>	<b>\$ 8,024,857</b>	<b>\$ 10,372,394</b>	<b>\$ 18,397,251</b>
<b>Total Assets</b>	<b>\$ 9,047,273</b>	<b>\$ 13,458,078</b>	<b>\$ 22,505,351</b>
<b>LIABILITIES:</b>			
Payroll Liability	\$ 12	\$ 3,719	\$ 3,731
Interest Payable	2,196	34,165	36,361
Long-Term Liabilities:			
Due Within One Year:			
Loans Payable	6,935	188,586	195,521
Special Assessment Loan Payable	13,000	-	13,000
Compensated Absences Payable	-	18,536	18,536
Due After One Year:			
Loans Payable	114,824	3,183,218	3,298,042
Special Assessment Loan Payable	132,000	-	132,000
Compensated Absences Payable	-	43,251	43,251
<b>Total Liabilities</b>	<b>\$ 268,967</b>	<b>\$ 3,471,475</b>	<b>\$ 3,740,442</b>
<b>NET POSITION:</b>			
Invested in capital assets, net of related debt	\$ 7,758,098	\$ 7,000,590	\$ 14,758,688
Restricted for:			
Intangible Assets	-	757,542	757,542
Debt Service	-	1,134,957	1,134,957
Committed For:			
Dam Maintenance	42,175	-	42,175
Unrestricted	978,033	1,093,514	2,071,547
<b>Total Net Position</b>	<b>\$ 8,778,306</b>	<b>\$ 9,986,603</b>	<b>\$ 18,764,909</b>

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

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	
<u>Governmental Activities:</u>						
Conser. of Natural Resources	\$ 244,691	\$ -	\$ 9,100	\$ (235,591)	\$ -	\$ (235,591)
Interest	10,806	-	-	(10,806)	-	(10,806)
Total Governmental Activities	\$ 255,497	\$ -	\$ 9,100	\$ (246,397)	-	(246,397)
<u>Business-Type Activities:</u>						
Water System	\$1,789,509	\$ 1,582,323	\$ -	\$ -	\$ (207,186)	\$ (207,186)
Total Primary Government	\$2,045,006	\$ 1,582,323	\$ 9,100	\$ (246,397)	\$ (207,186)	\$ (453,583)
<u>General Revenues:</u>						
Taxes:						
Property taxes; levied for general purposes	\$ 188,832	\$ -	\$ 188,832			
Property taxes; levied for debt service	35,237	-	35,237			
Earnings on Investments (Interest expense)	1,583	13,027	14,610			
Miscellaneous Revenue	1,047	43,740	44,787			
Total General Revenues	\$ 226,699	\$ 56,767	\$ 283,466			
Change in Net Position	\$ (19,698)	\$ (150,419)	\$ (170,117)			
Net Position - January 1	\$8,773,848	\$10,141,055	\$18,914,903			
Prior Period Adjustment	24,156	(4,033)	20,123			
Net Position - January 1, as restated	\$8,798,004	\$10,137,022	\$18,935,026			
Net Position - December 31	\$8,778,306	\$ 9,986,603	\$18,764,909			

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2012

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	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 808,617
Investments	18,654
Receivables:	
Taxes Receivable	6,828
Special Assessments Receivable	3,605
Uncertified Special Assessments Receivable	<u>184,712</u>
Total Assets	<u>\$ 1,022,416</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Payroll Liability	<u>\$ 12</u>
 <u>Deferred Inflows of Resources:</u>	
Taxes Receivable	\$ 6,828
Uncollected Special Assessments Receivable	3,605
Uncertified Special Assessments Receivable	<u>184,712</u>
Total Deferred Inflows of Resources	<u>\$ 195,145</u>
 <u>Fund Balances:</u>	
Committed For:	
Dam Maintenance	\$ 42,175
Unassigned	<u>785,084</u>
Total Fund Balances	<u>\$ 827,259</u>
Total Liabilities and Fund Balances	<u>\$ 1,022,416</u>

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2012

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Total *Fund Balances* for Governmental Funds \$ 827,259

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 Less Accumulated Depreciation 8,024,857

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.

