

***Lower Heart River Water
Resource District***

Audit Report

December 31, 2016

Lower Heart River Water Resource District
Mandan, North Dakota

Table of Contents
For The Year Ended December 31, 2016

	Page(s)
List of Officials	1
Independent Auditor's Report	2 - 3
Statement of Net Position	4
Statement of Activities	5
Balance Sheet – Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Notes to the Financial Statements	10 - 16
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	17
Notes to Required Supplementary Information	18
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Schedule of Findings	21 - 22

Lower Heart River Water Resource District
Mandan, North Dakota

List of Officials
December 31, 2016

William Robinson	Chairman
Gary Benz	Manager
Tony Goetzfried	Manager
Shirley Beechie	Treasurer
Mariann L. Lang	Secretary

INDEPENDENT AUDITOR'S REPORT

Governing Board
Lower Heart River Water Resource District
Mandan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Lower Heart River 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 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 and the major fund of the Lower Heart River Water Resource District, Mandan, North Dakota, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 17 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, on our consideration of the Lower Heart River 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 Lower Heart River Water Resource District's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
July 10, 2017

Lower Heart River Water Resource District
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 80,598
Investments	396,489
Due from County Treasurer	50,920
Prepays	13,665
Taxes Receivable	3,660
Capital Assets:	
Land	341,721
Buildings	20,000
Machinery and Equipment	347,785
Improvements to Infrastructure	158,335
Accumulated Depreciation	(258,713)
Total Capital Assets	609,128
Total Assets	1,154,460
 Long-Term Liabilities:	
Portion Due or Payable within One Year	
Special Assessments Payable	18,227
Portion Due or Payable after One Year	
Special Assessments Payable	70,397
Total Long-Term Liabilities	88,624
Total Liabilities	88,624
 NET POSITION	
Net Investment in Capital Assets	609,128
Unrestricted	456,708
Total Net Position	\$ 1,065,836

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
Statement of Activities
For the year ended December 31, 2016

		Program Revenues	Net (Expense) Revenue & Changes in Net Position
	Expenses	Operating Grants and Contributions	Governmental Activities
<u>Functions/Programs</u>			
<u>Governmental Activities</u>			
Conservation of Natural Resources	\$ 222,040	\$ -	\$ (222,040)
Interest and Service Charges	6,096	-	(6,096)
Total Governmental Activities	\$ 228,136	\$ -	(228,136)
 General Revenues:			
Taxes:			
Property Taxes, Levied for General Purpose			205,287
Earnings on Investments			598
Other Revenues			8,542
Total General Revenues			214,427
Change in Net Position			(13,709)
Net Position - Beginning of Year			1,079,545
Net Position - End of Year			\$ 1,065,836

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
 Balance Sheet - Governmental Funds
 December 31, 2016

	General
ASSETS	
Cash and Cash Equivalents	\$ 80,598
Investments	396,489
Due from County Treasurer	50,920
Prepays	13,665
Taxes Receivable	3,660
TOTAL ASSETS	\$ 545,332
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Deferred Inflows of Resources:	
Uncollected Taxes	\$ 3,660
Total Liabilities and Deferred Inflows of Resources	3,660
 Fund Balances:	
Nonspendable for Prepays	13,665
Unassigned	528,007
Total Fund Balances	541,672
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	 \$ 545,332

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 For the year ended December 31, 2016

Total Fund Balances - Governmental Funds \$ 541,672

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds. The cost of the assets is \$867,841 and the accumulated depreciation is \$258,713. 609,128

Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds. 3,660

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 are reported in the statement of net position.

