

LOWER YELLOWSTONE
IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
FINANCIAL AND COMPLIANCE REPORT
YEARS ENDED DECEMBER 31, 2021 AND 2020

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

TABLE OF CONTENTS	<u>PAGE NO.</u>
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION & ANALYSIS	5-10
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Fund Net Position.....	12
Statement of Cash Flows	13
NOTES TO THE BASIC FINANCIAL STATEMENTS.....	14-20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS.....	21-22

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
ORGANIZATION
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

2021 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
Jacquie McDermott Clerk/Bookkeeper

2020 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

Certified Public Accountants

Teresa M. Halley • Cory W. Wheeler • Amy A. Bieber

(406) 433-4510

Fax: (406) 433-4518

Email: slhpc@midrivers.com

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the business-type activities of Lower Yellowstone Irrigation District No. 2 as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements which collectively comprise Lower Yellowstone Irrigation District No. 2's basic financial statements as listed in the table of contents.

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, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lower Yellowstone Irrigation District No. 2, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lower Yellowstone Irrigation District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not

absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lower Yellowstone Irrigation District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lower Yellowstone Irrigation District No. 2's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquires 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.

Supplementary Information

Management is responsible for the other information included in this report. The other information comprises the organizational chart on page 1 but does not include the basic financial statements

and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 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

November 30, 2022

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

This discussion and analysis of the financial performance of the Lower Yellowstone Irrigation District #2 (LYID #2) provides an overall review of financial activities for the fiscal year ended December 31, 2021 and 2020. The intent of this discussion and analysis is to look at the Project's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the financial statements.

Financial Highlights

Key financial highlights for 2021 and 2020 are as follows:

- All the physical expectations in operating and maintaining the LYID #2 as performed by the Lower Yellowstone Irrigation Project Board of Control (LYIPBOC) were accomplished in 2021 and 2020.
- The assessment rate was a \$45.00 per acre to cover a 2021 and 2020 budget.
- The district paid the BOC \$881,289 in 2021 and \$666,232 in 2020 to cover their O&M operations.

Overview

The LYID #2 is responsible for the operation and maintenance of the portion of the Lower Yellowstone Irrigation Project that is in North Dakota. The LYID #2 shares a water right and facilitates with the LYID #1, the Montana component of the Lower Yellowstone Irrigation Project. Both Districts contract certain duties with Lower Yellowstone Irrigation Project Board of Control, a controlling agent organized for this purpose. See the financial statements for LYIPBOC and LYID #1 that provide information regarding this unique relationship.

The financial statements presented herein include all the activities of the LYID#2 using the integrated approach method. The basic financial statements include the Fund Financial Statements and notes to the basic financial statements.

LYID #2 performs its duties in a fashion similar to a private-sector business. Chapter 61-07 of North Dakota Water Law regards it as a non-profit public corporation. Chapter 61 governs how North Dakota irrigation districts are formed and how they are operated.

It is appropriate that the Lower Yellowstone Irrigation District #1 and Lower Yellowstone Irrigation District #2 maintain assets in proportion to their acreage; however, District #1 has accumulated more than its proportionate share of assets over the years, the shares being 66% for District #1 and 34% for District #2 at the beginning of 2021 and 2020. To equalize the assets, District #1 was levied an assessment rate of \$1 per acre less than District #2.

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. LYID #2, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of LYID #2 can be classified as proprietary funds.

The proprietary fund financial statements present the financial condition based on the accrual basis of accounting. All of the current year revenues and expenses are recorded regardless of when cash is received or paid.

The statement of net position presents information on LYID #2's assets and liabilities, the difference being reported as net position. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of the LYID #2 is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected assessments).

Reserve Fund

LYIPBOC establishes and monitors a reserve fund with uncommitted funds of LYID #1 and LYID #2. The reserve fund is used to track equipment purchases, provide for large rehabilitation and betterment projects, bank prepaid O&M fees, and provide for emergencies. The amount of the reserve fund is adjusted as influenced by the uncommitted equity that is available from LYID #2. LYID #2 has smaller assets of the two districts and reserve balances must be apportioned or balanced according to each districts responsibility to the Project. See Capital Assets below for fund balances.

Notes to the Financial Statements

The audit will include notes that provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented later in this audit report.

