



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, 2021

Client Code: PS30010



Photo credit: North Dakota Tourism



Office of the
State Auditor

MORTON COUNTY WATER RESOURCE DISTRICT

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MORTON COUNTY WATER RESOURCE DISTRICT

District Officials
December 31, 2021

DISTRICT OFFICIALS

Wade Bachmeier
Jamie Wetsch
George Saxowsky
Bruce Engelhardt
Jim Schmidt

Chairman
Vice Chairman
Director
Director
Director

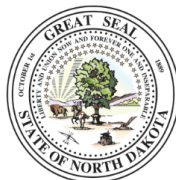
Brenda Winckler

Secretary/Treasurer

Karin Garvie
Carrie Schaner

General Manager, Water System
Administrative Manager, Water System

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, and major fund of the Morton County Water Resource District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Morton County Water Resource District'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 governmental activities, business-type activities, and major fund of the Morton County Water Resource District, as of December 31, 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (Government Auditing Standards), issued by the Comptroller General of the United States. 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 the Morton County Water Resource District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2020 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

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 Morton County Water Resource District'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 GAAS and *Government 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 judgment made by a reasonable user based on the financial statements.

In performing our audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment 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 the Morton County Water Resource District'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Morton County Water Resource District'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 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.

MORTON COUNTY WATER RESOURCE DISTRICT

Independent Auditor's Report - Continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2022 on our consideration of the 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 solely to describe the scope of our testing of the effectiveness of the Morton County Water Resource District's 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 the Morton County Water Resource District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
August 25, 2022

MORTON COUNTY WATER RESOURCE DISTRICT

Statement of Net Position

December 31, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 695,738	\$ 1,492,074	\$ 2,187,812
Investments	125,181	1,220,655	1,345,836
Restricted Cash and Investments	-	166,949	166,949
Accounts Receivable	-	152,562	152,562
Intergovernmental Receivable	20,000	-	20,000
Due from County	205	-	205
Taxes Receivable	2,144	-	2,144
Special Assessments Receivable	22,036	-	22,036
Capital Assets			
Nondepreciable	1,051,788	263,034	1,314,822
Amortized, Net	-	473,464	473,464
Depreciable, Net	6,162,894	10,502,970	16,665,864
Total Assets	\$ 8,079,986	\$ 14,271,708	\$ 22,351,694
LIABILITIES			
Accounts Payable	\$ 1,327	\$ 93,980	\$ 95,307
Payroll Liability	-	1,507	1,507
Interest Payable	504	49,763	50,267
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	26,634	115,198	141,832
Compensated Absences Payable	-	18,369	18,369
Due After One Year			
Long-Term Debt	35,098	2,932,679	2,967,777
Compensated Absences Payable	-	42,860	42,860
Total Liabilities	\$ 63,563	\$ 3,254,356	\$ 3,317,919
NET POSITION			
Net Investment in Capital Assets	\$ 7,152,446	\$ 8,141,828	\$ 15,294,274
Restricted for:			
Debt Service	-	166,949	166,949
Dam Maintenance	162,598	-	162,598
Unrestricted	701,379	2,708,575	3,409,954
Total Net Position	\$ 8,016,423	\$ 11,017,352	\$ 19,033,775

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, 2021

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	\$ 324,350	\$ -	\$ 42,608	\$ (281,742)	\$ -	\$ (281,742)
Interest on Long-Term Debt	3,387	-	-	(3,387)	-	(3,387)
Total Governmental Activities	\$ 327,737	\$ -	\$ 42,608	\$ (285,129)	\$ -	\$ (285,129)
Business-Type Activities						
Water System	\$ 2,824,305	\$ 2,890,970	\$ -	\$ -	\$ 66,665	\$ 66,665
Total Primary Government	\$ 3,152,042	\$ 2,890,970	\$ 42,608	\$ (285,129)	\$ 66,665	\$ (218,464)
General Revenues						
Taxes				\$ 129,671	\$ -	\$ 129,671
Interest Earnings				1,023	13,008	14,031
Miscellaneous Revenue				17,865	34,166	52,031
Total General Revenues				\$ 148,559	\$ 47,174	\$ 195,733
Change in Net Position				\$ (136,570)	\$ 113,839	\$ (22,731)
Net Position - January 1				\$ 8,130,993	\$ 10,840,547	\$ 18,971,540
Prior Period Adjustment				22,000	62,966	84,966
Net Position - January 1, as restated				\$ 8,152,993	\$ 10,903,513	\$ 19,056,506
Net Position - December 31				\$ 8,016,423	\$ 11,017,352	\$ 19,033,775

