

Morton County Water Resource District

Mandan, North Dakota

(A Component Unit of Morton County)

Audit Report

For the Year Ended December 31, 2016

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

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For the Year Ended December 31, 2016

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MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

LIST OF OFFICIALS

At December 31, 2016

Wade Bachmeier
Jamie Wetsch
George Saxowsky
Ray Christensen
Jim Schmidt

Chairman
Vice Chairman
Manager
Manager
Manager

Brenda Winckler

Secretary/Treasurer

Michael Kemnitz
Karin Brooks

Manager, Missouri West Water System
Office Manager, Missouri West Water System

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241
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Local Government Division:

FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

Governing Board
Morton County Water Resource District
Mandan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, as of and for the year ended December 31, 2016, and related notes to the financial statements, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Morton County Water Resource District, a component unit of Morton County Mandan, North Dakota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

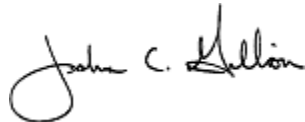
Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on page 25 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morton County Water Resource District's internal control over financial reporting and compliance.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
April 5, 2017

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF NET POSITION
December 31, 2016

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------|
| ASSETS: | | | |
| Cash | \$ 1,207,379 | \$ 983,618 | \$ 2,190,997 |
| Investment | 18,745 | 1,098,387 | 1,117,132 |
| Restricted Investment | - | 143,732 | 143,732 |
| Accounts Receivable | - | 135,988 | 135,988 |
| Due from County | 549 | - | 549 |
| Taxes Receivable | 3,660 | - | 3,660 |
| Special Assessments Receivable | 2,861 | - | 2,861 |
| Uncertified Special Assessments | 104,815 | - | 104,815 |
| Intangible Assets (net of accumulated amortization): | | | |
| Right to Purchase Water | - | 631,285 | 631,285 |
| Capital Assets not being depreciated: | | | |
| Land | 1,051,788 | 1,100 | 1,052,888 |
| Construction in Progress | - | 197,577 | 197,577 |
| Capital Assets (net of accumulated depreciation): | | | |
| Infrastructure | 6,410,891 | 10,344,125 | 16,755,016 |
| Buildings | 160,169 | 4,573 | 164,742 |
| Equipment/Vehicles | 70,984 | 50,044 | 121,028 |
| Total Capital Assets | \$ 7,693,832 | \$ 10,597,419 | \$ 18,291,251 |
| Total Assets | \$ 9,031,841 | \$ 13,590,429 | \$ 22,622,270 |
| LIABILITIES: | | | |
| Accounts Payable | \$ 1,170 | \$ 60,511 | \$ 61,681 |
| Payroll Liability | - | 1,940 | 1,940 |
| Salaries Payable | - | 16,490 | 16,490 |
| Retainage Payable | - | 30,000 | 30,000 |
| Interest Payable | 1,125 | 56,348 | 57,473 |
| Long-Term Liabilities: | | | |
| Due Within One Year: | | | |
| Bonds Payable | 8,386 | 78,888 | 87,274 |
| Loans Payable | - | 6,000 | 6,000 |
| Special Assessment Loan Payable | 14,000 | - | 14,000 |
| Compensated Absences Payable | - | 19,274 | 19,274 |
| Due After One Year: | | | |
| Bonds Payable | 83,557 | 2,603,810 | 2,687,367 |
| Loans Payable | - | 212,000 | 212,000 |
| Special Assessment Loan Payable | 77,000 | - | 77,000 |
| Compensated Absences Payable | - | 44,972 | 44,972 |
| Total Liabilities | \$ 185,238 | \$ 3,130,233 | \$ 3,315,471 |
| NET POSITION: | | | |
| Net Investment in Capital Assets | \$ 7,510,889 | \$ 7,696,721 | \$ 15,207,610 |
| Restricted for: | | | |
| Intangible Assets | - | 631,285 | 631,285 |
| Debt Service | - | 143,732 | 143,732 |
| Dam Maintenance | 91,758 | - | 91,758 |
| Unrestricted | 1,243,956 | 1,988,458 | 3,232,414 |
| Total Net Position | \$ 8,846,603 | \$ 10,460,196 | \$ 19,306,799 |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | Total |
|---|---------------------|-------------------------|--|--|--|---------------------------------|----------------------|-------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | | |
| <u>Governmental Activities:</u> | | | | | | | | |
| Conserv. of Natural Resources | \$ 277,124 | \$ - | \$ 79,758 | \$ 38,651 | \$ (158,715) | \$ - | \$ (158,715) | |
| Interest on Long-Term Debt | 7,866 | - | - | - | (7,866) | - | (7,866) | |
| Total Governmental Activities | \$ 284,990 | \$ - | \$ 79,758 | \$ 38,651 | \$ (166,581) | - | (166,581) | |
| <u>Business-Type Activities:</u> | | | | | | | | |
| Water System | \$ 1,969,352 | \$ 1,887,050 | \$ - | \$ 148,812 | \$ - | \$ 66,510 | \$ 66,510 | |
| Total Primary Government | <u>\$ 2,254,342</u> | <u>\$ 1,887,050</u> | <u>\$ 79,758</u> | <u>\$ 187,463</u> | <u>\$ (166,581)</u> | <u>\$ 66,510</u> | <u>\$ (100,071)</u> | |
| <u>General Revenues:</u> | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes; levied for general purposes | | | | | \$ 144,986 | \$ - | \$ 144,986 | |
| Property taxes; levied for debt service | | | | | 11,449 | - | 11,449 | |
| Earnings on Investments | | | | | 1,322 | 4,381 | 5,703 | |
| Miscellaneous Revenue | | | | | 3,026 | 20,431 | 23,457 | |
| Total General Revenues | | | | | <u>\$ 160,783</u> | <u>\$ 24,812</u> | <u>\$ 185,595</u> | |
| Change in Net Position | | | | | <u>\$ (5,798)</u> | <u>\$ 91,322</u> | <u>\$ 85,524</u> | |
| Net Position - January 1 | | | | | \$ 8,852,401 | \$ 10,369,571 | \$ 19,221,972 | |
| Prior Period Adjustment | | | | | - | (697) | (697) | |
| Net Position - January 1, as restated | | | | | <u>\$ 8,852,401</u> | <u>\$ 10,368,874</u> | <u>\$ 19,221,275</u> | |
| Net Position - December 31 | | | | | <u>\$ 8,846,603</u> | <u>\$ 10,460,196</u> | <u>\$ 19,306,799</u> | |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2016