6,828

Special assessments will be collected after year-end and in future years, but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the funds.

188,317

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position. Balances at December 31, 2012 are:

Special Assessment Loan	\$ (145,000)	
Loan Payable	(121,759)	
Interest Payable	(2,196)	
Total Long-Term Liabilities	<u>(268,955)</u>	<u>(268,955)</u>

Total Net Position of Governmental Activities \$ 8,778,306

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

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	General Fund
<u>Revenues:</u>	
Taxes	\$ 193,682
Special Assessments	58,683
Intergovernmental Revenue	9,100
Interest Income	1,583
Miscellaneous	1,047
	<hr/>
Total Revenues	\$ 264,095
<u>Expenditures:</u>	
Current:	
<u>Conservation of Natural Resources:</u>	
Salaries	\$ 15,123
Payroll Expense	2,242
Travel	1,900
Dues and Registration	3,775
Insurance	1,186
Audit	2,800
County Projects	2,000
Legal and Engineering Fees	7,825
Otter Creek Monitor Costs	1,249
Misc Projects	31,343
Dam Site 6	39,210
Miscellaneous/ Office Rent	3,002
	<hr/>
Total Conservation of Natural Resources	\$ 111,655
<u>Debt Service:</u>	
Principal	\$ 19,597
Interest	10,971
	<hr/>
Total Debt Service	\$ 30,568
Total Expenditures	\$ 142,223
	<hr/>
Excess (Deficiency) of Revenue Over Expenditures	\$ 121,872
	<hr/>
Fund Balance - January 1	\$ 705,387
	<hr/>
Fund Balance - December 31	\$ 827,259

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

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Net Change in *Fund Balances* - Total Governmental Funds: \$ 121,872

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 depreciation exceeded capital outlays in the current year.

Current Year Depreciation Expense	\$ (164,664)	
Capital Asset Additions	<u>31,628</u>	(133,036)

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

Loan Payable	\$ 6,597	
Special Assessments Payable	<u>13,000</u>	19,597

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This consists of the net decrease in interest payable. 165

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the changes in taxes and special assessments receivable.

Net Decrease in Taxes Receivable	\$ (4,850)	
Net Decrease in Special Assessments Receivable	<u>(23,446)</u>	<u>(28,296)</u>

Change in Net Position of Governmental Activitie \$ (19,698)

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

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
December 31, 2012

	ENTERPRISE FUND
	Water System
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 274,298
Investments	767,173
Accounts Receivable	151,714
	\$ 1,193,185
<u>Noncurrent Assets:</u>	
<u>Restricted Assets:</u>	
Investments	\$ 1,134,957
<u>Intangible Assets (net of accumulated amortization):</u>	
Right to Purchase Water	757,542
<u>Capital Assets (net of accumulated depreciation):</u>	
Land	1,100
Buildings	5,880
Infrastructure	10,284,760
Vehicles and Equipment	80,654
Total Capital Assets	\$ 10,372,394
Total Noncurrent Assets	\$ 12,264,893
Total Assets	\$ 13,458,078
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Payroll Liability	\$ 3,719
Interest Payable	34,165
Loans Payable	188,586
Compensated Absences Payable	18,536
Total Current Liabilities	\$ 245,006
<u>Noncurrent Liabilities:</u>	
Loans Payable	\$ 3,183,218
Compensated Absences Payable	43,251
Total Noncurrent Liabilities	\$ 3,226,469
Total Liabilities	\$ 3,471,475
<u>Net Position:</u>	
Invested in capital assets, net of related debt	\$ 7,000,590
Restricted for Intangible Assets	757,542
Restricted for Debt Service	1,134,957
Unrestricted	1,093,514
Total Net Position	\$ 9,986,603

