



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Morton County Water Resource District

Mandan, North Dakota

Audit Report for the Year Ended December 31, 2020

Client Code: PS30010



Photo credit: North Dakota Tourism



Office of the
State Auditor

MORTON COUNTY WATER RESOURCE DISTRICT

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For the Year Ended December 31, 2020

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MORTON COUNTY WATER RESOURCE DISTRICT

District Officials and Audit Personnel

December 31, 2020

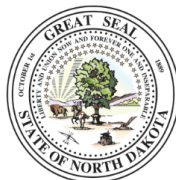
DISTRICT OFFICIALS

| | |
|------------------|--------------------------------------|
| Wade Bachmeier | Chairman |
| Jamie Wetsch | Vice Chairman |
| George Saxowsky | Director |
| Bruce Engelhardt | Director |
| Jim Schmidt | Director |
| | |
| Brenda Winckler | Secretary/Treasurer |
| | |
| Karin Garvie | General Manager, Water System |
| Carrie Schaner | Administrative Manager, Water System |

AUDIT PERSONNEL

| | |
|---------------------|-----------------|
| Heath Erickson, CPA | Audit Manager |
| Brian Hermanson | Audit In-Charge |

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

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, 2020, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Morton County Water Resource District, Mandan, North Dakota, as of December 31, 2020, 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 April 21, 2021 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

Bismarck, North Dakota
April 21, 2021

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Net Position

December 31, 2020

| | Governmental Activities | Business-Type Activities | Total |
|----------------------------------|----------------------------|-----------------------------|---------------|
| ASSETS | | | |
| Cash | \$ 674,178 | \$ 933,165 | \$ 1,607,343 |
| Investments | 121,108 | 1,231,287 | 1,352,395 |
| Restricted Cash and Investments | - | 109,601 | 109,601 |
| Accounts Receivable | - | 162,414 | 162,414 |
| Due from County | 414 | - | 414 |
| Taxes Receivable | 2,136 | - | 2,136 |
| Interest Receivable | 3,477 | - | 3,477 |
| Special Assessments Receivable | 38,701 | - | 38,701 |
| Capital Assets | | | |
| Nondepreciable | 1,051,788 | 1,854,430 | 2,906,218 |
| Amortized, Net | - | 505,028 | 505,028 |
| Depreciable, Net | 6,328,342 | 9,319,595 | 15,647,937 |
| Total Assets | \$ 8,220,144 | \$ 14,115,520 | \$ 22,335,664 |
| LIABILITIES | | | |
| Accounts Payable | \$ - | \$ 53,083 | \$ 53,083 |
| Payroll Liability | 521 | 1,140 | 1,661 |
| Interest Payable | 720 | 68,490 | 69,210 |
| Retainage Payable | - | 66,055 | 66,055 |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long-Term Debt | 26,141 | 117,142 | 143,283 |
| Compensated Absences Payable | - | 14,805 | 14,805 |
| Due After One Year | | | |
| Long-Term Debt | 61,769 | 2,919,712 | 2,981,481 |
| Compensated Absences Payable | - | 34,546 | 34,546 |
| Total Liabilities | \$ 89,151 | \$ 3,274,973 | \$ 3,364,124 |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 7,291,501 | \$ 8,573,709 | \$ 15,865,210 |
| Restricted for: | | | |
| Debt Service | - | 109,601 | 109,601 |
| Dam Maintenance | 141,789 | - | 141,789 |
| Unrestricted | 697,703 | 2,157,237 | 2,854,940 |
| Total Net Position | \$ 8,130,993 | \$ 10,840,547 | \$ 18,971,540 |