| | General Fund |
|---|---------------------|
| <u>ASSETS</u> | |
| Cash | \$ 1,207,379 |
| Investments | 18,745 |
| Due from County | 549 |
| Receivables: | |
| Taxes Receivable | 3,660 |
| Special Assessments Receivable | 2,861 |
| Uncertified Special Assessments Receivable | 104,815 |
| Total Assets | <u>\$ 1,338,009</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> | |
| <u>Liabilities:</u> | |
| Accounts Payable | <u>\$ 1,170</u> |
| <u>Deferred Inflows of Resources:</u> | |
| Taxes Receivable | \$ 3,660 |
| Uncollected Special Assessments Receivable | 2,861 |
| Uncertified Special Assessments Receivable | 104,815 |
| Total Deferred Inflows of Resources | <u>\$ 111,336</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 112,506</u> |
| <u>Fund Balances:</u> | |
| Committed for: | |
| Dam Maintenance | \$ 91,758 |
| Unassigned | 1,133,745 |
| Total Fund Balances | <u>\$ 1,225,503</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,338,009</u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 1,225,503

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.

| | | |
|--------------------------------|--------------------|-----------|
| Cost of Capital Assets | \$ 9,025,764 | |
| Less: accumulated depreciation | <u>(1,331,932)</u> | 7,693,832 |

Property taxes 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 revenues in the funds. 3,660

Special assessments will be collected after year-end and in future years, but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the funds. 107,676

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:

| | | |
|-----------------------------|----------------|------------------|
| Special Assessment Loan | \$ (91,000) | |
| Loan Payable | (91,943) | |
| Interest Payable | <u>(1,125)</u> | |
| Total Long-Term Liabilities | | <u>(184,068)</u> |

Total Net Position of Governmental Activities \$ 8,846,603

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

| | General Fund |
|---|----------------------------|
| <u>Revenues:</u> | |
| Taxes | \$ 144,640 |
| Special Assessments | 29,503 |
| Intergovernmental Revenue | 118,409 |
| Interest Income | 1,322 |
| Miscellaneous-Rent/Contributions | <u>3,026</u> |
| Total Revenues | <u>\$ 296,900</u> |
| <u>Expenditures:</u> | |
| Current: | |
| <u>Conservation of Natural Resources:</u> | |
| Salaries | \$ 26,670 |
| Payroll Expense | 2,040 |
| Travel | 2,376 |
| Dues and Registration | 2,765 |
| Insurance | 871 |
| Audit | 3,750 |
| Legal and Engineering Fees | 17,180 |
| Misc. Projects | 4,289 |
| Dam Site 5 | 17,185 |
| Dam Site 6 | 70,278 |
| Miscellaneous/ Office Rent/Supplies | <u>2,145</u> |
| Total Conservation of Natural Resources | <u>\$ 149,549</u> |
| <u>Debt Service:</u> | |
| Principal | \$ 21,984 |
| Interest | <u>7,991</u> |
| Total Debt Service | <u>\$ 29,975</u> |
| Total Expenditures | <u>\$ 179,524</u> |
| Excess (Deficiency) of Revenue Over Expenditures | <u>\$ 117,376</u> |
| Fund Balance - January 1 | <u>\$ 1,108,127</u> |
| Fund Balance - December 31 | <u><u>\$ 1,225,503</u></u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net Change in *Fund Balances* - Total Governmental Funds \$ 117,376

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. This is the amount by which depreciation exceeded capital outlays and capital contributions in the current year.

| | | |
|-----------------------------------|---------------|-----------|
| Current Year Depreciation Expense | \$ (183,155) | |
| Capital Asset Additions | 16,929 | |
| Capital Contributions | <u>38,651</u> | (127,575) |

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayment.

| | | |
|--|---------------|--------|
| Repayment of Debt - Loans | \$ 7,984 | |
| Repayment of Debt - Special Assessment Loans | <u>14,000</u> | 21,984 |

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. This consists of the net decrease in interest payable. 125

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. This consists of the changes in taxes and special assessments receivable.