Financial Analysis

The year-end financial statements for 2021 and 2020 are included on the following pages:

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

Lower Yellowstone Irrigation District #2
Statement Of Net Position
December 31, 2021 And 2020
Enterprise Fund

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 539,931	\$ 608,977
Investments	86,872	86,443
Assess. Receivables	<u>844,593</u>	<u>852,652</u>
TOTAL CURRENT ASSETS	1,471,396	1,548,072
Capital assets (net of accumulated depreciation)	<u>408,437</u>	<u>449,943</u>
TOTAL ASSETS	1,879,833	1,998,015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	32,431	31,493
Current portion of comp. absences	<u>47,297</u>	<u>45,377</u>
TOTAL CURRENT LIABILITIES	79,728	76,870
NONCURRENT LIABILITIES		
Comp. Absences	<u>11,824</u>	<u>11,344</u>
TOTAL LIABILITIES	91,552	88,214
DEFERRED INFLOWS OF RESOURCES		
Assess. Receivable	<u>841,937</u>	<u>842,860</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	841,937	842,860
NET POSITION		
Invested in capital assets	408,437	449,943
Unrestricted	<u>537,907</u>	<u>616,998</u>
TOTAL NET POSITION	<u>\$ 946,344</u>	<u>\$1,066,941</u>

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

Lower Yellowstone Irrigation District #2
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years ended December 31, 2021 and 2020
Enterprise Funds

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Charges and fees	\$ 846,450	\$ 848,665
OPERATING EXPENSES		
Payments to Board of Control	881,289	666,232
Audit	0	220
Water Rights Fees	0	12,293
Per Diem	2,788	1,989
Miscellaneous	0	105
Depreciation	86,378	96,737
Total Operating Expenses	<u>970,455</u>	<u>777,576</u>
OPERATING INCOME (LOSS)	(124,005)	71,089
NONOPERATING REVENUES (EXPENSES)		
Gain (loss) on investments	3,408	9,599
Gain (loss) on loss of assets	<u>0</u>	<u>12,199</u>
Total Nonoperating Revenues (Expenses)	3,408	21,798
CHANGE IN NET POSITION	(120,597)	92,887
Net Position – Beginning of Year	<u>1,066,941</u>	<u>974,054</u>
Net Position – End of Year	<u>\$ 946,344</u>	<u>\$1,066,941</u>

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

Capital Assets

Capital Assets in land, buildings and equipment are owned by LYID #1 and #2. The Lower Yellowstone Irrigation Project Board of Control utilizes them. Ownership and associated expenses are shared 66% and 34% by LYID #1 and LYID #2, respectively, the ratio being the ratio of irrigable acreage. Fixed assets include land and buildings where the O&M headquarters are located and the equipment used to operate and maintain the Project. Depreciation on the above is by the straight-line method.

There were changes in equipment items in 2021 and 2020. The following items were added in 2021 and 2020:

<u>2021 Items:</u>	<u>Total Cost</u>	<u>D2's Share</u>
Major Repairs on John Deere		
Motor Grader	\$ 45,279	\$ 15,395
2013 Kenworth	38,000	12,920
1995 John Deere 300D Backhoe	15,000	5,100
10 ft Weed Rake	33,702	11,459
Total Equipment	<u>\$131,981</u>	<u>\$ 44,874</u>

<u>2020 Items:</u>	<u>Total Cost</u>	<u>D2's Share</u>
2020 Chevy K2500 Pickup	\$ 29,999	\$ 10,200
Huskavarna Tamping Rammer	2,350	799
2020 Cat 330 Excavator	214,700	72,998
2020 Cat 330 Excavator	318,617	108,330
Total Equipment	<u>\$565,666</u>	<u>\$192,327</u>

The District received insurance proceeds for the first 2020 Cat 330 Excavator purchased after it was wrecked in the same year.

Debt Service

District #2 has no outstanding bonds, notes or any other debts.

Litigation Completed 2020/2021:

The USBR has been working with the USACE, USFW, and the Lower Yellowstone Irrigation Districts to achieve fish passage for the endangered species Pallid Sturgeon. The USACE proposed a partnership to build a fish passage around the existing LYIP's irrigation diversion dam at Intake. The proposal also included replacing the stacked boulders with a concrete addition to improve fish passage while protecting the wooden structure. This proposal was halted throughout 2017 by legal action initiated by plaintiffs in a lawsuit. This legal action was won in favor of the districts and the new concrete weir was finished in 2021 and the Fish Bypass Construction was almost complete by the end of 2021.

Lower Yellowstone Irrigation District # 2
McKenzie County, North Dakota
Management's Discussion and Analysis
For the Years Ended December 31, 2021 and 2020
Unaudited

Water Right Adjudication was finalized by permanent Montana State Water Court Order November of 2021 securing all the pre-1974 water rights to all fields irrigated by all four irrigation districts in the LYIP and securing all the existing irrigation assessments and boundaries. This concluded a multiple year effort by the irrigation districts that required the hiring of a water rights examiner, a water right attorney, and a Washington D.C. lobbyist to ensure that the water rights were not reduced 10% as proposed by the USBR or DNRC in error.