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

MORTON COUNTY WATER RESOURCE DISTRICT

Balance Sheet – Governmental Funds

December 31, 2021

	General Fund
ASSETS	
Cash	\$ 695,738
Investments	125,181
Due from County	205
Taxes Receivable	2,144
Intergovernmental Receivable	20,000
Special Assessments Receivable	22,036
	<hr/>
Total Assets	<u>\$ 865,304</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities	
Accounts Payable	<u>\$ 1,327</u>
 Deferred Inflows of Resources	
Taxes Receivable	\$ 2,144
Special Assessments Receivable	22,036
	<hr/>
Total Deferred Inflows of Resources	<u>\$ 24,180</u>
 Total Liabilities and Deferred Inflows of Resources	<u>\$ 25,507</u>
 Fund Balances	
Committed	
Dam Maintenance	\$ 162,598
Unassigned	677,199
	<hr/>
Total Fund Balances	<u>\$ 839,797</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 865,304</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, 2021

Total Fund Balances for Governmental Funds	\$ 839,797
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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.	7,214,682
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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	\$ 2,144	
Special Assessments Receivable	<u>22,036</u>	24,180

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	\$ (61,732)	
Interest Payable	<u>(504)</u>	<u>(62,236)</u>

Total Net Position of Governmental Activities	<u>\$ 8,016,423</u>
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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, 2021

	<u>General Fund</u>
REVENUES	
Taxes	\$ 146,327
Intergovernmental Revenue	42,608
Interest Income	1,023
Miscellaneous	<u>17,866</u>
Total Revenues	<u>\$ 207,824</u>
EXPENDITURES	
Current	
Projects	\$ 33,908
Payroll	27,951
Professional Fees	26,645
Miscellaneous	24,932
Capital Outlay	45,467
Debt Service	
Principal	26,177
Interest	<u>3,603</u>
Total Expenditures	<u>\$ 188,683</u>
Net Change in Fund Balances	<u>\$ 19,141</u>
Fund Balance - January 1	<u>\$ 798,656</u>
Prior Period Adjustment	<u>\$ 22,000</u>
Fund Balance - January 1 Restated	<u>\$ 820,656</u>
Fund Balance - December 31	<u><u>\$ 839,797</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, 2021

Net Change in *Fund Balances* - Total Governmental Funds \$ 19,141

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	\$ 45,467	
Depreciation Expense	<u>(210,915)</u>	(165,448)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 26,177

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	216
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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	\$ 9	
Net Change in Special Assessments Receivable	<u>(16,665)</u>	<u>(16,656)</u>

Change in Net Position of Governmental Activities \$ (136,570)

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, 2021

	<u>Business-Type Activities</u>
	<u>Water System</u>
ASSETS	
Current Assets	
Cash	\$ 1,492,074
Investments	1,220,655
Restricted Investments	
Debt Reserve	166,949
Utility Billings Receivable	<u>152,562</u>
Total Current Assets	<u>\$ 3,032,240</u>
Noncurrent Assets	
Capital Assets	
Nondepreciable	\$ 263,034
Amortized, Net	473,464
Depreciable, Net	<u>10,502,970</u>
Total Noncurrent Assets	<u>\$ 11,239,468</u>
Total Assets	<u>\$ 14,271,708</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 93,980
Payroll Liability	1,507
Interest Payable	49,763
Long-Term Debt	115,198
Compensated Absences	<u>18,369</u>
Total Current Liabilities	<u>\$ 278,817</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 2,932,679
Compensated Absences	<u>42,860</u>
Total Noncurrent Liabilities	<u>\$ 2,975,539</u>
Total Liabilities	<u>\$ 3,254,356</u>
NET POSITION	
Net Investment in Capital Assets	\$ 8,141,828
Restricted for Debt Service	166,949
Unrestricted	<u>2,708,575</u>
Total Net Position	<u>\$ 11,017,352</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, 2021