Special Assessments Payable - Due in One Year	\$ (18,227)	
Special Assessments Payable - Due after One Year	(70,397)	
Total Long-term Liabilities		(88,624)

Net position of governmental activities \$ 1,065,836

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the year ended December 31, 2016

	General
REVENUES	
Taxes	\$ 202,702
Interest	598
Rental Income	8,146
Miscellaneous	396
TOTAL REVENUES	211,842
EXPENDITURES	
Current:	
Conservation of Natural Resources:	
Salaries	10,200
Payroll Taxes	781
Office Supplies	1,530
Insurance	2,018
Audit	4,325
Organizational Dues	775
Utilities	2,637
Engineering & Legal	7,700
Flood Protection & Maintenance	146,528
Property Taxes	182
Monitoring Fees	18,571
Equipment & Maintenance	9,855
Debt Service:	
Principal	18,327
Interest	6,096
TOTAL EXPENDITURES	229,525
NET CHANGE IN FUND BALANCES	(17,683)
Fund Balances - January 1, 2016	559,355
FUND BALANCES - DECEMBER 31, 2016	\$ 541,672

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
 Reconciliation of the 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 \$ (17,683)

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. The effect of various transactions involving capital assets consist of:

Current Year Depreciation Expense	<u>\$ (16,938)</u>	
		(16,938)

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 repayment of debt in the current year:

18,327

Some revenues reported in 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 increase in taxes receivable.

2,585

Change in net position of governmental activities	<u>\$ (13,709)</u>	
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Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lower Heart River Water Resource District, a component unit of Morton County, Mandan, North Dakota, have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental 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 Lower Heart River 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 criterion includes appointing a voting majority of an organization's governing body and (1) the ability of Lower Heart River 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 the Lower Heart River Water Resource District.

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

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the primary government, Lower Heart River 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 supported by taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements provide information about the District's governmental fund. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The District has presented 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.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The revenues susceptible to accrual are property taxes, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. The investments consist of certificates of deposit stated at cost.

E. Deposits

In accordance with North Dakota statutes, the District maintains deposits at 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 institutions 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.

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 county, 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 any other state of the United States or such other securities approved by the banking board.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

As of December 31, 2016, the District's carrying balances were \$477,087. The bank balance of these deposits as of December 31, 2016 was \$477,389. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$457,644 was covered by Federal Depository Insurance and \$19,745 was collateralized with securities held by the pledging financial institutions' agent but not in the District's name. During the year, the board did not note review of pledges semi-annually in the minutes as required by state law.

The District 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; and (d) obligations of the state.

The District has not adopted a deposit policy limiting the District's deposits with any one depositor.

At December 31, 2016, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>
Certificates of Deposit	<u>\$396,489</u>	<u>\$ 396,489</u>	<u>\$ -</u>

F. 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 \$1,000 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:

Buildings and Improvements	50 years
Vehicles	15 years
Machinery and Equipment	5 to 25 years

G. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. The District does not record encumbrances.

H. Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form, such as inventories; or (b) legally or contractually required to be maintained intact.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board – the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the District’s “intent” to be used for special purposes, but are neither restricted nor committed. The board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

J. Deferred Inflows of Resources

Deferred inflows of resources in the fund financial statements consist of amounts 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, such amounts are measurable but not available and include uncollected tax revenue.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposit and savings accounts.

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.01 – 0.35 percent in 2016.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 3 DUE FROM COUNTY TREASURER

The amount of \$50,920 due from county treasurer consists of the cash on hand at the county for taxes collected but not remitted to the District at December 31, 2016.

NOTE 4 TAXES RECEIVABLE

Taxes receivable consist of delinquent uncollected taxes at December 31, 2016. The receivable represents the past four years of delinquent 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 each month.

Property tax revenue is recognized in compliance with National Council on Government Accounting (NCGA) Interpretation 3 "Revenue Recognition-Property Taxes." This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within this time period, taxes receivable are recorded as deferred inflows of resources.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and usually remitted monthly to the District. Property taxes are limited by state laws. All tax levies are in compliance with state laws.

NOTE 5 CAPITAL ASSETS

Following is a summary of changes in capital assets for the year ended December 31, 2016:

	<u>Balance</u> 1/1/2016	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/2016
Non-depreciated capital assets:				
Land	\$ 341,721	\$ -	\$ -	\$ 341,721
Construction in Progress	158,335	-	158,335	-
Depreciated capital assets:				
Buildings	20,000	-	-	20,000
Machinery & Equipment	347,785	-	-	347,785
Improvements to Infrastructure	-	158,335	-	158,335
Total	<u>867,841</u>	<u>158,335</u>	<u>158,335</u>	<u>867,841</u>
Less Accumulated				
Depreciation	<u>(241,775)</u>	<u>(16,938)</u>	<u>-</u>	<u>(258,713)</u>
Net – 12/31/16	<u>\$ 626,066</u>	<u>\$ 141,397</u>	<u>\$ 158,335</u>	<u>\$ 609,128</u>