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
For the Year Ended December 31, 2012

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	ENTERPRISE FUND <u>Water System</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$ 1,582,323</u>
<u>Operating Expenses:</u>	
General and Administrative	\$ 82,628
Payroll	434,581
Insurance	14,263
Operations and Maintenance	464,104
Projects	252,839
Depreciation - Building	327
Depreciation - Water System	297,837
Depreciation - Vehicles and Equipment	65,407
Amortization - Connect Fee	<u>31,564</u>
Total Operating Expenses	<u>\$ 1,643,550</u>
Operating Income	<u>\$ (61,227)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	\$ 13,027
Miscellaneous Revenue	43,740
Interest Expense	<u>(145,959)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (89,192)</u>
Change in Net Position	<u>\$ (150,419)</u>
Net Position - January 1	\$ 10,141,055
Prior Period Adjustments	<u>(4,033)</u>
Net Position - January 1, as restated	<u>\$ 10,137,022</u>
Net Position - December 31	<u>\$ 9,986,603</u>

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

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended December 31, 2012

	ENTERPRISE FUND
	Water System
<u>Cash Flows from Operating Activities:</u>	
Received from Customers	\$ 1,543,507
Payments to Suppliers for Goods and Services	(855,938)
Payments to Employees	(425,590)
	\$ 261,979
<u>Cash Flows from Non-capital Financing Activities:</u>	
Other Non-Operating Proceeds	\$ 43,740
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Principal Paid on Loan	\$ (182,890)
Interest Paid on Loan	(145,959)
	\$ (328,849)
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investments	\$ (1,902,131)
Proceeds from Sale of Investments	1,889,237
Interest Income	13,027
	\$ 133
Net Cash Provided (Used) by Investing Activities	\$ 133
Net Decrease in Cash and Cash Equivalents	\$ (22,997)
Cash and Cash Equivalents - January 1	\$ 297,295
Cash and Cash Equivalents - December 31	\$ 274,298
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ (61,227)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>	
Depreciation	\$ 363,571
Amortization	31,564
Change in Assets and Liabilities:	
Accounts Receivable	(38,816)
Accounts Payable	(42,104)
Payroll Liability	3,958
Compensated Absences	5,033
Total Adjustments	\$ 323,206
Net Cash Provided by Operating Activities	\$ 261,979

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. 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.

A. Reporting Entity

The accompanying financial statements present the activities of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota. The district has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Morton County Water Resource District 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 Morton County Water Resource District.

Based on these criteria, there are no component units to be included within the Morton County Water Resource District as a reporting entity and the Morton County Water Resource District is a component unit within Morton County, Mandan, North Dakota as a reporting entity.

B. Basis of Presentation

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government, Morton County Water Resource District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

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

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

The Water Resource District reports the following major governmental fund:

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

Additionally, the Water Resource District reports the following major enterprise fund:

*Water System.* This fund accounts for the operation and maintenance of the Missouri West Water System.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Deposits and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$1,500 or more if acquired prior to 2003, \$3,000 or more if acquired in 2003 or later and \$7,500 or more if acquired in 2010 or later. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

<b>Assets</b>	<b>Years</b>
Land	Indefinite
Buildings	40
Infrastructure	40
Machinery	5 - 15
Vehicles	3 - 5
Office Equipment	3 - 5

F. Compensated Absences

Vested or accumulated vacation leave is reported on the government wide financial statements. Upon retirement or leaving employment, employees with ten years of continuous employment shall be paid for unused sick leave at 25% of current base salary. Employees may carry over 240 hours of annual leave at year end. Upon termination of employment, employees will be paid for vacation benefits that have accrued.

G. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

***Fund Balance Spending Policy:***

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

***Fund Balance Reporting and Governmental Fund Type Definitions***

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

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

Morton County Water Resource District did not have any non-spendable balances, restricted, or assigned fund balances reported in the balance sheet at December 31, 2012.

