

LOWER YELLOWSTONE  
IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
FINANCIAL AND COMPLIANCE REPORT  
YEAR ENDED DECEMBER 31, 2016

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
FOR THE YEAR ENDED DECEMBER 31, 2016

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LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
ORGANIZATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

BOARD OF TRUSTEES

Richard Cayko	Chairman/BOC Representative
Todd Cayko	Vice Chairman
Orvin Finsaas	Commissioner
Dale Danielson	Commissioner
Phil Hurley	Commissioner
James Brower	Project Manager/Secretary
Cynthia Nygaard	Clerk/Bookkeeper

# Smith, Lange & Halley, P.C.

1060 So. Central Ave., Ste. 1  
Sidney, MT 59270

## Certified Public Accountants

Teresa M. Halley • Cory W. Wheeler

(406) 433-4510

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### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lower Yellowstone Irrigation District No. 2 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 an opinion 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.

## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lower Yellowstone Irrigation District No. 2 as of December 31, 2016, and the respective changes in financial position, and, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lower Yellowstone Irrigation District No. 2's basic financial statements. The organizational chart on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The organizational chart on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## INDEPENDENT AUDITOR'S REPORT

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018, on our consideration of Lower Yellowstone Irrigation District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lower Yellowstone Irrigation District No. 2's internal control over financial reporting and compliance.

*Smith, Lange & Halley, PC*

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Smith, Lange & Halley, PC  
Sidney, Montana

August 15, 2018

Lower Yellowstone Irrigation District # 2  
Sidney, Montana  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

This discussion and analysis of the financial performance of the Lower Yellowstone Irrigation District #2 (LYID #2) provides an overall review of financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the Project's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the financial statements.

### **Financial Highlights**

Key financial highlights for 2016 are as follows:

- All the physical expectations in operating and maintaining the LYID #2 as performed by the Lower Yellowstone Irrigation Project Board of Control (LYIPBOC) were accomplished in 2016.
- The assessment rate was a \$41.00 per acre to cover a 2016 budget.
- The district paid the BOC \$784,999 to cover their O&M operations. Due to a major unexpected Main Canal repair, this was \$121,642 over the budgeted amount of \$663,357.

### **Overview**

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

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

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

It is appropriate that the Lower Yellowstone Irrigation District #1 and Lower Yellowstone Irrigation District #2 maintain assets in proportion to their acreage; however, District #1 has accumulated more than its proportionate share of assets over the years, the shares being 66% for District #1 and 34% for District #2 at the beginning of 2016. To equalize the assets, District #1 was levied an assessment rate of \$1 per acre less than District #2.

Lower Yellowstone Irrigation District # 2  
Sidney, Montana  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

**Fund Financial Statements**

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

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

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

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

**Reserve Fund**

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

**Notes to the Financial Statements**

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

**Financial Analysis**

The year-end financial statements as compared to 2015 are included below:



Lower Yellowstone Irrigation District # 2  
Sidney, Montana  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

**Lower Yellowstone Irrigation District #2**  
**Statement of Net Position**  
**December 31, 2016 and 2015**  
**Enterprise Fund**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	319,310	\$406,427
Investments	84,061	83,559
Assessments Receivables	844,002	791,166
<b>TOTAL CURRENT ASSETS</b>	<b>1,247,373</b>	<b>\$1,281,152</b>
Capital assets (net of accumulated depreciation)	553,303	573,528
<b>TOTAL ASSETS</b>	<b>1,800,676</b>	<b>1,854,680</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	12,986	35,543
Curr. Prtn. Comp. Abs.	60,346	51,782
<b>TOTAL CURRENT LIABILITIES</b>	<b>73,332</b>	<b>\$87,325</b>
<b>NONCURRENT LIABILITIES</b>		
Comp. Absences	15,087	12,945
<b>TOTAL LIABILITIES</b>	<b>88,419</b>	<b>\$100,270</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Asmnts Receivable	842,859	768,131
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>842,859</b>	<b>\$768,131</b>
<b>NET POSITION</b>		
Invested in Capital Assets	553,303	573,528
Unrestricted	316,095	412,751
<b>TOTAL NET POSITION</b>	<b>\$869,398</b>	<b>\$986,279</b>