Depreciation expense for the year ended December 31, 2016 was \$16,938. Depreciation expense is recorded under Conservation of Natural Resources expense on the Statement of Activities.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 6 LONG-TERM DEBT

At December 31, 2016, debt consisted of the following:

Special assessments dated over various years from 1991 to 2003. The maturities vary per issue and extend through 2019. The interest rates vary from 5.4 to 6.4 percent.	\$ 665
2007 special assessments of \$263,876 against property #8794 to pay for the cost of flood gates. The payments started in 2008 and extend through 2021 at an interest rate of 5.7 percent.	87,959
Total	\$ 88,624

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Balance 1/1/16	Issues	Payments	Balance 12/31/16	Due within one year
Special Assessments 1991-2003	\$ 1,401	\$ -	\$ 736	\$ 665	\$ 636
Property #8794	105,550	-	17,591	87,959	17,591
Total	\$ 106,951	\$ -	\$ 18,327	\$ 88,624	\$ 18,227

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

<u>Governmental</u>	<u>Special Assessments</u>	
Year Ending December 31,	Principal	Interest
2017	\$ 18,227	\$ 5,068
2018	17,621	4,016
2019	17,592	3,008
2020	17,592	2,005
2021	17,592	1,003
Total	\$ 88,624	\$ 15,100

NOTE 7 UNCOLLECTED TAXES – DEFERRED INFLOWS OF RESOURCES

Taxes assessed but not paid meet the criteria for asset recognition but not the criteria for revenue recognition under the modified accrual basis of accounting. These amounts are measurable but not available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Lower Heart River Water Resource District
Notes to the Financial Statements
December 31, 2016

NOTE 8 LEASES

The District leases land to the Mandan Parks and Recreation District for recreational facilities under a long-term lease expiring September 30, 2088. The annual lease payment is \$3,800. The District also leases land for farming. This lease expired October 31, 2016. These leases are considered for accounting purposes to be operating leases. Lease revenues were \$8,146 for 2016. Future minimum lease revenue is as follows:

Year Ending December 31,	Amount
2017	\$ 3,800
2018	3,800
2019	3,800
2020	3,800
2021	3,800
2022-2088	254,600
Total	<u>\$ 273,600</u>

NOTE 9 RISK MANAGEMENT

Lower Heart River 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.

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. Lower Heart River Water Resource District pays an annual premium to NDIRF for its general liability, automobile, 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 \$79,441 for inland marine.

Lower Heart River Water Resource District also participates in the North Dakota Fire and Tornado Fund. Lower Heart River 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 Lower Heart River Water Resource District held blanket fidelity bond coverage of \$250,000 provided by the State Bonding Fund.

Lower Heart River Water Resource District has workers compensation with the North Dakota Workforce Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 10 EXPENDITURES IN EXCESS OF BUDGET

For the year ended December 31, 2016, some individual line items were expended in excess of the budgeted amount and the actual total expenditures exceeded the total budget by \$6,217. No remedial action is anticipated.

