



Morton County Water Resource District

Mandan, North Dakota

Audit Report

For the Year Ended December 31, 2018

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

MORTON COUNTY WATER RESOURCE DISTRICT

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MORTON COUNTY WATER RESOURCE DISTRICT

District Officials and Audit Personnel

December 31, 2018

DISTRICT OFFICIALS

Wade Bachmeier	Chairman
Jamie Wetsch	Vice Chairman
George Saxowsky	Manager
Bruce Engelhardt	Manager
Jim Schmidt	Manager
Brenda Winckler	Secretary/Treasurer
Michael Kemnitz	Manager, Water System
Karin Garvie	Office Manager, Water System

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Jonathan Worrall, CPA	Audit In-Charge

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR’S REPORT

Board of District Commissioners
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 each major fund of Morton County Water Resource District, Mandan, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Morton County 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. 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 each major fund of Morton County Water Resource District, Mandan, North Dakota, as of December 31, 2018, 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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules* and *notes to the required supplementary information* as listed in the table of contents 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2019 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* in considering Morton County Water Resource District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
July 3, 2019

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 588,416	\$ 653,742	\$ 1,242,158
Investments	120,347	1,304,732	1,425,079
Restricted Cash and Investments	-	151,087	151,087
Accounts Receivable	-	177,642	177,642
Other Receivable	-	4,807	4,807
Due from County	824	-	824
Taxes Receivable	2,596	-	2,596
Special Assessments Receivable	73,279	-	73,279
Intangible Assets, Net	-	568,156	568,156
Capital Assets, Net	7,717,830	10,314,454	18,032,284
Total Assets	\$ 8,503,292	\$ 13,174,620	\$ 21,677,912
LIABILITIES			
Accounts Payable	\$ 22	\$ 44,081	\$ 44,103
Interest Payable	865	58,634	59,499
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	24,222	90,328	114,550
Compensated Absences Payable	-	24,642	24,642
Due After One Year			
Long-Term Debt	112,553	2,637,920	2,750,473
Compensated Absences Payable	-	57,498	57,498
Total Liabilities	\$ 137,662	\$ 2,913,103	\$ 3,050,765
NET POSITION			
Net Investment in Capital Assets	\$ 7,581,055	\$ 7,586,206	\$ 15,167,261
Restricted for:			
Intangible Assets	-	568,156	568,156
Debt Service	-	151,087	151,087
Dam Maintenance	120,961	-	120,961
Unrestricted	663,614	1,956,068	2,619,682
Total Net Position	\$ 8,365,630	\$ 10,261,517	\$ 18,627,147

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

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Conservation of Natural Resources	\$ 407,733	\$ -	\$ 44,356	\$ (363,377)	\$ -	\$ (363,377)
Interest on Long-Term Debt	5,857	-	-	(5,857)	-	(5,857)
Total Governmental Activities	\$ 413,590	\$ -	\$ 44,356	\$ (369,234)	-	(369,234)
Business-Type Activities						
Water System	\$ 2,198,052	\$ 2,059,726	\$ -	\$ -	\$ (138,326)	\$ (138,326)
Total Primary Government	\$ 2,611,642	\$ 2,059,726	\$ 44,356	\$ (369,234)	\$ (138,326)	\$ (507,560)
General Revenues						
Taxes				\$ 132,768	\$ -	\$ 132,768
Interest Earnings				2,736	9,255	11,991
Miscellaneous Revenue				1,252	17,354	18,606
Gain on Sale of Assets				-	20,000	20,000
Total General Revenues				\$ 136,756	\$ 46,609	\$ 183,365
Change in Net Position				\$ (232,478)	\$ (91,717)	\$ (324,195)
Net Position - January 1				\$ 8,598,108	\$ 10,353,234	\$ 18,951,342
Net Position - December 31				\$ 8,365,630	\$ 10,261,517	\$ 18,627,147