Lower Yellowstone Irrigation District # 2  
Sidney, Montana  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

**Statement of Revenues, Expenses and Changes in Fund Net Position**

**Proprietary Fund Activity  
December 31, 2016 and 2015**

<b>Operating Revenues</b>	<u>2016</u>	<u>2015</u>
<b>Charges and fees</b>	\$771,613	\$750,914
<b>Operating Expenses</b>		
Payments to Board of Control	784,999	525,472
Audit	2,425	2,425
Miscellaneous	1,020	90
Per Diem	2,936	2,009
Depreciation	<u>103,706</u>	<u>105,077</u>
<b>Total Operating Expenses</b>	<u>895,086</u>	<u>\$635,073</u>
<b>Operating Income (Losses)</b>	(123,473)	\$115,841
<b>Non-operating Revenues (Expenses)</b>		
Interest and investment income	7,196	\$3,498
Gain (loss) on sale of assets	<u>0</u>	<u>1293</u>
<b>Total Non-operating Revenues</b>	<u>7196</u>	<u>4,791</u>
<b>Change in Net Position</b>	(116,277)	120,632
<b>Total Net Position on January 1, 2016</b>	986,279	\$865,647
<b>Prior Period Adjustment</b>	<u>(604)</u>	<u>0</u>
	<u>985,675</u>	<u>865,647</u>
<b>Total Net Position on December 31, 2016</b>	\$869,398	\$986,279

The total change of net assets of LYID #2 decreased by \$116,881.

Lower Yellowstone Irrigation District # 2  
Sidney, Montana  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

### Capital Assets

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

There were changes in buildings and land in 2016. The following equipment and building items were added in 2016:

<u>Item</u>	<u>Total Cost</u>	<u>D2's Share</u>
2016 Ford Pickup	\$30,981	\$10,534
2016 Cat Excvttr 323 FL	\$106,700	\$36,278
2016 Cat Excvttr 316 FL	\$79,450	\$27,013
2016 Ford Pickup	<u>\$30,186</u>	<u>\$10,263</u>
Total Equipment	\$247,317	\$84,088

### Debt Service

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

### Litigation Pending in 2016:

The USBR has been working with the USACE, USFW, and the Lower Yellowstone Irrigation Districts to achieve fish passage for the endangered species Pallid Sturgeon. The USACE proposed a partnership to build a fish passage around the existing LYIP's irrigation diversion dam at Intake. The proposal also included replacing the stacked boulders with a concrete addition to improve fish passage while protecting the wooden structure. This proposal was halted throughout 2016 by legal action initiated by plaintiffs in a lawsuit. This legal action was still pending additional hearings in 2016. Plaintiffs were suing in an attempt to remove the diversion dam and conversion to a very expensive system of pumps for the delivery of the irrigation water. That lawsuit was later won in favor of the districts keeping their dam and constructing the fish passage in 2018.

### Contact About this Report

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

LOWER YELLOWSTONE IRRIGATION PROJECT  
DISTRICT NO. 2  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$319,310
Investments	84,061
Assessments receivable	844,002
TOTAL CURRENT ASSETS	1,247,373
Capital assets (net of accumulated depreciation)	553,303
TOTAL ASSETS	1,800,676
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	12,986
Current portion of compensated absences	60,346
TOTAL CURRENT LIABILITIES	73,332
NONCURRENT LIABILITIES	
Compensated absences	15,087
TOTAL LIABILITIES	88,419
DEFERRED INFLOWS OF RESOURCES	
Assessments receivable	842,859
TOTAL DEFERRED INFLOWS OF RESOURCES	842,859
NET POSITION	
Invested in capital assets	553,303
Unrestricted	316,095
TOTAL NET POSITION	\$869,398