Committed Fund Balances consist of the following item at December 31<sup>st</sup> 2012

Morton County Water Resource District does have a committed amount of general fund balance by the District's board for the operation and maintenance of the Harmon Lake Dam. The District set up a savings account and makes annual transfers to the account through a board action. Funds in this account can only be used for operation and maintenance of the Harmon Lake Dam.

**Net Position:**

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

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

The Water Resource District implemented the provisions of GASB 63 'Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position' during the year ended December 31, 2012. Prior to GASB 63, equity in the statement of net assets was reported in the applicable categories of net assets. Under the provisions of GASB 63, the net assets statement was changed to the statement of net position, and net assets equity was changed to net position. GASB 63 didn't change how net position is calculated into the 3 primary categories as outlined in further detail below.

Net investment in capital assets is reported for capital assets less accumulated depreciation, and less any related debt to purchase/finance the construction of those capital assets. These assets are not available for future spending.

Restrictions of net position shown in the statement of net position include \$1,134,957 restricted by debt covenants and \$757,542 restricted for intangible assets in the form of water rights in the enterprise fund.

Committed fund balance shown in the statement of net position includes \$42,175 that is committed to drain maintenance.

Unrestricted net position consists of activity related to both the general fund and the water system fund. All of the District's general fund balance is considered unrestricted. The unrestricted net position is available to meet the district's ongoing obligations.

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

BUDGETS

Based upon available financial information and requests by the governing board, the director prepares the preliminary budget. The budget is prepared for the general and enterprise funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

BUDGET AMENDMENTS

The Water Resource District amended the 2012 budgets on December 31, 2012 as follows:

Fund	REVENUE		
	Original Budget	Amendment	Amended Budget
Major Fund: General Fund	\$216,550	\$45,900	\$262,450

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Fund: General Fund	\$365,275	\$(191,900)	\$173,375

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

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

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

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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 Water Resource District, city, township, school, park, 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 any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2012, the Water Resource District's carrying amount of deposits was \$3,003,700 and the bank balances were \$3,013,855. Of the bank balances, \$1,117,356 was covered by Federal Depository Insurance. The remaining balances totaling \$1,896,499 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The Water Resource District may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2012, the Water Resource District held certificates of deposit in the amount of \$1,920,784 which are considered deposits.

Concentration of Credit Risk:

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

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts for water sales. No allowance has been established for estimated uncollectible accounts receivable.

**NOTE 5: TAXES RECEIVABLE**

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

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

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

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

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

**NOTE 6: SPECIAL ASSESSMENT RECEIVABLE**

Special assessment receivable in the governmental fund statements represent the past three years of delinquent uncollected special assessments. The government-wide financial statements include the amount of uncertified special assessments. No allowance has been established for uncollectible special assessments.

**NOTE 7: UNCERTIFIED SPECIAL ASSESSMENTS RECEIVABLE**

Long-term uncertified special assessments receivable in the governmental fund statements represent the amount of uncertified special assessments to be certified in upcoming years for various projects.

**NOTE 8: CAPITAL ASSETS & INTANGIBLE ASSET**

The following is a summary of changes in capital assets for the year ended December 31, 2012:

<b>Governmental Activities (FY2012):</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 30</b>
<i>Capital assets not being depreciated:</i>				
Land	\$1,051,788	\$ -	\$ -	\$1,051,788
Construction In Progress	60,402	31,629	92,031	-
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$1,112,190</b>	<b>\$ 31,629</b>	<b>\$92,031</b>	<b>\$1,051,788</b>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 35,700	\$ 92,031	\$ -	\$ 127,731
Equipment/Vehicles	25,479	-	-	25,479
Infrastructure	7,450,669	-	-	7,450,669
<b>Total Capital Assets, Being Depreciated</b>	<b>\$7,511,848</b>	<b>\$ 92,031</b>	<b>\$ -</b>	<b>\$7,603,879</b>
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 3,570	\$ 6,387	\$ -	\$ 9,957
Equipment/Vehicles	6,920	4,187	-	11,107
Infrastructure	455,656	154,090	-	609,746
<b>Total Accumulated Depreciation</b>	<b>\$ 466,146</b>	<b>\$164,664</b>	<b>\$ -</b>	<b>\$ 630,810</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$7,045,702</b>	<b>\$ (72,633)</b>	<b>\$ -</b>	<b>\$6,973,069</b>
<b>Governmental Activities - Capital Assets, Net</b>	<b>\$8,157,892</b>	<b>\$ (41,004)</b>	<b>\$92,031</b>	<b>\$8,024,857</b>