	<u>Business-Type Activities</u>
	<u>Water System</u>
OPERATING REVENUES	
Charges for Services	\$ 2,890,970
Miscellaneous Revenue	<u>34,166</u>
Total Operating Revenues	<u>\$ 2,925,136</u>
OPERATING EXPENSES	
General and Administrative	\$ 93,325
Payroll	594,179
Insurance	21,365
Operations and Maintenance	928,266
Projects	664,365
Depreciation	411,826
Amortization	<u>31,564</u>
Total Operating Expenses	<u>\$ 2,744,890</u>
Operating Income	<u>\$ 180,246</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 13,008
Interest Expense and Service Charges	<u>(79,415)</u>
Total Non-Operating Expenses	<u>\$ (66,407)</u>
Change in Net Position	<u>\$ 113,839</u>
Net Position - January 1	<u>\$ 10,840,547</u>
Prior Period Adjustments	<u>\$ 62,966</u>
Net Position - January 1, as restated	<u>\$ 10,903,513</u>
Net Position - December 31	<u><u>\$ 11,017,352</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, 2021

	<u>Business-Type Activities</u>
	<u>Water System</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 2,902,328
Payments to Suppliers	(1,666,424)
Payments to Employees	(583,441)
Miscellaneous Revenue	<u>34,166</u>
Net Cash Provided by Operating Activities	<u>\$ 686,629</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (69,859)
Principal Paid on Capital Debt	(117,065)
Proceeds from Loan	128,088
Interest and Fees Paid on Capital Debt	<u>(98,142)</u>
Net Cash Used by Capital and Related Financing Activities	<u>\$ (156,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases, Sales & Maturities of Investments	\$ (46,716)
Interest Income	<u>13,008</u>
Net Cash Used by Investing Activities	<u>\$ (33,708)</u>
Net Increase in Cash	<u>\$ 495,943</u>
Cash - January 1	<u>\$ 933,165</u>
Prior Period Adjustment	<u>\$ 62,966</u>
Cash - December 31	<u><u>\$ 1,492,074</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	<u>\$ 180,246</u>
Adjustments to Reconcile Operating Income	
Depreciation	\$ 411,826
Amortization	31,564
Change in Assets and Liabilities:	
Accounts Receivable	9,851
Other Receivable	1,507
Accounts Payable	40,897
Payroll Liability	(1,140)
Compensated Absences	<u>11,878</u>
Net Cash Provided by Operating Activities	<u><u>\$ 686,629</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, 2021

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 criterion 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 District. 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.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements – Continued

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 PRIOR PERIOD ADJUSTMENTS

Beginning governmental net position and enterprise net position as well as general fund balance adjustments were necessary to increase and record intergovernmental receivables for Morton County Water Resource District.

Adjustments to beginning net position/fund balance are as follows:

	Governmental Activities	Business Type Activities	General Fund
Beginning Net Position/Fund Balance, as previously reported	\$ 8,130,993	\$ 10,840,547	\$ 798,656
Adjustments to restate the January 1, 2021 Net Position/Fund Balance:			
Intergovernmental Receivables	22,000	62,966	22,000
Net Position/Fund Balance January 1, as restated	\$ 8,152,993	\$ 10,903,513	\$ 820,656

NOTE 3 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, 2021, the District's carrying amount of deposits totaled \$3,700,554, and the bank balances totaled \$3,668,349. Of the bank balances, \$1,498,621 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 4 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 5 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 6 CAPITAL ASSETS**Governmental Activities**

The following is a summary of changes in capital assets for the year ended December 31, 2021:

Governmental Activities	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Not Being Depreciated or Amortized				
Land	\$ 1,051,788	\$ -	\$ -	\$ 1,051,788
Total Capital Assets, Not Being Depreciated or Amortized	\$ 1,051,788	\$ -	\$ -	\$ 1,051,788
Capital Assets Being Depreciated				
Buildings	\$ 252,266	\$ 14,907	\$ -	\$ 267,173
Vehicles & Equipment	123,794	30,560	-	154,354
Infrastructure	8,085,517	-	-	8,085,517
Total Capital Assets, Being Depreciated	\$ 8,461,577	\$ 45,467	\$ -	\$ 8,507,044
Less Accumulated Depreciation				
Buildings	\$ 88,106	\$ 12,028	\$ -	\$ 100,134
Vehicles & Equipment	75,402	12,888	-	88,290
Infrastructure	1,969,727	185,999	-	2,155,726
Total Accumulated Depreciation	\$ 2,133,235	\$ 210,915	\$ -	\$ 2,344,150
Total Capital Assets Being Depreciated, Net	\$ 6,328,342	\$ (165,448)	\$ -	\$ 6,162,894
Capital Assets, Net	\$ 7,380,130	\$ (165,448)	\$ -	\$ 7,214,682

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, 2021:

Business-Type Activities	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated or Amortized					
Land	\$ 253,034	\$ -	\$ -	\$ -	\$ 253,034
Construction in Progress	1,601,397	3,804		(1,595,201)	10,000
Total Capital Assets, Not Being Depreciated or Amortized	\$ 1,854,431	\$ 3,804	\$ -	\$ (1,595,201)	\$ 263,034
Capital Assets Being Depreciated					
Buildings	\$ 9,800	\$ -	\$ -	\$ -	\$ 9,800
Vehicles & Equipment	553,818	-	-	-	553,818
Infrastructure	16,367,818	-	-	1,595,201	17,963,019
Total Capital Assets, Being Depreciated	\$ 16,931,436	\$ -	\$ -	\$ 1,595,201	\$ 18,526,637
Less Accumulated Depreciation					
Buildings	\$ 6,533	\$ 327	\$ -	\$ -	\$ 6,860
Vehicles & Equipment	471,943	52,239	-	-	524,182
Infrastructure	7,133,364	359,261	-	-	7,492,625
Total Accumulated Depreciation	\$ 7,611,840	\$ 411,827	\$ -	\$ -	\$ 8,023,667
Total Capital Assets Being Depreciated, Net	\$ 9,319,596	\$ (411,827)	\$ -	\$ 1,595,201	\$ 10,502,970
Capital Assets, Being Amortized					
Intangible Assets	\$ 1,371,300	\$ -	\$ -	\$ -	\$ 1,371,300
Less Amortization					
Intangible Assets	\$ 866,272	\$ 31,564	\$ -	\$ -	\$ 897,836
Capital Assets Being Amortized, Net	\$ 505,028	\$ (31,564)	\$ -	\$ -	\$ 473,464
Capital Assets, Net	\$ 11,679,055	\$ (439,587)	\$ -	\$ -	\$ 11,239,468

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

NOTE 7 LONG-TERM LIABILITIES

Governmental Activities

The following changes occurred in long-term liabilities for the year ended 2021:

	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Loans Payable	\$ 87,909	\$ -	\$ 26,177	\$ 61,732	\$ 26,634

Business-Type Activities

The following changes occurred in long-term liabilities for the year ended 2021:

	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Bonds Payable	\$ 2,350,733	\$ -	\$ 90,158	\$ 2,260,575	\$ 93,198
Loans Payable	686,120	128,088	26,906	787,302	22,000
Total Long-Term Debt	\$ 3,036,853	\$ 128,088	\$ 117,064	\$ 3,047,877	\$ 115,198
Compensated Absences *	\$ 49,351	\$ 11,878	\$ -	\$ 61,229	\$ 18,369
Total Long-Term Liabilities	\$ 3,086,204	\$ 139,966	\$ 117,064	\$ 3,109,106	\$ 133,567

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

The annual requirements to amortize the outstanding long-term debt at December 31, 2021 is as follows:

Year Ending December 31	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITIES			
	Loans Payable		Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 26,634	\$ 2,626	\$ 93,198	\$ 76,634	\$ 22,000	\$ 17,100
2023	11,152	1,708	96,357	73,475	23,000	16,569
2024	11,691	1,169	99,624	70,208	23,000	15,994
2025	12,255	606	103,001	66,831	23,000	15,419
2026	-	-	106,493	63,339	24,000	14,844
2027-2031	-	-	1,761,902	213,970	144,000	64,206
2032-2036	-	-	-	-	161,000	44,975
2037-2041	-	-	-	-	146,000	24,113
2042-2046	-	-	-	-	125,000	12,188
2047-2051	-	-	-	-	96,302	3,172
Total	\$ 61,732	\$ 6,109	\$ 2,260,575	\$ 564,457	\$ 787,302	\$ 228,580

NOTE 8 RISK MANAGEMENT

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), 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 NDIRF for liability coverage. The coverage by NDIRF is limited to losses of \$2,000,000 for general liability and automobile and \$191,941 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 9 RETIREMENT PLAN

North Dakota Public Employees' Retirement System

The District participates in the Deferred Compensation Section 457 plan administered by the North Dakota Public Employees' Retirement System (NDPERS). Plan members are not required to contribute; however, the District contributes 8-11%, depending on years of service, of the employee's annual salary. The District's contributions to NDPERS for the years ending December 31, 2021, 2020, and 2019 were \$27,742, \$30,221, and \$28,153, 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, 2021, 2020, and 2019 were \$15,536, \$14,326, and \$40,625, respectively.