| | | |
|--|-----------------|-----------------|
| Net Increase in Taxes Receivable | \$ 346 | |
| Net Decrease in Special Assessments Receivable | <u>(18,054)</u> | <u>(17,708)</u> |

Change in Net Position of Governmental Activities \$ (5,798)

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2016

| | ENTERPRISE FUND Water System |
|--|------------------------------------|
| <u>ASSETS</u> | |
| <u>Current Assets:</u> | |
| Cash | \$ 983,618 |
| Investments | 1,098,387 |
| Accounts Receivable | 135,988 |
| Total Current Assets | <u>\$ 2,217,993</u> |
| <u>Noncurrent Assets:</u> | |
| Restricted Assets: | |
| Investments | \$ 143,732 |
| Intangible Assets (net of accumulated amortization): | |
| Right to Purchase Water | 631,285 |
| Capital Assets (not being depreciated): | |
| Land | 1,100 |
| Construction in Progress | 197,577 |
| Capital Assets (net of accumulated depreciation): | |
| Buildings | 4,573 |
| Infrastructure | 10,344,125 |
| Vehicles and Equipment | 50,044 |
| Total Capital Assets | <u>\$ 10,597,419</u> |
| Total Noncurrent Assets | <u>\$ 11,372,436</u> |
| Total Assets | <u>\$ 13,590,429</u> |
| <u>LIABILITIES</u> | |
| <u>Current Liabilities:</u> | |
| Accounts Payable | \$ 60,511 |
| Payroll Liability | 1,940 |
| Salaries Payable | 16,490 |
| Retainage Payable | 30,000 |
| Interest Payable | 56,348 |
| Bonds Payable | 78,888 |
| Loans Payable | 6,000 |
| Compensated Absences Payable | 19,274 |
| Total Current Liabilities | <u>\$ 269,451</u> |
| <u>Noncurrent Liabilities:</u> | |
| Bonds Payable | \$ 2,603,810 |
| Loans Payable | 212,000 |
| Compensated Absences Payable | 44,972 |
| Total Noncurrent Liabilities | <u>\$ 2,860,782</u> |
| Total Liabilities | <u>\$ 3,130,233</u> |
| <u>Net Position:</u> | |
| Net Investment in Capital Assets | \$ 7,696,721 |
| Restricted for Intangible Assets | 631,285 |
| Restricted for Debt Service | 143,732 |
| Unrestricted | 1,988,458 |
| Total Net Position | <u>\$ 10,460,196</u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended December 31, 2016

| | ENTERPRISE FUND <u>Water System</u> |
|---|---|
| <u>Operating Revenues:</u> | |
| Charges for Services | <u>\$ 1,887,050</u> |
| <u>Operating Expenses:</u> | |
| General and Administrative | \$ 94,895 |
| Payroll | 587,578 |
| Insurance | 17,846 |
| Operations and Maintenance | 679,189 |
| Projects | 109,770 |
| Depreciation - Building | 327 |
| Depreciation - Water System | 323,361 |
| Depreciation - Vehicles and Equipment | 21,629 |
| Amortization - Connect Fee | <u>31,564</u> |
| Total Operating Expenses | <u>\$ 1,866,159</u> |
| Operating Income | <u>\$ 20,891</u> |
| <u>Non-Operating Revenues (Expenses):</u> | |
| Interest Income | \$ 4,381 |
| Grant Income | 148,812 |
| Miscellaneous Revenue | 20,431 |
| Interest and Fees | <u>(103,193)</u> |
| Total Non-Operating Revenues (Expenses) | <u>\$ 70,431</u> |
| Change in Net Position | <u>\$ 91,322</u> |
| Net Position - January 1 | \$ 10,369,571 |
| Prior Period Adjustments | <u>(697)</u> |
| Net Position - January 1, as restated | <u>\$ 10,368,874</u> |
| Net Position - December 31 | <u><u>\$ 10,460,196</u></u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2016

| | ENTERPRISE FUND Water System |
|--|------------------------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Received from Customers | \$ 1,875,275 |
| Payments to Suppliers for Goods and Services | (893,764) |
| Payments to Employees | (592,755) |
| Net Cash Provided by Operating Activities | <u>\$ 388,756</u> |
| <u>Cash Flows from Non-capital Financing Activities:</u> | |
| Other Non-Operating Proceeds | <u>\$ 18,949</u> |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | |
| Acquisition of Capital Assets | \$ (274,404) |
| Loss on Sale of Capital Assets | 6,635 |
| Grants and Subsidies | 148,812 |
| Principal Paid on Loan | (82,302) |
| Interest Paid on Loan | (103,193) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>\$ (304,452)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Purchase of Investments | \$ (1,242,119) |
| Proceeds from Sale of Investments | 1,238,079 |
| Interest Income | 4,381 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 341</u> |
| Net Increase in Cash and Cash Equivalents | <u>\$ 103,594</u> |
| Cash and Cash Equivalents - January 1 | <u>\$ 880,024</u> |
| Cash and Cash Equivalents - December 31 | <u><u>\$ 983,618</u></u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u> | |
| Operating Income | <u>\$ 20,891</u> |
| <u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u> | |
| Depreciation | \$ 345,317 |
| Amortization | 31,564 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (11,775) |
| Accounts Payable | 7,936 |
| Salaries Payable | 2,345 |
| Payroll Liability | 715 |
| Compensated Absences | (8,237) |
| Total Adjustments | <u>\$ 367,865</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 388,756</u></u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

| |
|--|
| NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES |
|--|

The financial statements of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, 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.