Contact Persons:

If you have any questions concerning this report, you may contact Jacquie McDermott or James Brower, Lower Yellowstone Irrigation Project Board of Control, phone (406) 433-1306.

LOWER YELLOWSTONE IRRIGATION PROJECT
DISTRICT NO. 2
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2021 AND 2020

	Enterprise Fund	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$539,931	\$608,977
Investments	86,872	86,443
Assessments receivable	844,593	852,652
TOTAL CURRENT ASSETS	1,471,396	1,548,072
Capital assets (net of accumulated depreciation)	408,437	449,943
TOTAL ASSETS	1,879,833	1,998,015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	32,431	31,493
Current portion of compensated absences	47,297	45,377
TOTAL CURRENT LIABILITIES	79,728	76,870
NONCURRENT LIABILITIES		
Compensated absences	11,824	11,344
TOTAL LIABILITIES	91,552	88,214
DEFERRED INFLOWS OF RESOURCES		
Assessments receivable	841,937	842,860
TOTAL DEFERRED INFLOWS OF RESOURCES	841,937	842,860
NET POSITION		
Invested in capital assets	408,437	449,943
Unrestricted	537,907	616,998
TOTAL NET POSITION	\$946,344	\$1,066,941

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 YEARS ENDED DECEMBER 31, 2021 AND 2020

	Enterprise Fund	
	2021	2020
OPERATING REVENUES		
Charges and fees	\$846,450	\$848,665
OPERATING EXPENSES		
Payments to Board of Control	881,289	666,232
Audit	0	220
Water Rights Fees	0	12,293
Per Diem	2,788	1,989
Miscellaneous	0	105
Depreciation	86,378	96,737
TOTAL OPERATING EXPENSES	970,455	777,576
OPERATING INCOME (LOSS)	(124,005)	71,089
NONOPERATING REVENUES (EXPENSES)		
Gain (loss) on investments	3,408	9,599
Gain (loss) on loss of assets	0	12,199
TOTAL NONOPERATING REVENUES (EXPENSES)	3,408	21,798
CHANGE IN NET POSITION	(120,597)	92,887
NET POSITION - BEGINNING OF YEAR	1,066,941	974,054
TOTAL NET POSITION - END OF YEAR	\$946,344	\$1,066,941

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Enterprise Fund	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$853,586	\$849,909
Cash paid for services	(880,738)	(723,680)
Net cash provided (used) by operating activities	(27,152)	126,229
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(44,874)	(192,327)
Proceeds from loss of assets	0	113,563
Net cash provided (used) by capital and related financing activities	(44,874)	(78,764)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	86,443	0
Purchase of investments	(86,872)	0
Investment income	3,409	8,739
Net cash provided by investing activities	2,980	8,739
Net increase (decrease) in cash and cash equivalents	(69,046)	56,204
Cash and cash equivalents - Beginning of Year	608,977	552,773
Cash and cash equivalents - End of Year	<u>\$539,931</u>	<u>\$608,977</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	(\$124,005)	\$71,089
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	86,378	96,737
(Increase) decrease in receivables	8,059	1,244
Increase (decrease) in payables	938	(25,720)
Increase (decrease) in deferred inflows	(923)	0
Increase (decrease) in compensated absences	2,401	(17,121)
Total adjustments	96,853	55,140
Net cash provided (used) by operating activities	<u>(\$27,152)</u>	<u>\$126,229</u>

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 YEARS ENDED DECEMBER 31, 2021 AND 2020

TABLE OF CONTENTS

NOTE

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity	A1
Basis of Presentation and Basis of Accounting	A2

SPECIFIC ACCOUNTING POLICIES:

Cash and Investments	A3
Inventories	A4
Assessments and Deferred Inflow of Resources	A5
Capital Assets	A6
Compensated Absences	A7
Accounts Payable	A8
Estimates	A9

CASH AND INVESTMENTS	B
----------------------------	---

CAPITAL ASSETS	C
----------------------	---

LIABILITIES	D
-------------------	---

SUMMARY OF IRRIGABLE LAND	E
---------------------------------	---

RISK MANAGEMENT	F
-----------------------	---

OTHER POST-RETIREMENT EMPLOYMENT BENEFITS	G
---	---

SUBSEQUENT EVENTS	H
-------------------------	---

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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 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.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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. For the year ended December 31, 2021, the 2022 assessments are recorded as *Deferred Inflow of Resources* and reported in the Statement of Net Position. For the year ended December 31, 2020, the 2021 assessments are recorded as *Deferred Inflow of Resources* and reported in the Statement of Net Position. Total deferred inflow of resources at December 31, 2021 and 2020 were \$841,937 and \$842,860, respectively and are 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.

