

**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, 2011



MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2011

	<u>Page(s)</u>
District Officials	1
Independent Auditor's Report	2 - 3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet - Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Assets - Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	11
Statement of Cash Flows - Proprietary Fund	12
Notes to the Financial Statements	13 - 23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules General Fund	24
Notes to the Required Supplementary Information	25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	26 - 27
Schedule of Findings and Questioned Costs	28

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

LIST OF OFFICIALS

At December 31, 2011

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
Morton County Water Resource District
Mandan, North Dakota

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each 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, 2011, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Morton County Water Resource District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Morton County Water Resource District, Mandan, North Dakota, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012 on our consideration of 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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.

MORTON COUNTY WATER RESOURCE DISTRICT
Independent Auditor's Report - Continued

Management has omitted 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. Our opinion on the basic financial statements is not affected by this missing information.



Robert R. Peterson
State Auditor

October 2, 2012

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF NET ASSETS
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash	\$ 705,699	\$ 208,895	\$ 914,594
Restricted Cash	-	88,400	88,400
Investments	18,626	1,889,237	1,907,863
Accounts Receivable	-	112,898	112,898
Other Receivables	7	239	246
Taxes Receivable	11,678	-	11,678
Special Assessments Receivable	3,053	-	3,053
Uncertified Special Assessments	184,554	-	184,554
Intangible Assets (net of accumulated amortization):			
Right to Purchase Water	-	789,106	789,106
Capital Assets not being depreciated:			
Land	1,051,788	1,100	1,052,888
Construction in Progress	60,402	-	60,402
Capital Assets (net of accumulated depreciation):			
Infrastructure	6,995,013	10,582,596	17,577,609
Buildings	32,130	6,207	38,337
Equipment/Vehicles	18,559	146,060	164,619
Total Capital Assets	<u>\$ 8,157,892</u>	<u>\$ 10,735,963</u>	<u>\$ 18,893,855</u>
Total Assets	<u>\$ 9,081,509</u>	<u>\$ 13,824,738</u>	<u>\$ 22,906,247</u>
LIABILITIES:			
Accounts Payable	\$ 18,945	\$ 42,103	\$ 61,048
Interest Payable	2,361	35,324	37,685
Long-Term Liabilities:			
Due Within One Year:			
Loans Payable	6,597	181,731	188,328
Special Assessment Loan Payable	13,000	-	13,000
Compensated Absences Payable	-	5,272	5,272
Due After One Year:			
Loans Payable	121,759	3,371,804	3,493,563
Special Assessment Loan Payable	145,000	-	145,000
Compensated Absences Payable	-	47,449	47,449
Total Liabilities	<u>\$ 307,662</u>	<u>\$ 3,683,683</u>	<u>\$ 3,991,345</u>
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 7,871,536	7,182,428	\$ 15,053,964
Restricted for:			
Intangible Assets	-	789,106	789,106
Debt Service	22,835	88,400	111,235
Capital Projects	16,714	-	16,714
Unrestricted	862,762	2,081,121	2,943,883
Total Net Assets	<u>\$ 8,773,847</u>	<u>\$ 10,141,055</u>	<u>\$ 18,914,902</u>

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, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<u>Governmental Activities:</u>						
Conser. of Natural Resources	\$ 245,848	\$ -	\$ 54,375	\$ (191,473)	\$ -	\$ (191,473)
Interest	13,828	-	-	(13,828)	-	(13,828)
Total Governmental Activities	\$ 259,676	\$ -	\$ 54,375	\$ (205,301)	-	(205,301)
<u>Business-Type Activities:</u>						
Water System	\$ 1,685,646	\$ 1,404,428	\$ -	\$ -	\$ (281,218)	\$ (281,218)
Total Primary Government	\$ 1,945,322	\$ 1,404,428	\$ 54,375	\$ (205,301)	\$ (281,218)	\$ (486,519)
<u>General Revenues:</u>						
Taxes:						
Property taxes; levied for general purposes	\$ 210,946	\$ -	\$ 210,946			
Property taxes; levied for debt service	4,673	-	4,673			
Earnings on Investments (Interest expense)	2,428	28,800	31,228			
Miscellaneous Revenue	1,063	17,706	18,769			
Total General Revenues	\$ 219,110	\$ 46,506	\$ 265,616			
Change in Net Assets	\$ 13,809	\$ (234,712)	\$ (220,903)			
Net Assets - January 1	\$ 8,671,581	\$ 10,375,767	\$ 19,047,348			
Prior Period Adjustment	88,457	-	88,457			
Net Assets - January 1, as restated	\$ 8,760,038	\$ 10,375,767	\$ 19,135,805			
Net Assets - December 31	\$ 8,773,847	\$ 10,141,055	\$ 18,914,902			