A. Reporting Entity

The accompanying financial statements present the activities of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota. The district has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria include appointing a voting majority of an organization's governing body and (1) the ability of Morton County Water Resource 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 Morton County Water Resource District.

Based on these criteria, there are no component units to be included within the Morton County Water Resource District as a reporting entity and the Morton County Water Resource District is a component unit within Morton County, Mandan, North Dakota as a reporting entity.

B. Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, Morton County Water Resource District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business type activities of the District and 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, are presented as general revenues.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements - Continued

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category - governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and the enterprise fund, each displayed in a separate column.

The Water Resource District reports the following major governmental fund:

General Fund. This is the district's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the Water Resource District reports the following major enterprise fund:

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are 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 general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general 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 are both restricted and unrestricted net positions 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.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less. The investments consist of certificates of deposit stated at cost with maturities in excess of 3 months.

E. 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 \$1,500 or more if acquired prior to 2003, \$3,000 or more if acquired in 2003 to 2010 and \$7,500 or more if acquired in 2010 or later. 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:

| Assets | Years |
|------------------|--------------|
| Land | Indefinite |
| Buildings | 40 |
| Infrastructure | 40 |
| Machinery | 5 - 15 |
| Vehicles | 3 - 5 |
| Office Equipment | 3 - 5 |

F. Compensated Absences

Vested or accumulated vacation leave is reported on the government wide financial statements. Upon retirement or leaving employment, employees with ten years of continuous employment shall be paid for unused sick leave at 25% of current base salary. Employees may carry over 240 hours of annual leave at year end. Upon termination of employment, employees will be paid for vacation benefits that have accrued. The District estimates that 30% of total compensated absence will be due within one year.

G. 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. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances / Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

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

Fund Balance Spending Policy:

It is the policy of Morton County Water Resource 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.

Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

| CLASSIFICATION | DEFINITION | EXAMPLES |
|-----------------------|---|---|
| Non-spendable | Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. | Inventories, prepaid amounts (expenses), long-term receivables (loans), endowment funds. |
| Restricted | Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation. | Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose. |
| Committed | A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment. | By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance. |
| Assigned | Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager. | By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance. |
| Unassigned | Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes; | Available for any remaining general fund expenditure. |

Morton County Water Resource District did not have any non-spendable balances, restricted, or assigned fund balances reported in the balance sheet at December 31, 2016.

Committed Fund Balances consist of the following item at December 31, 2016

Morton County Water Resource District does have a committed amount of general fund balance by the District's board for the operation and maintenance of the Harmon Lake Dam. The District set up a savings account and makes annual transfers to the account through a board action. Funds in this account can only be used for operation and maintenance of the Harmon Lake Dam totaling \$91,758.

Unassigned fund balance consists of the remaining general fund balance totaling \$1,133,745.

Net Position:

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, and less any related debt to purchase/finance the construction of those capital assets. These assets are not available for future spending.

Restrictions of net position shown in the statement of net position include \$143,732 restricted by debt covenants, \$631,285 restricted for intangible assets in the form of water rights in the enterprise fund, and \$91,758 in the governmental fund restricted for dam maintenance.

Unrestricted net position consists of activity related to both the general fund and the water system fund. All of the District's general fund balance is considered unrestricted. The unrestricted net position is available to meet the district's ongoing obligations.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGETS

Based upon available financial information and requests by the governing board, the director prepares the preliminary budget. The budget is prepared for the general and enterprise funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

BUDGET AMENDMENTS

The Water Resource District amended the 2016 budgets on December 31, 2016 as follows:

| Fund | REVENUE | | |
|-----------------------------|------------------------|------------------|-----------------------|
| | Original Budget | Amendment | Amended Budget |
| Major Fund: General Fund | \$314,000 | (\$32,705) | \$281,295 |

| Fund | EXPENDITURES | | |
|-----------------------------|------------------------|------------------|-----------------------|
| | Original Budget | Amendment | Amended Budget |
| Major Fund: General Fund | \$314,000 | (\$138,678) | \$175,322 |

NOTE 3: DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, Morton County Water Resource District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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 Water Resource District, city, township, school, park, 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 any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2016, the Morton County Water Resource District's carrying amount of deposits was \$1,226,124 and the bank balances were \$1,247,417. Of the bank balances, \$630,237 was covered by Federal Depository Insurance. The remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2016, the Missouri West Water System's carrying amount of deposits was \$2,225,651 and the bank balances were \$2,237,327. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The Water Resource District and Missouri West Water System may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2016, the Water Resource District held certificates of deposit in the amount of \$18,745, which are considered deposits.

As of December 31, 2016, the Missouri West Water System held certificates of deposit in the amount of \$1,242,119, which are considered deposits.

Concentration of Credit Risk:

The Water Resource District and Missouri West Water System does not have a limit on the amount it may invest in any one issuer.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts for water sales. No allowance has been established for estimated uncollectible accounts receivable.