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

MORTON COUNTY WATER RESOURCE DISTRICT

Balance Sheet – Governmental Funds

December 31, 2018

	<u>General Fund</u>
ASSETS	
Cash	\$ 588,416
Investments	120,347
Due from County	824
Taxes Receivable	2,596
Special Assessments Receivable	<u>73,279</u>
 Total Assets	 <u><u>\$ 785,462</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities	
Accounts Payable	<u>\$ 22</u>
 Deferred Inflows of Resources	
Taxes Receivable	\$ 2,596
Special Assessments Receivable	<u>73,279</u>
 Total Deferred Inflows of Resources	 <u>\$ 75,875</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>\$ 75,897</u>
 Fund Balances	
Committed	
Dam Maintenance	\$ 120,961
Unassigned	<u>588,604</u>
 Total Fund Balances	 <u>\$ 709,565</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 <u><u>\$ 785,462</u></u>

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

MORTON COUNTY WATER RESOURCE DISTRICT

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

Total Fund Balances for Governmental Funds		\$	709,565
Total <i>net position</i> 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.			7,717,830
Property taxes and special assessments receivable 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 inflows in the funds.			
Property Taxes Receivable	\$	2,596	
Special Assessments Receivable		<u>73,279</u>	75,875
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. All liabilities, both current and long-term, are reported in the statement of net position.			
Long-Term Debt	\$	(136,775)	
Interest Payable		<u>(865)</u>	<u>(137,640)</u>
Total Net Position of Governmental Activities			<u>\$ 8,365,630</u>

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

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2018

	<u>General Fund</u>
REVENUES	
Taxes	\$ 149,251
Intergovernmental Revenue	44,356
Interest Income	2,736
Miscellaneous	<u>1,252</u>
Total Revenues	<u>\$ 197,595</u>
EXPENDITURES	
Current	
Projects	\$ 428,950
Land Purchase	70,515
Payroll	29,270
Professional Fees	18,348
Miscellaneous	10,734
Debt Service	
Principal	23,794
Interest	<u>5,991</u>
Total Expenditures	<u>\$ 587,602</u>
Net Change in Fund Balances	<u>\$ (390,007)</u>
Fund Balance - January 1	<u>\$ 1,099,572</u>
Fund Balance - December 31	<u><u>\$ 709,565</u></u>

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

MORTON COUNTY WATER RESOURCE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (390,007)

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.

Capital Outlay	\$ 350,144	
Depreciation Expense	<u>200,060</u>	150,084

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 23,794

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.

Net Decrease in Interest Payable 134

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.

Net Increase in Taxes Receivable	\$ 50	
Net Decrease in Special Assessments Receivable	<u>(16,533)</u>	<u>(16,483)</u>

Change in Net Position of Governmental Activities \$ (232,478)

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

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Net Position – Proprietary Funds

December 31, 2018

	Business-Type Activities
	<u>Water System</u>
ASSETS	
Current Assets	
Cash	\$ 653,742
Investments	1,304,732
Restricted Investments	
Debt Reserve	151,087
Utility Billings Receivable	177,642
Other Receivable	4,807
	<u> </u>
Total Current Assets	<u>\$ 2,292,010</u>
Noncurrent Assets	
Intangible Assets, Net	\$ 568,156
Capital Assets, Net	10,314,454
	<u> </u>
Total Noncurrent Assets	<u>\$ 10,882,610</u>
Total Assets	<u>\$ 13,174,620</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 44,081
Interest Payable	58,634
Long-Term Debt	90,328
Compensated Absences	24,642
	<u> </u>
Total Current Liabilities	<u>\$ 217,685</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 2,637,920
Compensated Absences	57,498
	<u> </u>
Total Noncurrent Liabilities	<u>\$ 2,695,418</u>
Total Liabilities	<u>\$ 2,913,103</u>
NET POSITION	
Net Investment in Capital Assets	\$ 7,586,206
Restricted for Intangible Assets	568,156
Restricted for Debt Service	151,087
Unrestricted	1,956,068
	<u> </u>
Total Net Position	<u>\$ 10,261,517</u>