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011

	<u>Totals Governmental Funds</u>
<u>ASSETS</u>	
Cash	\$ 705,699
Investments	18,626
Receivables:	
Other Receivables	7
Taxes Receivable	11,678
Special Assessments Receivable	<u>3,054</u>
Total Assets	<u>\$ 739,064</u>
<u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts Payable	\$ 18,945
Deferred Revenues	<u>14,732</u>
Total Liabilities	<u>\$ 33,677</u>
Fund Balances:	
Restricted For:	
Debt Service	\$ 22,835
Capital Projects	16,714
Unassigned	<u>665,838</u>
Total Fund Balances	<u>\$ 705,387</u>
Total Liabilities and Fund Balances	<u>\$ 739,064</u>

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 BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2011

Total *Fund Balances* for Governmental Funds \$ 705,387

Total *net assets* reported for government activities in the statement of net assets is different because:

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

Cost of Capital Assets Less Accumulated Depreciation 8,157,892

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.

11,678

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.

187,607

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 assets. Balances at December 31, 2011 are:

Special Assessment Loan	\$ (158,000)	
Loan Payable	(128,356)	
Interest Payable	(2,361)	
Total Long-Term Liabilities	<u>(288,717)</u>	<u>(288,717)</u>

Total Net Assets of Governmental Activities \$ 8,773,847

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

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, 2011

	<u>General Fund</u>
<u>Revenues:</u>	
Taxes	\$ 212,928
Special Assessments	37,192
Intergovernmental Revenue	54,375
Interest Income	2,428
Miscellaneous	<u>1,063</u>
Total Revenues	<u>\$ 307,986</u>
<u>Expenditures:</u>	
Current:	
<u>Conservation of Natural Resources:</u>	
Salaries	\$ 19,918
Travel	1,876
Office Supplies	1,371
Dues and Registration	1,575
Insurance	1,470
Audit	3,000
County Projects	2,570
Legal and Engineering Fees	8,597
Willow Road Floodway	360
Floodway #1	1,143
Dam Site 6	103,244
Square Butte	26,163
Misc Projects	<u>3,000</u>
Total Conservation of Natural Resources	<u>\$ 174,287</u>
<u>Debt Service:</u>	
Principal	\$ 18,778
Interest	<u>12,180</u>
Total Debt Service	<u>\$ 30,958</u>
Total Expenditures	<u>\$ 205,245</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ 102,741</u>
Net Change in Fund Balances	<u>\$ 102,741</u>
Fund Balance - January 1	<u>\$ 602,646</u>
Fund Balance - December 31	<u><u>\$ 705,387</u></u>

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, 2011

Net Change in *Fund Balances* - Total Governmental Funds \$ 102,741

The change in net assets 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	\$ (160,061)	
Capital Asset Additions	<u>88,500</u>	(71,561)

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 assets. This is the amount of debt repayment.