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, 2020

| 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 | \$ 443,817 | \$ - | \$ 45,035 | \$ (398,782) | \$ - | \$ (398,782) |
| Interest on Long-Term Debt | 4,186 | - | - | (4,186) | - | (4,186) |
| Total Governmental Activities | \$ 448,003 | \$ - | \$ 45,035 | \$ (402,968) | - | (402,968) |
| Business-Type Activities | | | | | | |
| Water System | \$ 2,562,263 | \$ 2,401,624 | \$ 915,201 | \$ - | \$ 754,562 | \$ 754,562 |
| Total Primary Government | \$ 3,010,266 | \$ 2,401,624 | \$ 960,236 | \$ (402,968) | \$ 754,562 | \$ 351,594 |
| General Revenues | | | | | | |
| Taxes | | | | \$ 140,890 | \$ - | \$ 140,890 |
| Interest Earnings | | | | 4,601 | 21,753 | 26,354 |
| Miscellaneous Revenue | | | | 130,461 | 17,275 | 147,736 |
| Loss on Sale of Capital Assets | | | | (5,615) | - | (5,615) |
| Total General Revenues | | | | \$ 270,337 | \$ 39,028 | \$ 309,365 |
| Change in Net Position | | | | \$ (132,631) | \$ 793,590 | \$ 660,959 |
| Net Position - January 1 | | | | \$ 8,263,624 | \$ 10,046,957 | \$ 18,310,581 |
| Net Position - December 31 | | | | \$ 8,130,993 | \$ 10,840,547 | \$ 18,971,540 |

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

MORTON COUNTY WATER RESOURCE DISTRICT

Balance Sheet – Governmental Funds

December 31, 2020

| | General Fund |
|---|--------------------------|
| ASSETS | |
| Cash | \$ 674,178 |
| Investments | 121,108 |
| Due from County | 414 |
| Taxes Receivable | 2,135 |
| Interest Receivable | 3,477 |
| Special Assessments Receivable | 38,701 |
| | <hr/> |
| Total Assets | <u><u>\$ 840,013</u></u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | |
| Liabilities | |
| Payroll Liability | <u>\$ 521</u> |
| Deferred Inflows of Resources | |
| Taxes Receivable | \$ 2,135 |
| Special Assessments Receivable | 38,701 |
| | <hr/> |
| Total Deferred Inflows of Resources | <u>\$ 40,836</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 41,357</u> |
| Fund Balances | |
| Committed | |
| Dam Maintenance | \$ 141,789 |
| Unassigned | 656,867 |
| | <hr/> |
| Total Fund Balances | <u>\$ 798,656</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u><u>\$ 840,013</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, 2020

| | |
|---|-------------------|
| Total Fund Balances for Governmental Funds | \$ 798,656 |
|---|-------------------|

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

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. | 7,380,130 |
|--|-----------|

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 | \$ 2,136 | |
| Special Assessments Receivable | <u>38,701</u> | 40,837 |

Long-term liabilities 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 | \$ (87,910) | |
| Interest Payable | <u>(720)</u> | <u>(88,630)</u> |

| | |
|--|-----------------------------------|
| Total Net Position of Governmental Activities | <u><u>\$ 8,130,993</u></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, 2020

| | General Fund |
|---------------------------------------|--------------------------|
| REVENUES | |
| Taxes | \$ 158,459 |
| Intergovernmental Revenue | 45,035 |
| Interest Income | 4,601 |
| Miscellaneous | <u>130,461</u> |
| Total Revenues | <u>\$ 338,556</u> |
| EXPENDITURES | |
| Current | |
| Projects | \$ 180,481 |
| Payroll | 33,151 |
| Professional Fees | 25,397 |
| Miscellaneous | 6,587 |
| Debt Service | |
| Principal | 24,645 |
| Interest | <u>4,391</u> |
| Total Expenditures | <u>\$ 274,652</u> |
| OTHER FINANCING SOURCES (USES) | |
| Sale of Property | <u>\$ 64,900</u> |
| Net Change in Fund Balances | <u>\$ 128,804</u> |
| Fund Balance - January 1 | <u>\$ 669,852</u> |
| Fund Balance - December 31 | <u><u>\$ 798,656</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, 2020