NOTE 5: DUE FROM COUNTY TREASURER

Due from county treasurer represents the amount of taxes collected prior to year-end by Morton County that remain on hand at the county, until they are distributed to the water resource district shortly after December 31, 2016.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements - Continued

NOTE 6: TAXES RECEIVABLE

The taxes receivable represents the past two years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material collections are distributed after the end of the month.

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.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

NOTE 7: SPECIAL ASSESSMENT RECEIVABLE

Special assessment receivable in the governmental fund statements represent the past three years of delinquent uncollected special assessments. The government-wide financial statements include the amount of uncertified special assessments. No allowance has been established for uncollectible special assessments.

NOTE 8: UNCERTIFIED SPECIAL ASSESSMENTS RECEIVABLE

Long-term uncertified special assessments receivable in the governmental fund statements represent the amount of uncertified special assessments to be certified in upcoming years for various projects.

NOTE 9: CAPITAL ASSETS & INTANGIBLE ASSET

The following is a summary of changes in capital assets for the year ended December 31, 2016.

| Governmental Activities: | Balance 1-1-16 | Increases | Decreases | Balance 12-31-16 |
|--|---------------------------|---------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,051,788 | \$ - | \$ - | \$ 1,051,788 |
| Total Capital Assets, Not Being Depreciated | \$ 1,051,788 | \$ - | \$ - | \$ 1,051,788 |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings | \$ 206,124 | \$ - | \$ - | \$ 206,124 |
| Equipment/Vehicles | 47,111 | 55,580 | - | 102,691 |
| Infrastructure | 7,665,161 | - | - | 7,665,161 |
| Total Capital Assets, Being Depreciated | \$ 7,918,396 | \$ 55,580 | \$ - | \$ 7,973,976 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | \$ 36,955 | \$ 9,000 | \$ - | \$ 45,955 |
| Equipment/Vehicles | 22,531 | 9,176 | - | 31,707 |
| Infrastructure | 1,089,290 | 164,980 | - | 1,254,270 |
| Total Accumulated Depreciation | \$ 1,148,776 | \$ 183,156 | \$ - | \$ 1,331,932 |
| Total Capital Assets Being Depreciated, Net | \$ 6,769,620 | \$ (127,576) | \$ - | \$ 6,642,044 |
| Governmental Activities-Capital Assets, Net | \$ 7,821,408 | \$ (127,576) | \$ - | \$ 7,693,832 |

Depreciation expense of \$183,156 was charged to the conservation of natural resources function.

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

Amortization of Intangible Asset (enterprise fund/activities):

| Business Type Activities: | Restated Balance 1-1-16 | Increases | Decreases | Balance 12-31-16 |
|--|--|------------------|------------------|-----------------------------|
| <i>Intangible Assets, being amortized:</i> | | | | |
| Right to Purchase Water | \$ 1,371,300 | \$ - | \$ - | \$ 1,371,300 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Right to Purchase Water | \$ 708,451 | \$ 31,564 | \$ - | \$ 740,015 |
| Business Type Activities-Intangible Asset, | \$ 662,849 | \$ (31,564) | \$ - | \$ 631,285 |

Right to purchase water consists of the water resource districts cost to secure the right to purchase water from the City of Mandan for 40 years. This amount is being amortized over the 40-year life of the agreement.

| Business-Type Activities: | Restated Balance 1-1-16 | Increases | Decreases | Balance 12-31-16 |
|--|--|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,100 | \$ - | \$ - | \$ 1,100 |
| Construction in Progress | 1,246,237 | 227,577 | 1,276,237 | 197,577 |
| Total Capital Assets, Not Being | \$ 1,247,337 | \$ 227,577 | \$ 1,276,237 | \$ 198,677 |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings | \$ 9,800 | \$ - | \$ - | \$ 9,800 |
| Equipment/Vehicles | 444,190 | 62,827 | 45,270 | 461,747 |
| Infrastructure | 14,891,827 | 1,276,237 | - | 16,168,064 |
| Total Capital Assets, Being Depreciated | \$ 15,345,817 | \$ 1,339,064 | \$ 45,270 | \$ 16,639,611 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | \$ 4,900 | \$ 327 | \$ - | \$ 5,227 |
| Equipment/Vehicles | 412,709 | 21,629 | 22,635 | 411,703 |
| Infrastructure | 5,500,578 | 323,361 | - | 5,823,939 |
| Total Accumulated Depreciation | \$ 5,918,187 | \$ 345,317 | \$ 22,635 | \$ 6,240,869 |
| Total Capital Assets Being Depreciated, | \$ 9,427,630 | \$ 993,747 | \$ 22,635 | \$ 10,398,742 |
| Business Type Activities-Capital Assets, | \$ 10,674,967 | \$ 1,221,324 | \$ 1,298,872 | \$ 10,597,419 |

NOTE 10: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to December 31, 2016 and chargeable to the water system fund for the year then ended, but paid for subsequent to that date.

NOTE 11: SALARIES AND PAYROLL LIABILITIES

Payroll liability consists of amounts owed for withholdings to various taxing entities as of year-end, but paid subsequent to that date.

Salaries payable consists of a liability account reflecting amounts owing to employees for work provided on behalf of the county prior to December 31 of each year-end.

NOTE 12: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on loans payable balances in the water system fund outstanding at December 31, 2016.