NOTE 10 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, 2021 is as follows:

Cash and Investments	\$ 20,279
Total Revenues	\$ 50,517
Total Expenses	(48,297)
Net Change in Equity	\$ 2,220

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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 187,500	\$ 187,500	\$ 146,327	\$ (41,173)
Intergovernmental Revenue	-	-	42,608	42,608
Interest Income	1,200	4,464	1,023	(3,441)
Miscellaneous	11,500	17,673	17,866	193
Total Revenues	\$ 200,200	\$ 209,637	\$ 207,824	\$ (1,813)
EXPENDITURES				
Current				
Projects	\$ 82,320	\$ 77,253	\$ 33,908	\$ 43,345
Payroll	32,300	27,951	27,951	-
Professional Fees	41,000	26,645	26,645	-
Miscellaneous	12,500	13,604	24,932	(11,328)
Capital Outlay	-	-	45,467	(45,467)
Debt Service				
Principal	26,177	26,177	26,177	-
Interest	3,603	3,603	3,603	-
Total Expenditures	\$ 197,900	\$ 175,233	\$ 188,683	\$ (13,450)
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,300	\$ 34,404	\$ 19,141	\$ 11,637
Fund Balance - January 1	\$ 798,656	\$ 798,656	\$ 798,656	\$ -
Prior Period Adjustment	\$ -	\$ -	\$ 22,000	\$ (22,000)
Fund Balance - January 1 Restated	\$ 798,656	\$ 798,656	\$ 820,656	\$ (22,000)
Fund Balance - December 31	\$ 800,956	\$ 833,060	\$ 839,797	\$ 11,637

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, 2021

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, 2021 as follows:

	Original Budget	Amendment	Amended Budget
General Fund			
Revenues	\$ 200,200	\$ 9,437	\$ 209,637
Expenditures	197,900	(22,667)	175,233

NOTE 3 EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2021, Morton County Water Resource District had the following total expenses in excess of budgeted amounts:

	Final Budget	Actual	Excess
General Fund			
Expenditures	175,233	188,683	13,450



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, business-type activities, and the major fund of Morton County Water Resource District as of and for the year ended December 31, 2021, 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 August 25, 2022.

Report on 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) as a basis for designing 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 preceding paragraph 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 were not identified. However, as described in the accompanying *schedule of audit findings*, 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 2021-001, 2021-002, and 2021-004 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 item 2021-003 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

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on Morton County Water Resource District's response to the findings identified in our audit and 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 the response.

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
August 25, 2022

MORTON COUNTY WATER RESOURCE DISTRICT

Summary of Auditor's Results
For the Year Ended December 31, 2021

Financial Statements

Type of Report Issued:	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Fund	Unmodified

Internal control over financial reporting

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

MORTON COUNTY WATER RESOURCE DISTRICT

Schedule of Audit Findings

For the Year Ended December 31, 2021

2021-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Morton County Water Resource District has limited staff 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 material misstatement to Morton County Water Resource District's financial statements, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of Morton County Water Resource 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 Morton County 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 and credit memos should be reviewed 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.
- Include the board in reviewing bank reconciliations, credit memos, manual adjustments, etc.

Morton County Water Resource District's Response

Agree. Morton County Water Resource District will segregate duties when it becomes feasible.

2021-002 CAPITAL ASSET MAINTENANCE – MATERIAL WEAKNESS

Condition

During the fiscal year, it was found that capital asset additions in the amount of \$22,747 were not included in the capital asset listing for fiscal year 2021. An audit adjustment to the financial statements was proposed and accepted by the Morton County Water Resource District.

Effect

The financial statements may have been materially misstated if the capital assets had not been adjusted during the audit.

Cause

The Morton Water Resource District's management does not have sufficient procedures in place to ensure the capital asset listing used to compile the financial statements is accurate and free of material misstatement.

Criteria

The Morton Water Resource District is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, free of material misstatement, and in accordance with the GAAP basis of accounting.

Prior Recommendation

No

Recommendation

We recommend the Morton Water Resource District review the capital asset additions list at the end of the year to ensure that the capital asset listing is accurate and free of material misstatement.

Morton County Water Resource District's Response

Agree. Morton County Water Resource District will review the capital asset listing at the end of the year at a commission meeting.

2021-003 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 number 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 prepare a fraud risk assessment when it becomes feasible.