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

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-Type Activities</u>
	<u>Water System</u>
OPERATING REVENUES	
Charges for Services	\$ 2,059,726
Miscellaneous Revenue	17,354
	<hr/>
Total Operating Revenues	\$ 2,077,080
	<hr/>
OPERATING EXPENSES	
General and Administrative	\$ 93,238
Payroll	610,726
Insurance	23,191
Operations and Maintenance	676,882
Projects	258,966
Depreciation	400,993
Amortization	31,564
	<hr/>
Total Operating Expenses	\$ 2,095,560
	<hr/>
Operating Loss	\$ (18,480)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 9,255
Gain on Sale of Asset	20,000
Interest Expense and Service Charges	(102,492)
	<hr/>
Total Non-Operating Expenses	\$ (73,237)
	<hr/>
Change in Net Position	\$ (91,717)
	<hr/>
Net Position - January 1	\$ 10,353,234
	<hr/>
Net Position - December 31	\$ 10,261,517
	<hr/> <hr/>

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

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-Type Activities</u>
	<u>Water System</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 2,015,774
Payments to Suppliers	(1,052,378)
Payments to Employees	(604,070)
Miscellaneous Revenue	17,354
	<hr/>
Net Cash Provided by Operating Activities	\$ 376,680
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (401,619)
Gain on Sale of Capital Assets	20,000
Principal Paid on Capital Debt	(87,562)
Interest and Fees Paid on Capital Debt	(98,770)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	\$ (567,951)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases, Sales & Maturities of Investments	\$ (8,362)
Interest Income	9,255
	<hr/>
Net Cash Provided by Investing Activities	\$ 893
	<hr/>
Net Decrease in Cash	\$ (190,378)
	<hr/>
Cash - January 1	\$ 844,120
	<hr/>
Cash - December 31	\$ 653,742
	<hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (18,480)
	<hr/>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	\$ 400,993
Amortization	31,564
Change in Assets and Liabilities:	
Accounts Receivable	(39,145)
Other Receivable	(4,807)
Accounts Payable	(101)
Payroll Liability	(1,399)
Compensated Absences	8,055
	<hr/>
Net Cash Provided by Operating Activities	\$ 376,680
	<hr/>

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

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Morton County Water Resource District (“District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 District’s accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the District. The District has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the 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 the District.

Based on these criteria, there are no component units to be included within the District 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. 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, service charges, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the District’s fund. Separate statements are provided for the governmental fund. The emphasis of fund financial statements is on the major governmental fund.

The 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.

The District reports the following major enterprise fund.

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

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

Government-Wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary 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. Non-exchange 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

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

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. The governmental fund is 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 long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of 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 is 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.

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

D. Cash and Investments

Cash consists of amounts in demand deposits, money market accounts, and investments.

E. Capital Assets

Capital assets include property, plant, and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$7,500. Such assets are recorded at historical 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. 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:

ASSET	YEARS
Buildings	40
Infrastructure	40
Machinery	5 - 15
Equipment/Vehicles	3 - 5
Office Equipment	3 - 5

F. Compensated Absences

Full time employees earn vacation benefits from one to two hours per month, depending on tenure with the District. Up to 240 hours of vacation leave may be carried over at year end. Sick leave benefits are earned at the rate of one day per month regardless of the years of service.

Upon termination of employment, employees will be paid for vacation benefits that have accrued based on their current base of pay. Any employee who has ten or more consecutive years of employment will be eligible to receive payment for sick leave at a rate of 25% of the unused balance. A liability for the vested or accumulated vacation and sick leave is reported in government-wide statement of net position.

G. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing sources. Issuance costs are reported as debt service expenditures.