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

NOTE 13: DEFERRED INFLOW OF RESOURCES

Deferred inflows of resources on the balance sheet represent the amount of uncollected taxes receivable, uncollected special assessments receivable, and long-term uncertified special assessments receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, those uncollected amounts are measurable but not available.

NOTE 14: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - During the year ended December 31, 2016, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

| Governmental Activities: | Balance 1-1-16 | Increases | Decreases | Balance 12-31-16 | Due Within One Year |
|---------------------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Special Assessments Loan | \$ 105,000 | \$ - | \$ 14,000 | \$ 91,000 | \$ 14,000 |
| Loan - 2010 | 99,927 | - | 7,984 | 91,943 | 8,386 |
| Total Governmental Activities | \$ 204,927 | \$ - | \$ 21,984 | \$ 182,943 | \$ 22,386 |

Outstanding governmental activities debt at December 31, 2016 is comprised of the following:

Special Assessment Loan:

\$253,000 Municipal Bond Bank Revolving Fund Loan due in semi-annual installments of \$11,000 to \$16,000 plus interest through September 1, 2022; with interest at 2.5%.

\$91,000

Loans Payable:

2010 Loan \$134,133.53 loan with a fixed interest rate of 4.8% due in annual Installments of \$12,860 beginning 11-1-2011 through 11-1-2025.

\$91,943

Debt service requirements on long-term debt for governmental activities at December 31, 2016 are as follows:

| GOVERNMENTAL TYPE ACTIVITIES | | | | |
|-------------------------------------|----------------------------|-----------------|---------------------|-----------------|
| Year Ending 12-31-16 | Special Assessments | | Loan Payable | |
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 14,000 | \$ 2,275 | \$ 8,385 | \$ 4,475 |
| 2018 | 15,000 | 1,925 | 8,794 | 4,067 |
| 2019 | 15,000 | 1,550 | 9,222 | 3,638 |
| 2020 | 15,000 | 1,175 | 9,662 | 3,198 |
| 2021 | 16,000 | 800 | 10,141 | 2,720 |
| 2021-2025 | 16,000 | 400 | 45,739 | 5,700 |
| Total | \$ 91,000 | \$ 8,125 | \$ 91,943 | \$ 23,798 |

Business-Type Activities:

| Business Type Activities: | Balance 1-1-16 | Increases | Decreases | Balance 12-31-16 | Due Within One Year |
|----------------------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Water Revenue Refunding Bonds | \$ 2,759,000 | \$ - | \$ 76,302 | \$ 2,682,698 | \$ 78,888 |
| USDA-RD RUS Loans | 224,000 | - | 6,000 | 218,000 | 6,000 |
| Compensated Absences * | 72,483 | - | 8,238 | 64,245 | 19,274 |
| Total Business Type Activities | \$ 3,055,483 | \$ - | \$ 90,540 | \$ 2,964,943 | \$ 104,162 |

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements - Continued

Outstanding business-type activities debt at December 31, 2016 is comprised of the following individual issues:

Bonds Payable:Water Revenue Refunding Bond, Series 2016

The water resource district received a bond for \$2,759,000 for a water supply system in Morton County. The loan will be repaid over a period of 15 years and bears an interest rate of 3.390%. Payments of \$169,832 including interest are due annually on June 1 with final payment on June 30, 2030 for \$1,468,435.

\$2,682,698**Loans Payable:**USDARD - RUS Loan

The water resource district received a \$2,990,300 loan for expansion of a water supply system in Morton County. With payments of \$6,000 to \$14,000 due annually through October 1, 2039; interest at 4.375%.

\$ 218,000

Debt service requirements on business-type activity long-term debt at December 31, 2016 are as follows:

| BUSINESS TYPE ACTIVITIES | | | | |
|---------------------------------|-------------------------------------|-------------------|---------------------|-------------------|
| Year Ending 12-31-16 | Water Revenue Refunding Bond | | USDA-RD Loan | |
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 78,888 | \$ 90,943 | \$ 6,000 | \$ 9,538 |
| 2018 | 81,563 | 88,269 | 6,000 | 9,275 |
| 2019 | 84,328 | 85,504 | 6,000 | 9,013 |
| 2020 | 87,186 | 82,646 | 7,000 | 8,750 |
| 2021 | 90,142 | 79,690 | 7,000 | 8,444 |
| 2022-2026 | 498,672 | 350,487 | 40,000 | 37,363 |
| 2027-2031 | 1,761,920 | 216,011 | 49,000 | 27,869 |
| 2032-2036 | - | - | 61,000 | 16,100 |
| 2037-2041 | - | - | 36,000 | 2,885 |
| Total | \$ 2,682,699 | \$ 993,550 | \$ 218,000 | \$ 129,237 |

NOTE 15: RESTRICTED CASH AND INVESTMENTS

The Morton County Water Resource District's grant/loan covenants require certain reservations of Missouri West Water System's net position. This amount is classified as restricted assets on the Net Position Statement because their use is limited by applicable bond covenants. The restricted portion is as follows:

| Restriction: | Amounts |
|--|----------------|
| Restricted for Debt Service (Enterprise) | \$143,732 |

NOTE 16: RISK MANAGEMENT

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

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements - Continued

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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 Morton County Water Resource District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$155,052 for public assets coverage.