Loan Payable	\$ 5,778	
Special Assessments Payable	<u>13,000</u>	18,778

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. (1,648)

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	\$ (1,982)	
Net Decrease in Special Assessments Receivable	<u>(32,519)</u>	<u>(34,501)</u>

Change in Net Assets of Governmental Activities \$ 13,809

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF NET ASSETS
PROPRIETARY FUND
December 31, 2011

	<u>ENTERPRISE FUND Water System</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 208,895
Investments	1,889,237
Accounts Receivable	112,898
Other Receivable	<u>239</u>
Total Current Assets	<u>\$ 2,211,269</u>
<u>Noncurrent Assets:</u>	
<u>Restricted Assets:</u>	
Cash	\$ 88,400
Intangible Assets (net of accumulated amortization):	
Right to Purchase Water	789,106
Capital Assets (net of accumulated depreciation):	
Land	1,100
Buildings	6,207
Infrastructure	10,582,596
Vehicles and Equipment	<u>146,060</u>
Total Capital Assets	<u>\$ 10,735,963</u>
Total Noncurrent Assets	<u>\$ 11,613,469</u>
Total Assets	<u>\$ 13,824,738</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 42,103
Interest Payable	35,324
Loans Payable	181,731
Compensated Absences Payable	<u>5,272</u>
Total Current Liabilities	<u>\$ 264,430</u>
<u>Noncurrent Liabilities:</u>	
Loans Payable	\$ 3,371,804
Compensated Absences Payable	<u>47,449</u>
Total Noncurrent Liabilities	<u>\$ 3,419,253</u>
Total Liabilities	<u>\$ 3,683,683</u>
<u>Net Assets:</u>	
Invested in capital assets, net of related debt	\$ 7,182,428
Restricted for Intangible Assets	789,106
Restricted for Debt Service	88,400
Unrestricted	<u>2,081,121</u>
Total Net Assets	<u>\$ 10,141,055</u>

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended December 31, 2011

	ENTERPRISE FUND
	<u>Water System</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$ 1,404,428</u>
<u>Operating Expenses:</u>	
General and Administrative	\$ 62,066
Payroll	401,158
Insurance	11,596
Operations and Maintenance	501,902
Projects	141,872
Depreciation - Building	327
Depreciation - Water System	297,837
Depreciation - Vehicles and Equipment	78,230
Amortization - Connect Fee	<u>31,564</u>
Total Operating Expenses	<u>\$ 1,526,552</u>
Operating Income	<u>\$ (122,124)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	\$ 22,484
Miscellaneous Revenue	17,706
Interest Expense	<u>(152,778)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (112,588)</u>
Change in Net Assets	<u>\$ (234,712)</u>
Net Assets - January 1	<u>\$ 10,375,767</u>
Net Assets - December 31	<u><u>\$ 10,141,055</u></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, 2011

	ENTERPRISE FUND
	Water System
<u>Cash Flows from Operating Activities:</u>	
Received from Customers	\$ 1,416,738
Payments to Suppliers for Goods and Services	(675,332)
Payments to Employees	(403,718)
	\$ 337,688
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 337,688</u>
<u>Cash Flows from Non-capital Financing Activities:</u>	
Other Non-Operating Proceeds	\$ 17,706
	\$ (450,308)
<u>Net Cash (Used) by Capital and Related Financing Activities</u>	<u>\$ (450,308)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investments	\$ (1,889,237)
Proceeds from Sale of Investments	1,988,327
Interest Income	22,484
	\$ 121,574
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>\$ 121,574</u>
<u>Net Increase in Cash and Cash Equivalents</u>	<u>\$ 26,660</u>
Cash and Cash Equivalents - January 1	\$ 270,635
Cash and Cash Equivalents - December 31	<u>\$ 297,295</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ (122,124)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>	
Depreciation	\$ 376,394
Amortization	31,564
Change in Assets and Liabilities:	
Accounts Receivable	12,308
Accounts Payable	42,105
Payroll Liability	1,462
Compensated Absences	(4,021)
Total Adjustments	<u>\$ 459,812</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 337,688</u>

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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 assets 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 center'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 assets 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.

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

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The district does not apply FASB pronouncements issued after November 30, 1989.

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 and \$3,000 or more if acquired in 2003 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:

Assets	Years
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. 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. No liability is reported for accumulated sick leave as it is the district's policy not to pay for unused sick leave when the employee terminates employment.