Net Change in *Fund Balances* - Total Governmental Funds **\$ 128,804**

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 | \$ 9,621 | |
| Depreciation Expense | <u>(207,823)</u> | (198,202) |

In the statement of activities only the loss on sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.

| | | |
|--------------------------------|-----------------|----------|
| Loss on Sale of Capital Assets | \$ (5,615) | |
| Sale of Capital Assets | <u>(64,900)</u> | (70,515) |

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

24,645

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 Change in Interest Payable | | 205 |
|--------------------------------|--|-----|

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 Change in Taxes Receivable | \$ (537) | |
| Net Change in Special Assessments Receivable | <u>(17,031)</u> | <u>(17,568)</u> |

Change in Net Position of Governmental Activities **\$ (132,631)**

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, 2020

| | <u>Business-Type Activities</u> |
|----------------------------------|-------------------------------------|
| | <u>Water System</u> |
| ASSETS | |
| Current Assets | |
| Cash | \$ 933,165 |
| Investments | 1,231,287 |
| Restricted Investments | |
| Debt Reserve | 109,601 |
| Utility Billings Receivable | <u>162,414</u> |
| Total Current Assets | <u>\$ 2,436,467</u> |
| Noncurrent Assets | |
| Capital Assets | |
| Nondepreciable | \$ 1,854,430 |
| Amortized, Net | 505,028 |
| Depreciable, Net | <u>9,319,595</u> |
| Total Noncurrent Assets | <u>\$ 11,679,053</u> |
| Total Assets | <u>\$ 14,115,520</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts Payable | \$ 53,083 |
| Payroll Liability | 1,140 |
| Interest Payable | 68,490 |
| Retainage Payable | 66,055 |
| Long-Term Debt | 117,142 |
| Compensated Absences | <u>14,805</u> |
| Total Current Liabilities | <u>\$ 320,715</u> |
| Noncurrent Liabilities | |
| Long-Term Debt | \$ 2,919,712 |
| Compensated Absences | <u>34,546</u> |
| Total Noncurrent Liabilities | <u>\$ 2,954,258</u> |
| Total Liabilities | <u>\$ 3,274,973</u> |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 8,573,709 |
| Restricted for Debt Service | 109,601 |
| Unrestricted | <u>2,157,237</u> |
| Total Net Position | <u>\$ 10,840,547</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, 2020

| | <u>Business-Type Activities</u> |
|---|-------------------------------------|
| | <u>Water System</u> |
| OPERATING REVENUES | |
| Charges for Services | \$ 2,401,624 |
| Miscellaneous Revenue | <u>17,275</u> |
| Total Operating Revenues | <u>\$ 2,418,899</u> |
| OPERATING EXPENSES | |
| General and Administrative | \$ 153,593 |
| Payroll | 573,144 |
| Insurance | 23,832 |
| Operations and Maintenance | 937,658 |
| Projects | 343,423 |
| Depreciation | 400,104 |
| Amortization | <u>31,564</u> |
| Total Operating Expenses | <u>\$ 2,463,318</u> |
| Operating Loss | <u>\$ (44,419)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest Income | \$ 21,753 |
| SWC Reimbursements | 915,201 |
| Interest Expense and Service Charges | <u>(98,945)</u> |
| Total Non-Operating Revenues | <u>\$ 838,009</u> |
| Change in Net Position | <u>\$ 793,590</u> |
| Net Position - January 1 | <u>\$ 10,046,957</u> |
| Net Position - December 31 | <u><u>\$ 10,840,547</u></u> |