Morton County Water Resource District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Morton County Water Resource 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 one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides Morton County Water Resource District with blanket fidelity bond coverage in the amount of \$318,000 (\$982,000 for the Missouri West Water System) for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 17: PENSION PLAN

North Dakota Public Employees' Retirement System

The Morton County Water Resource District contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its non-certified staff. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are not required to contribute; however, the Water Resource District contributes 8% of the employee's annual salary for 1 – 3 years of service, 10% of the employee's annual salary for 4 – 10 years of service, and 11% of the employee's annual salary for 11 and over years of service. The Water Resource's contributions to NDPERS for the years ending December 31, 2016, 2015, and 2014 were \$7,178, \$6,727, and \$6,329, respectively.

Nation Wide Retirement

The Morton County Water Resource District contributes to Nation Wide Retirement. Plan members are not required to contribute; however, the Water Resource District contributes 8% of the employee's annual salary for 1 – 3 years of service, 10% of the employee's annual salary for 4 – 10 years of service, and 11% of the employee's annual salary for 11 and over years of service. The Water Resource's contributions to Nation Wide Retirement for the years ending December 31, 2016, 2015, and 2014 were \$35,270, \$35,228, and \$31,194, respectively.

MORTON COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements - Continued

NOTE 18: JOINT VENTURES

Under authorization of state statutes the Morton County Water Resource 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. The joint agreement created Missouri River Joint Water Board. The agreement was established for the mutual advantage of the governments. 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, 2016 is as follows:

| | |
|----------------------|----------|
| Cash and Investments | \$19,280 |
| Total Revenues | \$40,732 |
| Total Expenses | (46,968) |
| Net Change in Equity | \$ 6,236 |

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

NOTE 19: CONSTRUCTION COMMITMENTS

The Morton County Water Resource District had the following open construction contract at December 31, 2016 for the South Mandan water expansion project. The open contract summary is as follows:

| Project | Amended Contract | Total Completed | Retainage | Remaining Balance w/Retainages | % Complete |
|-----------------|------------------|-----------------|-----------|--------------------------------|------------|
| South Expansion | \$1,143,645 | \$1,143,645 | \$30,000 | \$30,000 | 100.00% |

Retainages Payable:

Retainages payable consists of a liability account reflecting amounts owing to contractors on the open contract as outlined above at December 31, 2016 by the Water Resource District.

NOTE 20: PRIOR PERIOD ADJUSTMENTS

Prior period adjustment was necessary to properly restate the beginning net position. There was an adjustment for (\$909) to reflect 2015 interest expense recorded on Missouri West's financials after the 2015 audit. There was also an adjustment of \$212 to increase the beginning fund balance:

| Business-Type Activities: | Amounts |
|--|---------------------|
| Beginning Net Position, as previously reported | \$10,369,571 |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Adjustment for 2015 interest expense recorded after audit - decrease | (909) |
| Fund balance adjustment— increase | 212 |
| | <u>\$10,368,874</u> |

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended December 31, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes/Special Assessments | \$ 254,000 | \$ 234,919 | \$ 174,143 | \$ (60,776) |
| Intergovernmental | 57,400 | 42,026 | 118,409 | 76,383 |
| Interest Income | 1,000 | 1,322 | 1,322 | - |
| Miscellaneous-Rent/Contributions | 1,600 | 3,028 | 3,026 | (2) |
| Total Revenues | <u>\$ 314,000</u> | <u>\$ 281,295</u> | <u>\$ 296,900</u> | <u>\$ 15,605</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| <u>Conservation of Natural Resources:</u> | | | | |
| Salaries | \$ 30,000 | \$ 26,670 | \$ 26,670 | \$ - |
| Payroll Expenses | 2,500 | 2,040 | 2,040 | - |
| Travel | 2,500 | 2,376 | 2,376 | - |
| Office Supplies | 1,500 | 2,135 | - | 2,135 |
| Dues and Registration | 3,000 | 2,765 | 2,765 | - |
| Insurance | 2,000 | 871 | 871 | - |
| Audit | 4,000 | 3,750 | 3,750 | - |
| Legal and Engineering Fees | 22,000 | 17,605 | 17,180 | 425 |
| Dam Site 5 | - | - | 17,185 | - |
| Dam Site 6 (Harmon Lake) | 207,200 | 81,036 | 70,278 | 10,758 |
| Misc. Projects | - | 4,024 | - | 4,024 |
| Otter Creek Monitor Costs | 250 | - | - | - |
| Zachmeier CAT | 1,500 | - | - | - |
| Willow Road/Schmelling Maintenance | 500 | - | 4,289 | (4,289) |
| Miscellaneous/ Office Rent | 2,400 | 2,075 | 2,145 | (70) |
| Equipment Purchases | 650 | - | - | - |
| Total Conservation of Natural Resources | <u>\$ 280,000</u> | <u>\$ 145,347</u> | <u>\$ 149,549</u> | <u>\$ 12,983</u> |
| Debt Service: | | | | |
| Total Debt Service - Principal | \$ 19,000 | \$ 21,984 | \$ 21,984 | \$ - |
| Total Debt Service - Interest & Service Costs | 15,000 | 7,991 | 7,991 | - |
| Total Debt Service | <u>\$ 34,000</u> | <u>\$ 29,975</u> | <u>\$ 29,975</u> | <u>\$ -</u> |
| Total Expenditures | <u>\$ 314,000</u> | <u>\$ 175,322</u> | <u>\$ 179,524</u> | <u>\$ 12,983</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ -</u> | <u>\$ 105,973</u> | <u>\$ 117,376</u> | <u>\$ 28,588</u> |
| Fund Balance - January 1 | <u>\$ 1,108,127</u> | <u>\$ 1,108,127</u> | <u>\$ 1,108,127</u> | <u>\$ -</u> |
| Fund Balance - December 31 | <u>\$ 1,108,127</u> | <u>\$ 1,214,100</u> | <u>\$ 1,225,503</u> | <u>\$ 28,588</u> |