2021-004 MATERIAL AUDIT ADJUSTMENTS – MATERIAL WEAKNESS

Condition

During testing it was found that the annual state aid payment received in January of the following year was not included as a receivable in the financial statements. An audit adjustment of \$20,000 was made to include the annual state aid payment as a receivable in the governmental activities and general fund in the financial statements.

A prior period adjustment to the governmental activities in the financial statements of \$22,000 was also made as the receivable related to the annual state aid payment was not recorded in the prior audit.

During testing, it was found that two Department of Water Resource reimbursements were for project expenses incurred in 2020. A prior period adjustment to the financial statements of \$62,966 was made to record the business-type activities receivables.

These adjustments were proposed and accepted by Morton County Water Resource District and Missouri West Water System.

Effect

The financial statements may have been materially misstated if adjustments have not been made for receivables.

Cause

Morton County Water Resource District may be unaware of what should be included in its receivable listing.

Criteria

Morton County Water Resource District is responsible for ensuring its financial statements are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Prior Recommendation

No

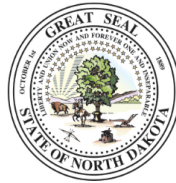
Recommendation

We recommend that Morton County Water Resource District and Missouri West Water System carefully prepare and review its accounts receivable listing to ensure its financial statements are accurately presented and in accordance with GAAP.

Morton County Water Resource District's Response

Agree. Morton County Water District and Missouri West Water System will put intergovernmental receivables into accounts receivable.

STATE AUDITOR
Joshua C. Gallion



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GOVERNANCE COMMUNICATION

August 25, 2022

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 the major fund information of the Morton County Water Resource District, North Dakota, for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2022. Professional standards also require that we communicate to you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Morton County Water Resource District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Morton County Water Resource District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 governmental activities financial statements were:

Management's estimate of the useful lives of capital assets is based on past history of each classification of capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

MORTON COUNTY WATER RESOURCE DISTRICT
Governance Communication – Continued

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 material misstatements. The schedule below lists all corrected misstatements provided by management or detected as a result of audit procedures.

	<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						
<u>To record due from County</u>						
Due From County	205	-	-	-	205	-
Revenue	-	205	-	-	-	205
<u>To record intergovernmental receivable PPA</u>						
Revenue	-	-	22,000	-	22,000	-
Net Position - Jan 1	-	-	-	22,000	-	22,000
<u>To record intergovernmental receivable</u>						
Accounts Receivable	-	-	20,000	-	20,000	-
Revenue	-	-	-	20,000	-	20,000
<u>To record depreciation expense</u>						
Depreciation Expense	-	-	2,275	-	2,275	-
Accumulated Depreciation	-	-	-	2,275	-	2,275
<u>To record capital asset additions</u>						
Capital Assets	-	-	22,747	-	22,747	-
Expenditures	-	-	-	22,747	-	22,747
Business-Type Activities						
<u>To record intergovernmental receivable PPA</u>						
Revenue	-	-	62,966	-	62,966	-
Net Position - Jan 1	-	-	-	62,966	-	62,966
<u>To record accounts receivable</u>						
Accounts Receivable	152,562	-	-	-	152,562	-
Revenue	-	152,562	-	-	-	152,562
<u>To record change in interest payable</u>						
Interest Payable	28,556	-	-	-	28,556	-
Interest Expense	-	28,556	-	-	-	28,556
<u>To record compensated absences and accounts payable</u>						
Expenditures	155,209	-	-	-	155,209	-
Accounts Payable	-	93,980	-	-	-	93,980
Compensated Absences	-	61,229	-	-	-	61,229
<u>To record depreciation expense</u>						
Expenditures	101,989	-	-	-	101,989	-
Depreciation	-	101,989	-	-	-	101,989
<u>To record change in CIP expenses</u>						
Expenditures	3,804	-	-	-	3,804	-
Construction In Progress	-	3,804	-	-	-	3,804
<u>To record error in restricted cash</u>						
Restricted Cash	-	-	34,793	-	34,793	-
Cash	-	-	-	34,793	-	34,793

Management determined the uncorrected misstatements effect is immaterial to the financial statements taken as a whole. The schedules below list all uncorrected misstatements detected as a result of audit procedures.

Business-Type Activities

Passed Adjustments

Passed audit found salaries payable

Salaries expense	-	-	9,240	-	9,240	-
Salaries Payable	-	-	-	9,240	-	9,240

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 August 25, 2022.

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.

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.

Other Matters

We applied certain limited procedures to the *budgetary comparison information and notes to the required supplementary information* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the 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
August 25, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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