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, 2020

| | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| | <u>Water System</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Customers | \$ 2,392,344 |
| Payments to Suppliers | (1,452,958) |
| Payments to Employees | (555,869) |
| Miscellaneous Revenue | <u>17,275</u> |
| Net Cash Provided by Operating Activities | <u>\$ 400,792</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of Capital Assets | \$ (1,541,395) |
| SWC Reimbursements | 915,201 |
| Principal Paid on Capital Debt | (94,186) |
| Proceeds from Loan | 493,120 |
| Interest and Fees Paid on Capital Debt | <u>(92,330)</u> |
| Net Cash Used by Capital and Related Financing Activities | <u>\$ (319,590)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases, Sales & Maturities of Investments | \$ 124,385 |
| Interest Income | <u>21,753</u> |
| Net Cash Provided by Investing Activities | <u>\$ 146,138</u> |
| Net Increase in Cash | <u>\$ 227,340</u> |
| Cash - January 1 | <u>\$ 705,825</u> |
| Cash - December 31 | <u><u>\$ 933,165</u></u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating Loss | <u>\$ (44,419)</u> |
| Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities | |
| Depreciation | \$ 400,104 |
| Amortization | 31,564 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (10,420) |
| Other Receivable | 1,140 |
| Accounts Payable | 5,548 |
| Payroll Liability | 5,355 |
| Compensated Absences | <u>11,920</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 400,792</u></u> |

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, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Morton County Water Resource District ("District") 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.

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 are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the 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.

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the primary government, the District, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, 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.

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

Additionally, the District reports the following major enterprise fund:

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

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 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.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the District consist of certificates of deposit stated at cost with maturities in excess of three months.

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 \$7,500 or more. 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:

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

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.

Long-Term Obligations

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

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. Issuance costs are reported as debt service expenditures.

Fund Balances

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.

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.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements – Continued

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 District, 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, 2020, the District's carrying amount of deposits totaled \$3,069,273, and the bank balances totaled \$3,093,421. Of the bank balances, \$1,475,697 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

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 CAPITAL ASSETS**Governmental Activities**

The following is a summary of changes in capital assets for the year ended December 31, 2020:

| Governmental Activities | Balance Jan 1 | Increases | Decreases | Balance Dec 31 |
|--|--------------------------|------------------|------------------|---------------------------|
| Capital Assets Not Being Depreciated or Amortized | | | | |
| Land | \$ 1,122,303 | \$ - | \$ 70,515 | \$ 1,051,788 |
| Total Capital Assets, Not Being Depreciated or Amortized | \$ 1,122,303 | \$ - | \$ 70,515 | \$ 1,051,788 |
| Capital Assets Being Depreciated | | | | |
| Buildings | \$ 252,265 | \$ 1 | \$ - | \$ 252,266 |
| Vehicles & Equipment | 123,794 | - | - | 123,794 |
| Infrastructure | 8,075,897 | 9,620 | - | 8,085,517 |
| Total Capital Assets, Being Depreciated | \$ 8,451,956 | \$ 9,621 | \$ - | \$ 8,461,577 |
| Less Accumulated Depreciation | | | | |
| Buildings | \$ 77,569 | \$ 10,538 | \$ - | \$ 88,107 |
| Vehicles & Equipment | 64,115 | 11,286 | - | 75,401 |
| Infrastructure | 1,783,729 | 185,998 | - | 1,969,727 |
| Total Accumulated Depreciation | \$ 1,925,413 | \$ 207,822 | \$ - | \$ 2,133,235 |
| Total Capital Assets Being Depreciated, Net | \$ 6,526,543 | \$ (198,201) | \$ - | \$ 6,328,342 |
| Capital Assets, Net | \$ 7,648,846 | \$ (198,201) | \$ 70,515 | \$ 7,380,130 |

Depreciation expense was charged to the conservation of natural resources function.