H. Fund Balance

Fund Balance Spending Policy. It is the policy of the 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.

Committed Fund Balances. Committed fund balances consist of amounts in the general fund that are not restricted by enable legislation or 3rd parties but have been committed by the District Board for specific purposes.

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

I. Net Position

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

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

NOTE 2: DEPOSITS

Custodial Credit Risk

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

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

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

At year ended December 31, 2018, the District's carrying amount of deposits totaled \$2,818,223, and the bank balances totaled \$2,838,417. Of the bank balances, \$1,619,995 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 3: RESTRICTED CASH AND INVESTMENTS

Business-Type Activities

The District’s loan covenants require certain reservations of its net position. This amount is classified as restricted cash and investments on the statement of net position because their use is limited by applicable bond covenants.

NOTE 4: PROPERTY TAXES

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

NOTE 5: INTANGIBLE ASSETS

Business-Type Activities

The following is a summary of changes in intangible assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Intangible Assets, Being Amortized				
Right to Purchase Water	\$ 1,371,300	\$ -	\$ -	\$ 1,371,300
Less Accumulated Amortization				
Right to Purchase Water	\$ 771,579	\$ 31,565	\$ -	\$ 803,144
Business Type Activities-Intangible Asset, Net	\$ 599,721	\$ (31,565)	\$ -	\$ 568,156

Amortization expense was charged to conservation of natural resources.

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

NOTE 6: CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets Not Being Depreciated				
Land	\$ 1,051,788	\$ 70,515	\$ -	\$ 1,122,303
Capital Assets, Being Depreciated				
Buildings	\$ 252,265	\$ -	\$ -	\$ 252,265
Equipment/Vehicles	116,544	-	-	116,544
Infrastructure	7,665,161	279,629	-	7,944,790
Total Capital Assets, Being Depreciated	\$ 8,033,970	\$ 279,629	\$ -	\$ 8,313,599
Less Accumulated Depreciation For				
Buildings	\$ 56,493	\$ 10,538	\$ -	\$ 67,031
Equipment/Vehicles	42,269	10,560	-	52,829
Infrastructure	1,419,250	178,962	-	1,598,212
Total Accumulated Depreciation	\$ 1,518,012	\$ 200,060	\$ -	\$ 1,718,072
Total Capital Assets Being Depreciated, Net	\$ 6,515,958	\$ 79,569	\$ -	\$ 6,595,527
Total Capital Assets, Net	\$ 7,567,746	\$ 150,084	\$ -	\$ 7,717,830

Depreciation expense was charged to conservation of natural resources.

Business-Type Activities

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets Not Being Depreciated				
Land	\$ 1,100	\$ 251,934	\$ -	\$ 253,034
Capital Assets, Being Depreciated				
Buildings	\$ 9,800	\$ -	\$ -	\$ 9,800
Equipment/Vehicles	520,973	149,685	94,091	576,567
Infrastructure	16,367,818	-	-	16,367,818
Total Capital Assets, Being Depreciated	\$16,898,591	\$ 149,685	\$ 94,091	\$ 16,954,185
Less Accumulated Depreciation				
Buildings	\$ 5,553	\$ 327	\$ -	\$ 5,880
Equipment/Vehicles	429,015	73,310	94,091	408,234
Infrastructure	6,151,295	327,356	-	6,478,651
Total Accumulated Depreciation	\$ 6,585,863	\$ 400,993	\$ 94,091	\$ 6,892,765
Total Capital Assets Being Depreciated, Net	\$10,312,728	\$ (251,308)	\$ -	\$ 10,061,420
Total Capital Assets, Net	\$10,313,828	\$ 626	\$ -	\$ 10,314,454

Depreciation expense was charged to conservation of natural resources.