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 \$10,000 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.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE B - CASH AND INVESTMENTS

Details of cash and investments on December 31, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Cash with Richland County Treasurer	\$ 539,931	\$ 608,977
Certificates of Deposit		
Dakota West Credit Union, interest rate at 0.4% with maturity 12-23-22	86,872	0
Dakota West Credit Union, interest rate at 1.0% with maturity 6-23-21	<u>0</u>	<u>86,443</u>
Total cash & investments	626,803	695,420
Less long-term investments which are not considered cash equivalents	(86,872)	(86,443)
Cash & cash equivalents	<u>\$ 539,931</u>	<u>\$ 608,977</u>

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, 2021 and 2020 the carrying amount of the District's deposits with financial institutions were \$86,872 and \$86,443, respectively and the bank balances were \$86,872 and \$86,443, respectively.

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. As of December 31, 2021, the District has a certificate of deposit with a maturity of 18 months and interest rate of 0.4%. As of December 31, 2020, the District has a certificate of deposit with a maturity of 18 months and interest rate of 1.0%

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE B - CASH AND INVESTMENTS (CON'T)

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 for 2021 and 2020:

<u>2021</u>	Fair Value Measurement using			
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Demand deposits	\$539,931	N/A	N/A	N/A
Time deposits	86,872	N/A	N/A	N/A

<u>2020</u>	Fair Value Measurement using			
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Demand deposits	\$608,977	N/A	N/A	N/A
Time deposits	86,443	N/A	N/A	N/A

NOTE C - CAPITAL ASSETS

A summary of capital assets for 2021 and 2020 follows:

	<u>Balance 01/01/21</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/21</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>1,711,931</u>	<u>44,874</u>	<u>0</u>	<u>1,756,805</u>
Total capital assets being depreciated	1,890,690	44,874	0	1,935,564
Less Accumulated Depreciation	<u>(1,444,453)</u>	<u>(86,378)</u>	<u>0</u>	<u>(1,530,831)</u>
Net Capital Assets Being Depreciated	<u>446,237</u>	<u>(41,504)</u>	<u>0</u>	<u>404,733</u>
TOTAL CAPITAL ASSETS	<u>\$ 449,943</u>	<u>(\$ 41,504)</u>	<u>\$ 0</u>	<u>\$ 408,439</u>

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE C - CAPITAL ASSETS (CON'T)

	<u>Balance</u> <u>01/01/20</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/20</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>1,691,934</u>	<u>223,802</u>	<u>(203,805)</u>	<u>1,711,931</u>
Total capital assets being depreciated	1,870,693	223,802	(203,805)	1,890,690
Less Accumulated Depreciation	<u>(1,418,682)</u>	<u>(96,737)</u>	<u>70,966</u>	<u>(1,444,453)</u>
Net Capital Assets Being Depreciated	<u>452,011</u>	<u>127,065</u>	<u>(132,839)</u>	<u>446,237</u>
TOTAL CAPITAL ASSETS	<u>\$ 455,717</u>	<u>\$ 127,065</u>	<u>(\$ 132,839)</u>	<u>\$ 449,943</u>

In 2021, cash outlay for purchase of equipment was \$44,874. In 2020, cash outlay for purchase of equipment was \$192,327. The difference between this amount and the amount reported as capital asset additions on the previous page is the basis of equipment traded for new purchase. 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, 2021 and 2020 follows:

<u>Balance</u> <u>12-31-19</u>	<u>Decrease</u>	<u>Balance</u> <u>12-31-20</u>	<u>Increase</u>	<u>Balance</u> <u>12-31-21</u>
\$73,842	(\$17,121)	\$56,721	\$2,401	\$59,122

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE E - SUMMARY OF IRRAGABLE LAND

Amount of Irrigable Land in		
District:	<u>2021</u>	<u>2020</u>
McKenzie County, ND	18,709.71 acres	18,730.21 acres

The assessment was levied at \$45.00 per acre for 2021 and 2020. The 2022 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 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.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2
MCKENZIE COUNTY, NORTH DAKOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE H – SUBSEQUENT EVENTS

Inquiry of management indicated that no additional events have occurred subsequent to December 31, 2021 or 2020 and through the date of this audit report that would require adjustment to or disclosure in the basic financial statements.

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 governmental activities and the major fund of Lower Yellowstone Irrigation District No. 2 as of and for the years ended December 31, 2021 and 2020, 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 November 30, 2022.

Report on Internal Control over Financial Planning

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.

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.

Report on 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

November 30, 2022