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

Business-Type Activities

The following is a summary of changes in capital assets for the year ended December 31, 2020:

| Business-Type Activities | Balance Jan 1 | Increases | Decreases | Balance Dec 31 |
|---|--------------------------|---------------------|------------------|---------------------------|
| Capital Assets Not Being Depreciated or Amortized | | | | |
| Land | \$ 253,034 | \$ - | \$ - | \$ 253,034 |
| Construction in Progress | 53,219 | 1,548,178 | - | 1,601,397 |
| Total Capital Assets, Not Being Depreciated or Amortized | \$ 306,253 | \$ 1,548,178 | \$ - | \$ 1,854,431 |
| Capital Assets Being Depreciated | | | | |
| Buildings | \$ 9,800 | \$ - | \$ - | \$ 9,800 |
| Vehicles & Equipment | 537,720 | 59,271 | 43,173 | 553,818 |
| Infrastructure | 16,367,818 | - | - | 16,367,818 |
| Total Capital Assets, Being Depreciated | \$ 16,915,338 | \$ 59,271 | \$ 43,173 | \$ 16,931,436 |
| Less Accumulated Depreciation | | | | |
| Buildings | \$ 6,207 | \$ 327 | \$ - | \$ 6,534 |
| Vehicles & Equipment | 442,696 | 72,421 | 43,173 | 471,944 |
| Infrastructure | 6,806,008 | 327,356 | - | 7,133,364 |
| Total Accumulated Depreciation | \$ 7,254,911 | \$ 400,104 | \$ 43,173 | \$ 7,611,842 |
| Total Capital Assets Being Depreciated, Net | \$ 9,660,427 | \$ (340,833) | \$ - | \$ 9,319,594 |
| Capital Assets, Being Amortized | | | | |
| Intangible Assets | \$ 1,371,300 | \$ - | \$ - | \$ 1,371,300 |
| Less Amortization | | | | |
| Intangible Assets | \$ 834,708 | \$ 31,564 | \$ - | \$ 866,272 |
| Capital Assets Being Amortized, Net | \$ 536,592 | \$ (31,564) | \$ - | \$ 505,028 |
| Capital Assets, Net | \$ 10,503,272 | \$ 1,175,781 | \$ - | \$ 11,679,053 |

Depreciation expense was charged to the conservation of natural resources function.

NOTE 6 LONG-TERM LIABILITIES

Governmental Activities

The following changes occurred in long-term liabilities for the year ended 2020:

| | Balance Jan 1 | Increases | Decreases | Balance Dec 31 | Due Within One Year |
|----------------|--------------------------|------------------|------------------|---------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Loans Payable | \$ 112,554 | \$ - | \$ 24,644 | \$ 87,910 | \$ 26,141 |

Business-Type Activities

The following changes occurred in long-term liabilities for the year ended 2020:

| | Balance Jan 1 | Increases | Decreases | Balance Dec 31 | Due Within One Year |
|------------------------------------|--------------------------|-------------------|------------------|---------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Bonds Payable | \$ 2,437,920 | \$ - | \$ 87,186 | \$ 2,350,734 | \$ 90,142 |
| Loans Payable | 200,000 | 493,120 | 7,000 | 686,120 | 27,000 |
| Total Long-Term Debt | \$ 2,637,920 | \$ 493,120 | \$ 94,186 | \$ 3,036,854 | \$ 117,142 |
| Compensated Absences * | \$ 37,430 | \$ 11,921 | \$ - | \$ 49,351 | \$ 14,805 |
| Total Long-Term Liabilities | \$ 2,675,350 | \$ 505,041 | \$ 94,186 | \$ 3,086,205 | \$ 131,947 |

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

The annual requirements to amortize the outstanding long-term debt at December 31, 2020 is as follows:

| Year Ending December 31 | GOVERNMENTAL ACTIVITIES | | BUSINESS TYPE ACTIVITIES | | | |
|----------------------------|-------------------------|----------|--------------------------|------------|---------------|------------|
| | Loans Payable | | Bonds Payable | | Loans Payable | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | 26,141 | 3,520 | 90,142 | 79,690 | 27,000 | 15,841 |
| 2022 | 26,634 | 2,626 | 93,198 | 76,634 | 27,000 | 15,234 |
| 2023 | 11,152 | 1,708 | 96,357 | 73,475 | 28,000 | 14,628 |
| 2024 | 11,691 | 1,169 | 99,624 | 70,208 | 28,000 | 13,978 |
| 2025 | 12,292 | 569 | 103,001 | 66,831 | 28,000 | 13,328 |
| 2026-2030 | - | - | 1,868,412 | 278,416 | 147,000 | 56,409 |
| 2031-2035 | - | - | - | - | 184,000 | 36,915 |
| 2036-2040 | - | - | - | - | 174,000 | 13,890 |
| 2041-2046 | - | - | - | - | 43,120 | 844 |
| Total | \$ 87,910 | \$ 9,592 | \$ 2,350,734 | \$ 645,254 | \$ 686,120 | \$ 181,067 |

NOTE 7 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.

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 \$169,201 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 \$177,190 for the Morton County Water Resource District employees and \$880,713 for the Missouri West Water System 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 8 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, 2020, 2019, and 2018 were \$30,221, \$28,153, and \$17,709, 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, 2020, 2019, and 2018 were \$14,326, \$40,625, and \$40,211, respectively.

NOTE 9 JOINT VENTURE

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, 2020 is as follows:

| | |
|----------------------|-----------|
| Cash and Investments | \$ 18,059 |
| Total Revenues | \$ 63,059 |
| Total Expenses | (64,282) |
| Net Change in Equity | (1,223) |

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, 2020

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|-----------------|------------|-------------------------------|
| REVENUES | | | | |
| Taxes | \$ 197,200 | \$ 204,009 | \$ 158,459 | \$ (45,550) |
| Intergovernmental Revenue | - | 44,750 | 45,035 | 285 |
| Interest Income | 2,000 | 728 | 4,601 | 3,873 |
| Miscellaneous | 9,800 | 130,151 | 130,461 | 310 |
| Total Revenues | \$ 209,000 | \$ 379,638 | \$ 338,556 | \$ (41,082) |
| EXPENDITURES | | | | |
| Current | | | | |
| Projects | \$ 124,600 | \$ 200,827 | \$ 180,481 | \$ 20,346 |
| Payroll | 32,500 | 33,150 | 33,151 | (1) |
| Professional Fees | 40,000 | 25,397 | 25,397 | - |
| Miscellaneous | 11,900 | 6,288 | 6,587 | (299) |
| Debt Service | | | | |
| Principal | - | - | 24,645 | (24,645) |
| Interest | - | - | 4,391 | (4,391) |
| Total Expenditures | \$ 209,000 | \$ 265,662 | \$ 274,652 | \$ (8,990) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ - | \$ 113,976 | \$ 63,904 | \$ (32,092) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$ 700 | - | - | - |
| Sale of Property | - | - | 64,900 | (64,900) |
| Total Other Financing Sources (Uses) | \$ 700 | - | \$ 64,900 | \$ (64,900) |
| Net Changes in Fund Balances | \$ 700 | \$ 113,976 | \$ 128,804 | \$ (96,992) |
| Fund Balance - January 1 | \$ 669,852 | \$ 669,852 | \$ 669,852 | - |
| Fund Balance - December 31 | \$ 670,552 | \$ 783,828 | \$ 798,656 | \$ (96,992) |

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, 2020

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

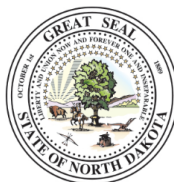
- The district board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund.
- The budget includes proposed expenditures and means of financing them.
- The district, on or before the October meeting shall determine 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 LEGAL COMPLIANCE – BUDGETS

The District Board of Commissioners amended the budget for the year ended December 31, 2020 as follows:

| | Original Budget | Amendment | Amended Budget |
|---------------------|--------------------|------------|-------------------|
| General Fund | | | |
| Revenues | \$ 209,000 | \$ 170,638 | \$ 379,638 |
| Expenditures | 209,000 | 56,662 | 265,662 |
| Transfers In | 700 | (700) | - |

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

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, 2020, 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 April 21, 2021.