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

NOTE 7: LONG-TERM LIABILITIES

Governmental Activities

The following changes occurred in long-term liabilities for the year ended 2018:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt Loans Payable	\$ 160,569	\$ -	\$ 23,794	\$ 136,775	\$ 24,222

Business-Type Activities

The following changes occurred in long-term liabilities for the year ended 2018:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt					
Bonds Payable	\$ 2,603,810	\$ -	\$ 81,562	\$ 2,522,248	\$ 84,328
Loans Payable	212,000	-	6,000	206,000	6,000
Total Long-Term Debt	\$ 2,815,810	\$ -	\$ 87,562	\$ 2,728,248	\$ 90,328
Compensated Absences *	\$ 74,085	\$ 8,055	\$ -	\$ 82,140	\$ 24,642
Total Long-Term Liabilities	\$ 5,705,705	\$ 8,055	\$ 175,124	\$ 5,538,636	\$ 205,298

* The change in compensated absences is shown as a net change due to changes in salary prohibit exact calculations.

The annual requirements to amortize the outstanding long-term debt at December 31, 2018 is as follows:

Year Ending December 31	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITIES			
	Loans Payable		Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 24,222	\$ 5,189	\$ 84,328	\$ 85,504	\$ 6,000	\$ 9,013
2020	24,662	4,373	87,186	82,645	7,000	8,750
2021	26,141	3,520	90,142	79,690	7,000	8,444
2022	26,634	2,626	93,198	76,634	7,000	8,138
2023	11,152	1,708	96,357	73,475	8,000	7,831
2024-2028	23,964	1,755	533,055	316,104	43,000	33,775
2029-2033	-	-	1,537,982	100,285	54,000	23,494
2033-2037	-	-	-	-	66,000	10,631
2038-2042	-	-	-	-	8,000	350
Total	\$ 136,775	\$ 19,171	\$ 2,522,248	\$ 814,337	\$ 206,000	\$ 110,426

NOTE 8: RISK MANAGEMENT

The 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.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements – Continued

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRF for liability coverage. The coverage by NDRF is limited to losses of \$2,000,000 for general liability and automobile and \$189,810 for public assets coverage.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The 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 two million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$381,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 9: RETIREMENT PLAN

North Dakota Public Employees’ Retirement System

The District participates in the Deferred Compensation Section 457 plan administered by the North Dakota Public Employees' Retirement System (NDPERS). Plan members are not required to contribute; however, the District contributes 8-11%, depending on years of service, of the employee’s annual salary. The District’s contributions to NDPERS for the years ending December 31, 2018, 2017, and 2016 were \$17,709, \$13,017, and \$7,178, respectively.

Nationwide Retirement

The District contributes to Nationwide Retirement. Plan members are not required to contribute; however, the District contributes 8-11%, depending on years of service, of the employee’s annual salary. The District’s contributions to Nationwide Retirement for the years ending December 31, 2018, 2017, and 2016 were \$40,211, \$38,554, and \$35,270, respectively.

NOTE 10: JOINT VENTURE

Missouri River Joint Water Board

Under authorization of state statutes, the 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. 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, 2018 is as follows:

Cash and Investments	\$ 15,472
Total Revenues	\$ 46,451
Total Expenses	(43,946)
Net Change in Equity	2,505