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 assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

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

H. Fund Balances / Net Assets Equity

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.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

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

CLASSIFICATION	DEFINITION	EXAMPLES
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, assigned fund balances, or committed balances reported in the balance sheet at December 31, 2011.

Restricted Fund Balances – consist of the following item at December 31, 2011:

Restricted fund balances are shown by primary function on the balance sheet for public safety. Restricted fund balance in the General fund is restricted by enabling legislation (primarily state law for as to restrictions on those funds).

Net Assets Equity:

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.

Restrictions of net assets equity shown in the net assets statement is due to restrictions in state law as to how Water Resource District funds are to be used. Additionally, invested in capital assets, net of related debt equity is shown. Unrestricted net assets equity consists of activity related to the general fund.

Restricted net assets equity in the statement of net assets is shown by primary function (as fund balance are shown), as fund balances are shown, and is restricted for public safety.

I. 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: 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 2011 budgets on December 1, 2011 as follows:

Fund	REVENUE		
	Original Budget	Amendment	Amended Budget
Major Fund: General Fund	\$326,500	\$(3,150)	\$323,350

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Fund: General Fund	\$623,150	\$(444,840)	\$178,310

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.

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

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 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, 2011, the Water Resource District's carrying amount of deposits was \$2,186,268 and the bank balances were \$2,197,350. Of the bank balances, \$709,716 was covered by Federal Depository Insurance. The remaining balances totaling \$1,487,634 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.

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: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to December 31, 2011 and chargeable to appropriations for the years then ended, but paid subsequent to that date.

NOTE 6: TAXES RECEIVABLE

The taxes receivable represents the past four 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.

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

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.

NOTE 7: SPECIAL ASSESSMENT RECEIVABLE

Special assessment receivable on the governmental fund statement represents the past four 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 8: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2011:

Governmental Activities (FY2011):	Balance January 1	Increases	Decreases	Balance December 30
<i>Capital assets not being depreciated:</i>				
Land	\$1,051,788	\$ -	\$ -	\$1,051,788
Construction In Progress	-	60,402	-	60,402
Total Capital Assets, Not Being Depreciated	\$1,051,788	\$ 60,402	\$ -	\$1,112,190
<i>Capital assets being depreciated:</i>				
Buildings	\$ 35,700	\$ -	\$ -	\$ 35,700
Equipment/Vehicles	10,930	14,549	-	25,479
Infrastructure	7,437,120	13,549	-	7,450,669
Total Capital Assets, Being Depreciated	\$7,483,750	\$ 28,098	\$ -	\$7,511,848
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 1,785	\$ 1,785	\$ -	\$ 3,570
Equipment/Vehicles	2,733	4,187	-	6,920
Infrastructure	301,567	154,090	-	455,657
Total Accumulated Depreciation	\$ 306,085	\$ 160,062	\$ -	\$ 466,147
Total Capital Assets Being Depreciated, Net	\$7,177,665	\$(131,964)	\$ -	\$7,045,701
Governmental Activities - Capital Assets, Net	\$8,229,453	\$ (71,562)	\$ -	\$8,157,891

Business-Type Activities (FY2011):	Balance January 1	Increases	Decreases	Balance December 31
<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	330,958	125,662	50,631	405,989
Infrastructure	14,891,827	-	-	14,891,827
Total Capital Assets, Being Depreciated	\$15,232,585	\$ 125,662	\$50,631	\$15,307,616
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 3,267	\$ 327	\$ -	\$ 3,594
Equipment/Vehicles	232,329	78,230	50,631	259,928
Infrastructure	4,011,395	297,837	-	4,309,232
Total Accumulated Depreciation	\$ 4,246,991	\$ 376,394	\$50,631	\$ 4,572,754
Total Capital Assets Being Depreciated, Net	\$10,985,594	\$(250,732)	\$ -	\$10,734,862
Governmental Activities - Capital Assets, Net	\$10,986,694	\$(250,732)	\$ -	\$10,735,962

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

Amortization of Intangible Asset:

Business-Type Activities (2011):	Balance January 1	Increases	Decreases	Balance December 31
<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	\$ 550,630	\$ 31,564	\$ -	\$ 582,194
Business-Type Activities - Intangible Asset, Net	\$ 820,670	\$(31,564)	\$ -	\$ 789,106

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: DEFERRED REVENUES

Deferred revenues on the fund financial statements consist of amounts 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, such amounts are measurable but not available.