<b>Business-Type Activities (FY2012):</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,100	\$ -	\$ -	\$ 1,100
<i>Capital assets being depreciated:</i>				
Buildings	\$ 9,800	\$ -	\$ -	\$ 9,800
Equipment/Vehicles	405,988	-	-	405,988
Infrastructure	14,891,828	-	-	14,891,828
<b>Total Capital Assets, Being Depreciated</b>	<b>\$15,307,616</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$15,307,616</b>
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 3,594	\$ 326	\$ -	\$ 3,920
Equipment/Vehicles	259,928	65,406	-	325,334
Infrastructure	4,309,231	297,837	-	4,607,068
<b>Total Accumulated Depreciation</b>	<b>\$ 4,572,753</b>	<b>\$ 363,569</b>	<b>\$ -</b>	<b>\$ 4,936,322</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$10,734,863</b>	<b>\$(363,569)</b>	<b>\$ -</b>	<b>\$10,371,294</b>
<b>Governmental Activities - Capital Assets, Net</b>	<b>\$10,735,963</b>	<b>\$(363,569)</b>	<b>\$ -</b>	<b>\$10,372,394</b>

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

Amortization of Intangible Asset:

<b>Business-Type Activities (2012):</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Intangible asset, being amortized:</i>				
Right to Purchase Water	\$1,371,300	\$ -	\$ -	\$1,371,300
<i>Less accumulated amortization for:</i>				
Right to Purchase Water	\$ 582,193	\$ 31,565	\$ -	\$ 613,758
<b>Business-Type Activities – Intangible Asset, Net</b>	<b>\$ 789,107</b>	<b>\$(31,565)</b>	<b>\$ -</b>	<b>\$ 757,542</b>

Right to purchase water consists of the water resource districts cost to secure the right to purchase water from the City of Mandan for 40 years. This amount is being amortized over the 40 year life of the agreement.

**NOTE 9: PAYROLL LIABILITY**

Payroll liability consists of amounts owed for withholdings to various taxing entities as of year-end, but paid subsequent to that date.

**NOTE 10: DEFERRED INFLOW OF RESOURCES**

Deferred inflows of resources on the balance sheet represent the amount of uncollected taxes receivable, uncollected special assessments receivable, and long-term uncertified special assessments receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, those uncollected amounts are measurable but not available

**NOTE 11: LONG-TERM DEBT**

**Changes in Long-Term Liabilities** - During the year ended December 31, 2012, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

<b>Governmental Activities</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Special Assessment Loan	\$158,000	\$ -	\$13,000	\$145,000	\$13,000
Loan - 2010	128,356	-	6,597	121,759	6,935
<b>TOTAL</b>	<b>\$286,356</b>	<b>\$ -</b>	<b>\$19,597</b>	<b>\$266,759</b>	<b>\$19,935</b>

Outstanding governmental activities debt at December 31, 2012 is comprised of the following:

**Special Assessment Bonds:**

\$253,000 Municipal Bond Bank Revolving Fund Loan due in semi-annual installments of \$11,000 to \$16,000 plus interest through September 1, 2022; with interest at 2.5%. \$145,000

**Loans Payable:**

2010 Loan \$134,133.53 loan with a fixed interest rate of 4.8% due in annual Installments of \$12,860 beginning 11-1-2011 through 11-1-2025. \$121,759