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.

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, that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of audit findings as items 2020-001 and 2020-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of audit findings as 2020-003 to be a significant deficiency.

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

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'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

Bismarck, North Dakota
April 21, 2021

MORTON COUNTY WATER RESOURCE DISTRICT

Summary of Auditor's Results

For the Year Ended December 31, 2020

Financial Statements

Type of Report Issued?

Governmental Activities

Unmodified

Business-Type Activities

Unmodified

Major Funds

Unmodified

Internal control over financial reporting

Material weaknesses identified?

 X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

 X Yes None Noted

Noncompliance material to financial statements noted?

 Yes X None Noted

MORTON COUNTY WATER RESOURCE DISTRICT

Schedule of Audit Findings

For the Year Ended December 31, 2020

2020-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition

Morton County Water Resource District currently does not prepare 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 the financial statements and note disclosures.

Effect

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

Cause

Management chooses not to allocate District resources for preparation of the financial statements.

Criteria

Morton County Water Resource District is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Prior Recommendation

Yes.

Recommendation

We recommend Morton County Water Resource District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

Morton County Water Resource District's Response

Agree. Morton County Water Resource District is 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.

2020-002 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The Morton County Water Resource District has one Secretary/Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the District's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the District.

Criteria

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

Prior Recommendation

Yes.

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

Agree. The Morton County Water Resource District agrees and will segregate duties as it becomes feasible.

2020-003 FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY

Condition

Morton County Water Resource District does not currently prepare a fraud risk assessment of the entire entity.

Effect

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

Cause

Morton County Water Resource District has limited amount of staff and decided it was not necessary to implement at this date.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the Committee of Sponsoring Organizations of the Treadway Commission (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 entities goals in reporting, reliance, and accountability.

Prior Recommendation

Yes.

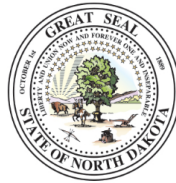
Recommendation

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

Morton County Water Resource District's Response

Agree, Morton County Water Resource District will consider preparing a fraud risk assessment in the future.

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

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, 2020 which collectively comprise Morton County Water Resource District's basic financial statements, and have issued our report thereon dated April 21, 2021. 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 March 23, 2021 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, 2020. 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.

MORTON COUNTY WATER RESOURCE DISTRICT
Governance Communication – Continued

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 provided by management or detected as a result of audit procedures that were corrected by management.

| | <u>Client Provided Adjustments</u> | | <u>Audit Adjustments</u> | | <u>Total Adjustment</u> | |
|---------------------------------|------------------------------------|---------------|--------------------------|---------------|-------------------------|---------------|
| | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> |
| Governmental Activities | | | | | | |
| Due From County | 414 | - | - | - | 414 | - |
| Revenue | - | 414 | - | - | - | 414 |
| Interest Receivable | - | - | 3,477 | - | 3,477 | - |
| Revenue | - | - | - | 3,477 | - | 3,477 |
| Business-Type Activities | | | | | | |
| Accounts Receivable | 162,414 | - | - | - | 162,414 | - |
| Revenue | - | 162,414 | - | - | - | 162,414 |
| Expenditures | 102,434 | - | - | - | 102,434 | - |
| Accounts Payable | - | 53,083 | - | - | - | 53,083 |
| Compensated Absences | - | 49,351 | - | - | - | 49,351 |
| Expenditures | - | - | 55,841 | - | 55,841 | - |
| Depreciation | - | - | - | 55,841 | - | 55,841 |
| Expenditures | 1,154,738 | - | 327,385 | - | 1,482,123 | - |
| Construction In Progress | - | 1,154,738 | - | 327,385 | - | 1,482,123 |

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 April 21, 2021.

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.

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

Bismarck, North Dakota
April 21, 2021



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505