

LOWER YELLOWSTONE
IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED DECEMBER 31, 2019

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
FOR THE YEAR ENDED DECEMBER 31, 2019

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LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
ORGANIZATION
FOR THE YEAR ENDED DECEMBER 31, 2019

BOARD OF TRUSTEES

Richard Cayko	Chairman/BOC Representative
Todd Cayko	Vice Chairman
Dirk Schlothauer	Commissioner
Dale Danielson	Commissioner
Phil Hurley	Commissioner
James Brower	Project Manager/Secretary
Cynthia Nygaard	Clerk/Bookkeeper

Smith, Lange & Halley, P.C.

1060 So. Central Ave., Ste. 1
Sidney, MT 59270

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Lower Yellowstone Irrigation District No. 2
Sidney, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lower Yellowstone Irrigation District No. 2 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lower Yellowstone Irrigation District No. 2 as of December 31, 2019, and the respective changes in financial position, and, its 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 management's discussion and analysis (omitted) 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. Management omitted the management's discussion and analysis. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lower Yellowstone Irrigation District No. 2's basic financial statements. The organizational chart on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The organizational chart on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2022, on our consideration of Lower Yellowstone Irrigation District No. 2'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lower Yellowstone Irrigation District No. 2's internal control over financial reporting and compliance.

Smith, Lange & Halley, PC

Smith, Lange & Halley, PC
Sidney, Montana

January 31, 2022

LOWER YELLOWSTONE IRRIGATION PROJECT
DISTRICT NO. 2
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$552,773
Investments	85,583
Assessments receivable	<u>853,896</u>
TOTAL CURRENT ASSETS	1,492,252
Capital assets (net of accumulated depreciation)	<u>455,716</u>
TOTAL ASSETS	1,947,968
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	57,212
Current portion of compensated absences	<u>59,074</u>
TOTAL CURRENT LIABILITIES	116,286
NONCURRENT LIABILITIES	
Compensated absences	<u>14,768</u>
TOTAL LIABILITIES	131,054
DEFERRED INFLOWS OF RESOURCES	
Assessments receivable	<u>842,860</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	842,860
NET POSITION	
Invested in capital assets	455,716
Unrestricted	<u>518,338</u>
TOTAL NET POSITION	<u><u>\$974,054</u></u>

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Enterprise Fund
OPERATING REVENUES	
Charges and fees	\$845,002
OPERATING EXPENSES	
Payments to Board of Control	1,089,735
Audit	2,525
Per Diem	2,549
Miscellaneous	0
Depreciation	92,947
TOTAL OPERATING EXPENSES	1,187,756
OPERATING INCOME (LOSS)	(342,754)
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	20,378
Intergovernmental revenues	326,055
TOTAL NONOPERATING REVENUES (EXPENSES)	346,433
CHANGE IN NET POSITION	3,679
TOTAL NET POSITION - JANUARY 1, 2019	970,375
TOTAL NET POSITION - DECEMBER 31, 2019	\$974,054

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$839,221
Cash paid for services	(1,104,644)
Net cash provided (used) by operating activities	(265,423)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from intergovernmental sources	326,055
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(90,326)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	84,691
Purchase of investments	(85,582)
Investment income	20,378
Net cash provided by investing activities	19,487
Net increase (decrease) in cash and cash equivalents	(10,207)
Cash and cash equivalents - December 31, 2018	562,980
Cash and cash equivalents - December 31, 2019	\$552,773
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	(\$342,754)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	92,947
(Increase) decrease in receivables	(5,782)
Increase (decrease) in payables	82
Increase (decrease) in deferred inflows	1
Increase (decrease) in compensated absences	(9,917)
Total adjustments	77,331
Net cash provided (used) by operating activities	(\$265,423)

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by Lower Yellowstone Irrigation District No. 2 conform to U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The District's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1. Reporting Entity - The District is governed by an elected, five member Board and is considered to be the primary government. The financial statements include all funds, account groups, boards, commissions and authorities for which the District is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the District's financial statements to be misleading or incomplete.