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

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

| |
|--|
| NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY |
|--|

The water resource district adopts a budget for the general fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The water resource district prepares a budget on or before October 7th. The budget includes proposed expenditures and a means of financing them.
- The budget must be filed with the county auditor by October 10th. The county commission may disapprove the budget, amend and approve the budget as amended, or approve the budget as submitted.
- No disbursements shall be made or liability incurred in excess of the total appropriation. However, the water board may amend the budget during the year for any receipts and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All appropriations lapse at year-end.

STATE AUDITOR

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MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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

Governing Board
Morton County Water Resource District
Mandan, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the major funds of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Morton County Water Resource District's basic financial statements, and have issued our report thereon dated April 5, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morton County Water Resource District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morton County Water Resource District's internal control. Accordingly, we do not express an opinion on the effectiveness of Morton County Water Resource District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2016-001].

MORTON COUNTY WATER RESOURCE DISTRICT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Compliance and Other Matters

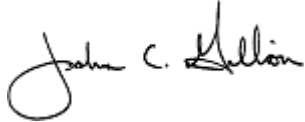
As part of obtaining reasonable assurance about whether the Morton County Water Resource District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Morton County Water Resource District's Response to Findings

Morton County Water Resource District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Morton County Water Resource District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
April 5, 2017

MORTON COUNTY WATER RESOURCE DISTRICT
Mandan, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued:

Governmental Activities
Business-Type Activities
Major Funds

Unmodified
Unmodified
Unmodified

Internal Control over financial reporting:

Material weaknesses identified? Yes X None reported

Significant deficiencies identified not considered
to be material weaknesses? X Yes None reported

Noncompliance material to financial statements
noted? Yes X None reported

Section II - Financial Statement Findings

2016-001 - SEGREGATION OF DUTIES

Condition:

The Morton County Water Resource District has one employee responsible for most accounting functions.

Effect:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the water resource district's financial condition.

Cause:

Due to the client's size, complexity, organizational structure and the economic realities the Morton County Water Resource District faces, it is presently not economically feasible to have more than one person responsible for certain accounting functions.

Criteria:

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

MORTON COUNTY WATER RESOURCE DISTRICT
Schedule of Findings and Questioned Costs - Continued

Recommendation:

Due to the size and funding limitations of the Water Resource District, we understand that it may not be feasible to obtain proper separation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the Water Resource District do so. We further recommend that the Water Resource District implement any controls possible to separate the functions of approval, posting of transactions, reconciliation, and custody of assets.

Views of Responsible Officials:

I agree with the recommendation. While we agree that there is a lack of segregation of duties, it is not feasible to obtain proper segregation of duties due to financial constraints. Morton County Water Resource District will develop procedures to implement controls to help mitigate the lack of segregation of duties.

STATE AUDITOR

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Governing Board
Morton County Water Resource District
Mandan, North Dakota

We have audited the financial statements of the governmental activities, business-type activities, and the major funds of the Morton County Water Resource District, a component unit of Morton County, Mandan, North Dakota, for the year ended December 31, 2016 which collectively comprise the Water Resource District's basic financial statements, and have issued our report thereon dated April 5, 2017. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated January 23, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Morton County Water Resource District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morton County Water Resource District's internal control over financial reporting.

As part of obtaining reasonable assurance about whether Morton County Water Resource District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Morton County Water Resource District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated April 5, 2017.

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 governmental unit'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. Communication with the independent accountant was through the District's Office Manager, Karin Brooks. All information conveyed to and from the independent accountant appeared to be proper and relevant.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

OTHER AUDIT FINDINGS OR ISSUES

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

| |
|---|
| SALES TAX PAID ON CREDIT CARD EXPENDITURES |
|---|

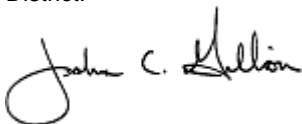
Per review of an electronic check on March 21, 2016 to Visa for \$2,165, sales tax amounting to \$37.37 was paid on separate transactions. When these costs are extrapolated with the entire population of expenditures, the questioned cost amounts to \$254.48.

NDCC 57-39.2-04, subsection 6, states that . . . *gross receipts from all sales otherwise taxable under this chapter made to the United States, an Indian tribe, or to any state, including the state of North Dakota, or any of the subdivisions, departments, agencies, or institutions of any state are exempted from the provisions of this chapter and from computation of the amount of tax imposed by it.*

We recommend that Morton County Water Resource District (Missouri West Water System) use tax exempt status for all purchases/reimbursements to comply with NDCC section 57-39.2-04.

This information is intended solely for the use of the Governing Board and management of the Morton County Water Resource District's 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 the 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 the Morton County Water Resource District.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
April 5, 2017

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