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

Debt service requirements on long-term debt for governmental activities at December 31, 2012 are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>Special Assessment Loan</b>		<b>Loan Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 13,000	\$ 3,625	\$ 6,935	\$ 5,926
2014	13,000	3,300	7,272	5,588
2015	14,000	2,975	7,626	5,234
2016	14,000	2,625	7,984	4,876
2017	14,000	2,275	8,386	4,475
2018-2022	77,000	5,850	48,451	15,849
2023-2027	-	-	35,105	3,474
<b>TOTALS</b>	<b>\$145,000</b>	<b>\$20,650</b>	<b>\$121,759</b>	<b>\$45,422</b>

Business-Type Activities:

<b>Business-Type Activities</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
State Water Commission Loans	\$ 954,235	\$ -	\$132,731	\$ 821,504	\$137,586
USDA-RD RUS Loans	2,599,300	-	49,000	2,550,300	51,000
Compensated Absences*	56,754	5,033	-	61,787	18,536
<b>TOTAL</b>	<b>\$3,610,289</b>	<b>\$5,033</b>	<b>\$181,731</b>	<b>\$3,433,591</b>	<b>\$207,122</b>

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

Outstanding business-type activities debt at December 31, 2012 is comprised of the following individual issues:

**Loans Payable:**

Water Commission Loan

The water resource district received an open-ended loan up to \$2,625,565 for a water supply system in Morton County. The loan will be repaid over a period of 25 years and bears an interest rate of 3.625%. Payments of \$83,065 including interest are due semiannually on April 15 and October 15.

\$ 821,504

USDARD - RUS Loan

The water resource district received a \$2,990,300 loan for expansion of a water supply system in Morton County. With payments of \$37,000 to \$155,300 due annually through October 1, 2039; interest at 4.375%.

2,550,300

Total Loans Payable

\$3,371,804

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

Debt service requirements on business-type activity long-term debt at December 31, 2012 are as follows:

<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>State Water Commission Loan</b>		<b>USDR-RD RUS Loan</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2013	\$137,586	\$28,544	\$ 51,000	\$ 111,575
2014	142,619	23,511	54,000	109,345
2015	147,836	18,294	55,000	106,982
2016	153,243	12,887	59,000	104,576
2017	158,848	7,281	61,000	101,994
2018-2022	81,372	1,475	346,000	467,710
2023-2027	-	-	429,000	384,978
2028-2032	-	-	532,000	282,603
2033-2037	-	-	659,000	155,465
2038-2040	-	-	304,300	20,107
<b>TOTALS</b>	<b>\$821,504</b>	<b>\$91,992</b>	<b>\$2,550,300</b>	<b>\$1,845,335</b>

**NOTE 12: RESTRICTED CASH AND INVESTMENTS**

The Morton County Water Resource District's grant/loan covenants require certain reservations of Missouri West Water System's net position. This amount is classified as restricted assets on the Net Position Statement because their use is limited by applicable bond covenants. The restricted portion is as follows:

<b>Restriction:</b>	<b>Amounts</b>
Restricted for Debt Service (Enterprise)	\$1,134,957
<b>Total Restricted Assets</b>	<b>\$1,134,957</b>

**NOTE 13: RISK MANAGEMENT**

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

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Morton County Water Resource District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$126,612 for public asset coverage.

Morton County Water Resource District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Morton County Water Resource District 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 Morton County Water Resource District 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.

Morton County Water Resource District has workers compensation with the North Dakota Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

**NOTE 14: PENSION PLAN**

North Dakota Public Employees' Retirement System

The Morton County Water Resource District contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its non-certified staff. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are not required to contribute; however, the Water Resource District contributes 8% of the employee's annual salary for 1 – 3 years of service, 10% of the employee's annual salary for 4 – 10 years of service, and 11% of the employee's annual salary for 11 and over years of service. The Water Resource's contributions to NDPERS for the years ending December 31, 2012, 2011, and 2010 were \$5,644, \$5,411, and \$5,088, respectively.