Related Party Transactions - Lower Yellowstone Irrigation District No. 2 utilizes the services of the Lower Yellowstone Irrigation Project - Board of Control, a separate legal entity created under the provisions of Title 85, Chapter 7, Part 16, MCA. The services provided by the Board of Control for Lower Yellowstone Irrigation District No. 2 include, among other things, accounting for payroll, operating expenses and equipment purchases. The Board of Control is reimbursed on a monthly basis for any expenditures it makes on behalf of Lower Yellowstone Irrigation District No. 2. The Board of Control also provides the same type of services for Lower Yellowstone Irrigation District No. 1, Savage and Intake. The Board of Control is governed by three trustees, one appointed each from the commissioners of Irrigation Districts No. 1 and 2 and a member-at-large.

Lower Yellowstone Irrigation District No. 2 is provided various financial services by McKenzie County, North Dakota. The County serves as cashier and treasurer for the District for assessment collections. The County levies and collects assessments for the District and remits the amounts collected monthly to Richland County, Montana. The treasurer of Richland County maintains the District's funds in an agency account and makes payments on District issued warrants. No service charges have been recorded by the District or either of the Counties.

2. Basis of Presentation and Basis of Accounting - Lower Yellowstone Irrigation District No. 2 engages in only business-type activities and thus report the financial statements required for proprietary funds. These financial statements include the statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows. Proprietary fund financial statements are accounted for using the economic resources measurement focus and the

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

2. Basis of Presentation and Basis of Accounting (Con't) - accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. The accounting objectives are determination of net position, financial position and cash flows. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. These other revenues include gain (loss) on disposal of assets and interest income.

3. Cash and Investments - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. This includes unrestricted and restricted cash.

4. Inventories - Inventories of materials and supplies are maintained by the Board of Control and are valued at cost.

5. Assessments and Deferred Inflow of Resources - The Board is authorized by law to assess the users for funds needed to operate the Irrigation District based upon the budget as adopted. The assessments are levied by August 31, and collected by the county in which the irrigated land is located. The assessments become due March 31. After the due date, the bill becomes delinquent and penalties are assessed. An allowance for uncollectible accounts was not maintained for assessments receivable. The direct write-off method is used for those accounts. Although this is a departure from U.S. GAAP, uncollectible assessments receivable were not considered material. The 2020 assessments are recorded as *Deferred Inflow of Resources* and reported in the Statement of Net Position. Total deferred inflow of resources at December 31, 2019 was \$842,860 and is classified as assessments receivable. These items represent increases to net position that applies to a future period and so will not be recognized as revenue until then.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

6. Capital Assets - Fixed assets purchased or acquired by proprietary funds are recorded in the individual fund making the purchase. Any fixed assets donated specifically for a proprietary fund are also recorded in that individual fund.

Proprietary fund fixed assets are recorded at cost or estimated historical cost and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25
Equipment	3-10

The Board of Trustees implemented a capitalization policy whereby equipment and infrastructure costs in excess of \$4,000 are recorded as additions to fixed assets. The cost of normal maintenance and repairs that do not add to the value of the asset or do not materially extend asset lives are not capitalized.

7. Compensated Absences - Liabilities incurred because of unused vacation and sick leave accumulated by employees and paid when they terminate are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

8. Accounts Payable - This is the amount due to the Board of Control at year-end for the District's proportionate share of operations and maintenance, equipment purchases and other reimbursements.

9. Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Details of cash and investments on December 31, 2019 follows:

Cash with Richland County Treasurer	\$ 552,773
Certificate of Deposit-18 month	
Dakota West Credit Union interest at	
1.0% with maturity at 6/23/21	85,583
Total cash & investments	<u>638,356</u>
Less long-term investments which are not	
considered cash equivalents	(85,583)
Cash & cash equivalents	<u>\$ 552,773</u>

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE B - CASH AND INVESTMENTS

State statutes stipulate that all amounts must be deposited in a financial institution situated and doing business within the state. In addition, state statutes authorize the District to invest in 1) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, 2) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, 3) certificates of deposit fully insured by the federal deposit insurance corporation or the state, 4) obligations of the state.

At December 31, 2019 the carrying amount of the District's deposits with financial institutions was \$85,583 and the bank balance as \$85,583.