NOTE 10: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2011, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

	Balance 1-1-11	Increases	Decreases	Balance 12-31-11	Due Within One Year
Special Assessment Loan	\$171,000	\$ -	\$13,000	\$158,000	\$13,000
Loan – 2010	134,134	-	5,778	128,356	6,596
Totals	\$305,134	\$ -	\$18,778	\$286,356	\$19,596

Outstanding governmental activities debt at December 31, 2011 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%. \$158,000

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. \$128,356

Debt service requirements on long-term debt for governmental activities at December 31, 2011 are as follows:

Year Ending December 31	Special Assessment Loan		Loan Payable	
	Principal	Interest	Principal	Interest
2012	\$ 13,000	\$ 3,950	\$ 6,596	\$ 6,264
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 – 2021	75,000	7,725	46,203	18,098
2022 - 2026	16,000	400	45,740	5,700
TOTAL	\$158,000	\$24,600	\$128,356	\$51,686

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

Business-Type Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
State Water Commission Loans	\$1,082,282	\$ -	\$128,047	\$ 954,235	\$132,731
USDA-RD RUS Loans	2,647,300	-	48,000	2,599,300	49,000
Compensated Absences *	48,700	4021	-	52,721	5,272
TOTAL	\$3,778,282	\$4,021	\$176,047	\$3,606,256	\$187,003

* - 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, 2011 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.

\$ 954,235

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%.

2,599,300

Total Loans Payable

\$3,553,535

Debt service requirements on business-type activity long-term debt at December 31, 2011 are as follows:

BUSINESS-TYPE ACTIVITIES				
Year Ending December 31	State Water Commission Loan		USDR-RD RUS Loan	
	Principal	Interest	Principal	Interest
2012	\$132,731	\$ 33,399	\$ 49,000	\$ 113,719
2013	137,586	28,544	51,000	111,576
2014	142,619	23,511	54,000	109,344
2015	147,836	18,294	55,000	106,982
2016	153,243	12,887	59,000	104,576
2017 – 2021	240,220	2,756	332,000	482,234
2022 – 2026	-	-	411,000	402,959
2027 – 2031	-	-	509,000	304,872
2032 – 2036	-	-	632,000	183,116
2037 – 2040	-	-	447,300	39,677
TOTAL	\$954,235	\$119,391	\$2,599,300	\$1,959,055

NOTE 11: RESTRICTED CASH AND INVESTMENTS

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

Restriction:	Amounts
Restricted for Debt Service (Enterprise)	\$88,400

NOTE 12: 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 (NDRIF), 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 NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF 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 \$769,000 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 13: 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, 2011, 2010, and 2009 were \$5,441, \$5,088, and \$4,664, respectively.

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

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, 2011, 2010, and 2009 were \$17,967, \$19,887, and \$17,524, respectively.

NOTE 14: CONSTRUCTION COMMITMENTS

As of December 31, 2011, the Water Resource District had the following open construction commitments:

Project	Contract	Total Completed	Remaining Commitment	Retainage
True North Steel	\$60,402	\$60,402	\$ -	\$ -
Total Open Construction 12/31/11	\$60,402	\$60,402	\$ -	\$ -

NOTE 15: JOINT VENTURES

Under authorization of state statutes 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, 2011, the most current information available, is as follows:

Cash and Investments	\$ 10,463
Total Revenues	\$ 36,100
Total Expenses	(44,077)
Net Change in Equity	\$ (7,977)

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

NOTE 16: PRIOR PERIOD ADJUSTMENT

There were prior period adjustments for the period ending December 31, 2011 for Governmental Activities involving adjustments to the net capital assets:

Governmental Activities:	Amounts
Beginning Net Assets, as previously reported	\$8,671,581
Adjustments to restate the January 1, 2011 Net Assets:	
Adjustment to correct Beginning Special Assessments Receivable Balance	88,457
Net Assets January 1, as restated	\$8,760,038

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 195,900	\$ 249,500	\$ 212,928	\$ (36,572)
Specials	-	-	37,192	37,192
Intergovernmental	126,700	70,900	54,375	(16,525)
Interest Income	1,500	1,900	2,428	528
Miscellaneous	2,400	1,050	1,063	13
Total Revenues	\$ 326,500	\$ 323,350	\$ 307,986	\$ (15,364)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Conservation of Natural Resources:</u>				
Salaries	\$ 23,600	\$ 20,200	\$ 19,918	\$ 282
Travel	2,500	1,900	1,876	24
Office Supplies	2,000	1,100	1,371	(271)
Dues and Registration	3,000	1,600	1,575	25
Insurance	2,000	1,500	1,470	30
Audit	3,500	3,000	3,000	-
Missouri River Joint Board	1,000	-	-	-
Flood Control Projects	7,000	-	-	-
County Park Maintenance	4,000	2,000	-	2,000
County Projects	-	3,500	2,570	930
Legal and Engineering Fees	30,000	8,500	8,597	(97)
Willow Road Floodway	500	360	360	-
Floodway #1	20,000	-	1,143	(1,143)
Zachmeier CAT	1,500	1,200	-	1,200
Harmon Lake	340,700	82,300	103,244	(20,944)
WET Program	250	-	-	-
Square Butte	160,000	32,800	26,163	6,637
Misc/Office Rent	2,400	250	3,000	(2,750)
Equipment Purchases	500	-	-	-
Total Conservation of Natural Resources	\$ 604,450	\$ 160,210	\$ 174,287	\$ (14,077)
<u>Debt Service:</u>				
Total Debt Service - Principle	\$ 18,700	\$ 18,100	\$ 18,778	\$ (678)
Total Debt Service - Interest and SC	-	-	12,180	(12,180)
Total Debt Service	\$ 18,700	\$ 18,100	\$ 30,958	\$ (12,858)
Total Expenditures	\$ 623,150	\$ 178,310	\$ 205,245	\$ (26,935)
Excess (Deficiency) of Revenues Over Expenditures	\$ (296,650)	\$ 145,040	\$ 102,741	\$ (42,299)
Fund Balance - January 1	\$ 602,646	\$ 602,646	\$ 602,646	\$ -
Fund Balance - December 31	\$ 305,996	\$ 747,686	\$ 705,387	\$ (42,299)

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The water resource district adopts a budget for the general fund. The district does not prepare a budget for special revenue funds as state law does not require a budget for those funds.

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.

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2011, the Morton County Water Resource District had the following fund expenditures in excess of budgeted amounts:

	Budget	Actual	Excess
General Fund	\$178,310	\$205,245	\$(26,935)

No remedial action is anticipated or required regarding these excess expenditures.

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

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*

Governing Board
Morton County Water Resource District
Mandan, North Dakota

We have audited the financial statements of the governmental activities, business-type activities and each 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, 2011, which collectively comprise the Water Resource District's basic financial statements and have issued our report thereon dated October 2, 2012. 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.

Internal Control Over Financial Reporting

Management of Morton County Water Resource District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Morton County Water Resource District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morton County Water Resource District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morton County Water Resource District's internal control over financial reporting.

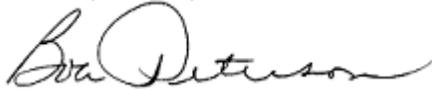
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Resource District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we noted one deficiency in internal control over financial reporting, described in the accompanying *schedule of findings and questioned costs as item 2011-01* that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Resource District's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Governing Board, others within the water resource district, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

October 2, 2012

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued:

Governmental Activities	Unqualified
Business-Type Activities	Unqualified
Major Governmental Funds	Unqualified

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

2011-01 - SEGREGATION OF DUTIES

Condition:

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

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the water resource district.

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.

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:

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.