Nation Wide Retirement

The Morton County Water Resource District contributes to Nation Wide Retirement. Plan members are not required to contribute; however, the Water Resource District contributes 8% of the employee's annual salary for 1 – 3 years of service, 10% of the employee's annual salary for 4 – 10 years of service, and 11% of the employee's annual salary for 11 and over years of service. The Water Resource's contributions to Nation Wide Retirement for the years ending December 31, 2012, 2011, and 2010 were \$8,825, \$17,967, and \$19,887, respectively.

Direct Contribution to employee

Morton County Water Resource District makes retirement contribution directly to one employee. The Water Resource District pays 11% of the employee's salary directly to the employee. The water Resource's contribution to the employee for the years ending December 31<sup>st</sup> 2012 and 2011 are \$10,808 and \$1,409 respectively.

**NOTE 15: JOINT VENTURES**

Under authorization of state statues the Morton County Water Resource District joined the water resource districts of Burleigh County, Dunn County, Emmons County, Mercer County, Mountrail County, Oliver County and Sioux County to establish and operate a joint exercise of powers agreement for water management districts located along the Missouri River. The joint agreement created Missouri River Joint Water Board. The agreement was established for the mutual advantage of the governments. One member of the directors for the joint venture is appointed by each government. The operating and capital expenses are funded by contributions from each government. Each participating district's share of the cost of operations is determined by the number of river miles in each district.

Unaudited summary financial information for the year ended December 31, 2012, the most current information available, is as follows:

Cash and Investments	\$ 5,688
Total Revenues	\$ 41,162
Total Expenses	(45,937)
Net Change in Equity	(\$4,775)

Complete financial information can be obtained from Missouri River Joint Water Board, P.O. Box 488, Hazen, ND 58545.

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Notes to the Financial Statements - Continued

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**NOTE 16: PRIOR PERIOD ADJUSTMENT**

There was a prior period adjustment for the period ending December 31, 2012 for Governmental Activities involving adjustments to the beginning balance of uncertified specials and compensated absence for Business-type Activities:

<b>Governmental Activities:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$8,773,848
<b>Adjustments to restate the January 1, 2012 Net Position:</b>	
Adjustment to correct Beginning Special Assessments Receivable Balance	24,156
Net Position January 1, as restated	<u>\$8,798,004</u>

<b>Business-Type Activities:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$10,141,055
<b>Adjustments to restate the January 1, 2012 Net Position:</b>	
Adjustment to correct Beginning Compensated Absence Balance	(4,033)
Net Position January 1, as restated	<u>\$10,137,022</u>

MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 180,000	\$ 207,267	\$ 193,682	\$ (13,585)
Specials	34,000	43,808	58,683	14,875
Intergovernmental	-	9,100	9,100	-
Interest Income	1,500	1,228	1,583	355
Miscellaneous	1,050	1,047	1,047	-
<b>Total Revenues</b>	<b>\$ 216,550</b>	<b>\$ 262,450</b>	<b>\$ 264,095</b>	<b>\$ 1,645</b>
<u>Expenditures:</u>				
Current:				
<u>Conservation of Natural Resources</u>				
Salaries	\$ 25,000	\$ 23,550	\$ 15,123	\$ 8,427
Payroll Expenses	2,000	1,700	2,242	(542)
Travel	2,500	1,800	1,900	(100)
Office Supplies	2,000	900	-	900
Dues and Registration	3,000	2,300	3,775	(1,475)
Insurance	2,000	1,300	1,186	114
Audit	3,500	2,800	2,800	-
County Projects	-	3,300	2,000	1,300
Legal and Engineering Fees	20,000	7,900	7,825	75
Dam Site 6 (Harmon Lake)	112,700	58,900	39,210	19,690
Missouri River Joint Board/Misc. Projects	25,000	3,400	31,343	(27,943)
Otter Creek Monitor Costs	-	-	1,249	(1,249)
Flood Control	27,000	-	-	-
Emergency Flood Repair Work	100,000	19,500	-	19,500
Maintenace Projects	19,250	13,925	-	13,925
Zachmeier CAT	1,500	-	-	-
Willow Road/Schmelling Maintenance	5,000	-	-	-
Miscellaneous/ Office Rent	2,400	2,100	3,002	(902)
Equipment Purchases	500	-	-	-
<b>Total Conservation of Natural Resources</b>	<b>\$ 353,350</b>	<b>\$ 143,375</b>	<b>\$ 111,655</b>	<b>\$ 31,720</b>
Debt Service:				
Total Debt Service - Principal	\$ 18,700	\$ 18,000	\$ 19,597	\$ (1,597)
Total Debt Service - Interest & Service Costs	11,925	12,000	10,971	1,029
<b>Total Debt Service</b>	<b>\$ 30,625</b>	<b>\$ 30,000</b>	<b>\$ 30,568</b>	<b>\$ (568)</b>
<b>Total Expenditures</b>	<b>\$ 383,975</b>	<b>\$ 173,375</b>	<b>\$ 142,223</b>	<b>\$ 31,152</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (167,425)	\$ 89,075	\$ 121,872	\$ 32,797
Fund Balance - January 1	\$ 705,387	\$ 705,387	\$ 705,387	\$ -
Fund Balance - December 31	\$ 537,962	\$ 794,462	\$ 827,259	\$ 32,797

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

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2012

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The water resource district adopts a budget for the general fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The water resource district prepares a budget on or before October 7th. The budget includes proposed expenditures and a means of financing them.
- The budget must be filed with the county auditor by October 10th. The county commission may disapprove the budget, amend and approve the budget as amended, or approve the budget as submitted.
- No disbursements shall be made or liability incurred in excess of the total appropriation. However, the water board may amend the budget during the year for any receipts and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All appropriations lapse at year-end.

STATE AUDITOR

ROBERT R. PETERSON  
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Local Government Division:  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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*

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Governing Board  
Morton County Water Resource District  
Mandan, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the major fund of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Morton County Water Resource District's basic financial statements, and have issued our report thereon dated October, 23, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2012-01].

## **MORTON COUNTY WATER RESOURCE DISTRICT**

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

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### **Compliance and Other Matters**

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

### **Morton County Water Resource District's Response to Findings**

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

### **Purpose of this Report**

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



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
October 23, 2013

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MORTON COUNTY WATER RESOURCE DISTRICT  
Mandan, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

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**Section I - Summary of Auditor's Results**

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Financial Statements

Type of Report Issued:

Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Governmental Fund	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Section II - Financial Statement Findings**

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**2012-01 - SEGREGATION OF DUTIES**

**Condition:**

The Morton County Water Resource District has one employee responsible for most accounting functions.

**Effect:**

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the water resource district's financial condition.

**Cause:**

Due to the client's size, complexity, organizational structure and the economic realities the Morton County Water Resource District faces, it is presently not economically feasible to have more than one person responsible for certain accounting functions.

**Criteria:**

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Water Resource District.

**MORTON COUNTY WATER RESOURCE DISTRICT**  
Schedule of Findings and Questioned Costs - Continued

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**Recommendation:**

Due to the size and funding limitations of the Water Resource District, we understand that it may not be feasible to obtain proper separation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the Water Resource District do so. We further recommend that the Water Resource District implement any controls possible to separate the functions of approval, posting of transactions, reconciliation, and custody of assets.

**Views of Responsible Officials:**

I agree with the recommendation. While we agree that there is a lack of segregation of duties, it is not feasible to obtain proper segregation of duties due to financial constraints. Morton County Water Resource District will develop procedures to implement controls to help mitigate the lack of segregation of duties.