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's investment may not be recovered. Investments in local financial institutions included \$250,000 covered by NCUA insurance.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The certificate of deposit with Dakota West Credit Union is in excess of 5% of net position.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rate. The District has a certificate of deposit with a maturity of 18 months and interest rate of 1.0%.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following schedule shows fair value and hierarchy of cash and investments:

	<u>Fair Value</u>	<u>Fair Value Measurement using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Demand deposits	\$552,773	N/A	N/A	N/A
Time deposits	85,583	N/A	N/A	N/A

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE C - CAPITAL ASSETS

A summary of capital assets follows:

	<u>Balance</u> <u>01/01/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/19</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land & Land Rights	\$ 3,706	\$ 0	\$ 0	\$ 3,706
CAPITAL ASSETS BEING DEPRECIATED				
Buildings	178,759	0	0	178,759
Equipment	<u>1,644,500</u>	<u>92,366</u>	<u>(44,932)</u>	<u>1,691,934</u>
Total capital assets being depreciated	1,823,259	92,366	(44,932)	1,870,693
Less Accumulated Depreciation	(<u>1,368,627</u>)	(<u>92,947</u>)	<u>42,892</u>	(<u>1,418,682</u>)
Net Capital Assets Being Depreciated	<u>454,632</u>	(<u>581</u>)	(<u>2,040</u>)	<u>452,011</u>
TOTAL CAPITAL ASSETS	<u>\$ 458,338</u>	(<u>\$ 581</u>)	(<u>\$ 2,040</u>)	<u>\$ 455,717</u>

Cash outlay for the purchase of equipment was \$90,326. The difference between this amount and the amount reported as capital asset additions from above is the basis of equipment traded for new purchases. The amount of capital asset additions will be depreciated over the life of the new assets purchased.

NOTE D - COMPENSATED ABSENCES

The District accrues a liability for unpaid vacation and sick leave due to employees of the Board of Control. On termination of employment, an employee is paid for unused vacation and 25% of accumulated sick pay based on the current hourly rate of pay. A portion of the compensated absences payable is classified as a current liability, with the remainder classified as long-term liability. A summary of compensated absences payable for the year ended December 31, 2019 follows:

<u>Balance</u> <u>1-1-19</u>	<u>Decrease</u>	<u>Balance</u> <u>12-31-19</u>
\$83,759	(\$ 9,917)	\$73,842

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE E - SUMMARY OF LAND AREA AND ASSESSMENTS LEVIED

Amount of Irrigable Land in District:

McKenzie County, ND	18,730.21 acres
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The assessment was levied at \$45.00 per acre for 2019. The 2020 assessment will be \$45.00 per acre.

NOTE F - RISK MANAGEMENT

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers compensation, i.e. employee injuries, and f) medical insurance costs of employees.

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, employee torts, and professional liabilities. The District participates in the State Compensation Fund for workers' compensation coverage. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years and settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

NOTE G - OTHER POST-RETIREMENT EMPLOYMENT BENEFIT

According to Montana State Law, qualified retired employees may elect to remain on the Lower Yellowstone Irrigation Project-Board of Control's health insurance plan until they attain the age for Medicare coverage. The retiree pays the cost of health insurance premium, however they are insured together as a group with current employees. This causes the premiums paid by the retirees to be lower than they would have been if the retirees were insured separately. This results in an implicit rate subsidy. The Governmental Accounting Standards Board states that this implicit rate subsidy be considered an other post-retirement employment benefit (OPEB) and an accrual for the valuation of this benefit be included in the Board of Control's financial statements. There are numerous assumptions that are a part of the calculation for estimating this accrued liability. The Board of Control's management has elected

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE G - OTHER POST-RETIREMENT EMPLOYMENT BENEFIT (CON'T)

not to accrue a liability for this OPEB because they feel the amount of any required accrual would not be material to the financial statements. Had the Board of Control's management determined a liability for this OPEB existed, a liability for District No. 2's share of this liability would have been accrued.

NOTE H - CONTINGENCIES/SUBSEQUENT EVENTS

Inquiry of management indicated that no additional events have occurred subsequent to December 31, 2019 and through the date of this audit report that would require adjustment to or disclosure in the basic financial statements.

Certified Public Accountants

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

To the Commissioners
Lower Yellowstone Irrigation District No. 2
Sidney, Montana

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 business-type activities of Lower Yellowstone Irrigation District No. 2 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Lower Yellowstone Irrigation District No. 2's basic financial statements and have issued our report thereon dated January 31, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lower Yellowstone Irrigation District No. 2'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2'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 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
Page 2

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Yellowstone Irrigation District No. 2'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*.

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.

Smith, Lange & Halley, PC

Smith, Lange & Halley, PC
Sidney, Montana

January 31, 2022