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

MORTON COUNTY WATER RESOURCE DISTRICT

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Favorable/ (Unfavorable) Variance with Final Budget
Revenues				
Taxes	\$ 197,200	\$ 149,024	\$ 149,251	\$ 227
Intergovernmental Revenue	20,000	44,356	44,356	-
Interest Income	1,000	2,587	2,736	149
Miscellaneous	-	1,208	1,252	44
Total Revenues	\$ 218,200	\$ 197,175	\$ 197,595	\$ 420
Expenditures				
Current				
Projects	\$ 341,000	\$ 469,410	\$ 428,950	\$ 40,460
Land Purchase	-	70,515	70,515	-
Payroll	32,500	29,270	29,270	-
Professional Fees	39,000	19,398	18,348	1,050
Miscellaneous	10,900	10,734	10,734	-
Debt Service				
Principal	23,794	23,794	23,794	-
Interest	10,206	6,338	5,991	347
Total Expenditures	\$ 457,400	\$ 629,459	\$ 587,602	\$ 41,857
Excess (Deficiency) of Revenues Over Expenditures	\$ (239,200)	\$ (432,284)	\$ (390,007)	\$ (41,437)
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 239,200	\$ 348,515	\$ -	\$ 348,515
Net Changes in Fund Balances	\$ -	\$ (83,769)	\$ (390,007)	\$ 307,078
Fund Balance - January 1	\$ 1,099,572	\$ 1,099,572	\$ 1,099,572	\$ -
Fund Balance - December 31	\$ 1,099,572	\$ 1,015,803	\$ 709,565	\$ 307,078

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

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- The district board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund.
- The budget includes proposed expenditures and means of financing them.
- The district, on or before the October meeting shall determine the amount of taxes that shall be levied for district purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the operations coordinator at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: BUDGET AMENDMENTS

The District Board of Commissioners amended the budget for the year ended December 31, 2018 as follows:

	Original Budget	Amendment	Amended Budget
General Fund			
Revenues	\$ 218,200	\$ (21,025)	\$ 197,175
Expenditures	457,400	172,059	629,459
Transfers In	239,200	109,315	348,515

STATE AUDITOR

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Local Government Division
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MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

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

Independent Auditor's Report

Board of District Commissioners
Morton County Water Resource District
Mandan, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Morton County Water Resource District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Morton County Water Resource District's basic financial statements, and have issued our report thereon dated July 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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

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

Morton County Water Resource District’s Response to Findings

Morton County Water Resource District’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. 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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
July 3, 2019

MORTON COUNTY WATER RESOURCE DISTRICT

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

MORTON COUNTY WATER RESOURCE DISTRICT

Schedule of Audit Findings

For the Year Ended December 31, 2018

New Findings

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Morton County Water Resource District does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of financial statements and note disclosures.

Criteria

Management of Morton County Water Resource District is responsible for establishing proper internal control over the preparation of Morton County Water Resource District's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management is not fully knowledgeable of the process of preparing financial statements in compliance with GAAP.

Effect

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

Recommendation

We recommend the Morton County Water Resource District design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

Morton County Water Resource District's Response

Agree. We are aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 – SEGREGATION OF DUTIES

Condition

Morton County Water Resource District has limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

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 district.

Cause

Management has chosen to allocate its resourced to other functions of the water resource district.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the district's financial condition.

Recommendation

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

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

Morton County Water Resource District's Response

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the Water Resource District.

STATE AUDITOR

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GOVERNANCE COMMUNICATION

Board of District Commissioners
Morton County Water Resource District
Mandan, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Morton County Water Resource District, North Dakota, for the year ended December 31, 2018 which collectively comprise Morton County Water Resource District's basic financial statements, and have issued our report thereon dated July 3, 2019. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated May 15, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Morton County 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 and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

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

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

Corrected and Uncorrected Misstatements

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

GOVERNMENTAL ACTIVITIES		
<hr/>		
Client Provided Adjustments		
Due from County	824	
Revenue		824
BUSINESS-TYPE ACTIVITIES		
<hr/>		
Client Provided Adjustments		
Accounts Receivable	177,642	
Revenue		177,642
Expenditures	126,111	
Accounts Payable		43,971
Compensated Absences		82,140
Audit Adjustments		
Depreciation	3,429	
Expenditures		3,429

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 3, 2019.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

Other Audit Findings or Issues

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

The following presents our informal recommendations:

FRAUD RISK ASSESSMENT

Morton County Water Resource District does not currently prepare a fraud risk assessment of the entire entity. If the District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the District's goals in reporting, reliance, and accountability.

We recommend Morton County Water Resource District prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

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

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
July 3, 2019

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