***REQUIRED
SUPPLEMENTARY INFORMATION***

Lower Heart River Water Resource District
 Budgetary Comparison Schedule
 General Fund
 For the year ended December 31, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 190,000	\$ 190,000	\$ 202,702	\$ 12,702
Interest	800	800	598	(202)
Rental Income	7,200	7,200	8,146	946
Miscellaneous	<u>2,800</u>	<u>2,800</u>	<u>396</u>	<u>(2,404)</u>
TOTAL REVENUES	200,800	200,800	211,842	11,042
EXPENDITURES				
Current:				
Conservation of Natural Resources				
Salaries	9,000	9,000	10,200	(1,200)
Payroll Taxes & Withholding	3,000	3,000	781	2,219
Office Supplies	2,500	2,500	1,530	970
Insurance	3,500	3,500	2,018	1,482
Audit	4,000	4,000	4,325	(325)
Organizational Dues	800	800	775	25
Utilities	4,000	4,000	2,637	1,363
Engineering & Legal	8,400	8,400	7,700	700
Flood Protection & Maintenance	110,000	110,000	146,528	(36,528)
Property Taxes	-	-	182	(182)
Levee Improvement - FEMA Certification	30,000	30,000	-	30,000
Monitoring Fees	18,000	18,000	18,571	(571)
Equipment & Maintenance	5,000	5,000	9,855	(4,855)
Debt Service:				
Principal	25,108	25,108	18,327	6,781
Interest	<u>-</u>	<u>-</u>	<u>6,096</u>	<u>(6,096)</u>
TOTAL EXPENDITURES	<u>223,308</u>	<u>223,308</u>	<u>229,525</u>	<u>(6,217)</u>
NET CHANGE IN FUND BALANCES	(22,508)	(22,508)	(17,683)	4,825
Fund Balances - January 1, 2016	<u>559,355</u>	<u>559,355</u>	<u>559,355</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2016	<u>\$ 536,847</u>	<u>\$ 536,847</u>	<u>\$ 541,672</u>	<u>\$ 4,825</u>

The accompanying notes are an integral part of this statement.

Lower Heart River Water Resource District
Notes to Required Supplementary Information
December 31, 2016

NOTE 1 BUDGETS

The District adopts an annual budget consistent with accounting principles generally accepted in the United States of America for the general fund. The District is required to present the adopted and final amended budgeted receipts and disbursements for this fund.

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

- The District prepares a budget on or before October 1st. The budget includes proposed expenditures and 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 District 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.

The budget was not amended in 2016.

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

Governing Board
Lower Heart River 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 and the major fund of Lower Heart River 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 District's basic financial statements and have issued our report thereon dated July 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lower Heart River 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 Lower Heart River Water Resource District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Heart River 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 findings, we identified 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2016-001 and 2016-002 described in the accompanying schedule of findings 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 deficiency 2016-003 described in the accompanying schedule of findings to be a significant deficiency.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Heart River 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2016-004.

Lower Heart River Water Resource District's Response to Findings

Lower Heart River Water Resource District's responses to the findings identified in our audit are described in the accompanying schedule of findings. Lower Heart River Water Resource District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mahlum Goodhart, PC
Mandan, North Dakota
July 10, 2017

Lower Heart River Water Resource District
Schedule of Findings
For the Year Ended December 31, 2016

Finding 2016-001: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements.

Criteria – The District is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting principles.

Cause – Accrual adjustments are not posted on the internal accounting records.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – Entries to accurately reflect accrual accounting should be posted at the end of the year.

Management’s Response – The District has determined not to make adjusting accrual entries at the end of the fiscal year. The District will monitor project commitments as they arise.

Finding 2016-002: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the District’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the bookkeepers.

Effect – The District has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the District’s auditors is not unusual in an entity of your size; however, the bookkeepers should acquire knowledge of current accounting principles and required financial statement disclosures and prepare monthly and annual financial statements.

Management’s Response – The District has decided to accept the degree of risk associated with the District not preparing its own financial statements.

Lower Heart River Water Resource District
Schedule of Findings
For the Year Ended December 31, 2016

Finding 2016-003: Segregation of Duties

Condition – The District has two individuals responsible for the majority of accounting functions. Considering the size of the District, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the District’s ability to timely detect misstatements in amounts that would be material to the financial statements. Two employees are 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.

Recommendation – This is not unusual in organizations of your size, but the Board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the District's operations.

Management’s Response – The District is aware of the limitations and has determined additional staff is not feasible. The District will monitor the condition.

Finding 2016-004: Pledges Not Reviewed Semi-Annually (Compliance)

Condition – During 2016 the board did not document review of pledges of securities in the board minutes semi-annually.

Criteria – State law requires that the board review pledges of collateral semi-annually.

Cause – The board was not aware of the requirement to document review in the minutes.

Effect – The board did not comply with state law.

Recommendation – This requirement was repealed by the 2017 state legislature.

Management’s Response – None required.