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Charges and fees	\$771,613
OPERATING EXPENSES	
Payments to Board of Control	784,999
Audit	2,425
Miscellaneous	1,020
Per Diem	2,936
Depreciation	<u>103,706</u>
TOTAL OPERATING EXPENSES	<u>895,086</u>
OPERATING INCOME (LOSS)	(123,473)
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	7,196
CHANGE IN NET POSITION	(116,277)
TOTAL NET POSITION - JANUARY 1, 2016	986,279
PRIOR PERIOD ADJUSTMENT	<u>(604)</u>
TOTAL NET POSITION - JANUARY 1, 2016, ADJUSTED	985,675
TOTAL NET POSITION - DECEMBER 31, 2016	<u><u>\$869,398</u></u>

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from users	\$793,508
Cash paid for services	(803,231)
Net cash provided (used) by operating activities	(9,723)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(84,088)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sale of investments	83,559
Purchase of investments	(84,061)
Investment income	7,196
Net cash provided by investing activities	6,694
Net increase (decrease) in cash and cash equivalents	(87,117)
Cash and cash equivalents - December 31, 2015	406,427
Cash and cash equivalents - December 31, 2016	\$319,310
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>	
Operating income	(\$123,473)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	103,706
(Increase) decrease in receivables	(52,833)
Increase (decrease) in payables	(22,557)
Increase (decrease) in deferred inflows	74,728
Increase (decrease) in compensated absences	10,706
Total adjustments	113,750
Net cash provided (used) by operating activities	(\$9,723)

See notes to the basic financial statements.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by Lower Yellowstone Irrigation District No. 2 conform to U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The District's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1. Reporting Entity - The District is governed by an elected, five member Board and is considered to be the primary government. The financial statements include all funds, account groups, boards, commissions and authorities for which the District is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the District's financial statements to be misleading or incomplete.

Related Party Transactions - Lower Yellowstone Irrigation District No. 2 utilizes the services of the Lower Yellowstone Irrigation Project - Board of Control, a separate legal entity created under the provisions of Title 85, Chapter 7, Part 16, MCA. The services provided by the Board of Control for Lower Yellowstone Irrigation District No. 2 include, among other things, accounting for payroll, operating expenses and equipment purchases. The Board of Control is reimbursed on a monthly basis for any expenditures it makes on behalf of Lower Yellowstone Irrigation District No. 2. The Board of Control also provides the same type of services for Lower Yellowstone Irrigation District No. 1, Savage and Intake. The Board of Control is governed by three trustees, one appointed each from the commissioners of Irrigation Districts No. 1 and 2 and a member-at-large.

Lower Yellowstone Irrigation District No. 2 is provided various financial services by McKenzie County, North Dakota. The County serves as cashier and treasurer for the District for assessment collections. The County levies and collects assessments for the District and remits the amounts collected monthly to Richland County, Montana. The treasurer of Richland County maintains the District's funds in an agency account and makes payments on District issued warrants. No service charges have been recorded by the District or either of the Counties.

2. Basis of Presentation and Basis of Accounting - Lower Yellowstone Irrigation District No. 2 engages in only business-type activities and thus report the financial statements required for proprietary funds. These financial statements include the statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows. Proprietary fund financial statements are accounted for using the economic resources measurement focus and the

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

2. Basis of Presentation and Basis of Accounting (Con't) - accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. The accounting objectives are determination of net position, financial position and cash flows. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. These other revenues include gain (loss) on disposal of assets and interest income.

3. Cash and Investments - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. This includes unrestricted and restricted cash.

4. Inventories - Inventories of materials and supplies are maintained by the Board of Control and are valued at cost.

5. Assessments and Deferred Inflow of Resources - The Board is authorized by law to assess the users for funds needed to operate the Irrigation District based upon the budget as adopted. The assessments are levied by August 31, and collected by the county in which the irrigated land is located. The assessments become due March 31. After the due date, the bill becomes delinquent and penalties are assessed. An allowance for uncollectible accounts was not maintained for assessments receivable. The direct write-off method is used for those accounts. Although this is a departure from U.S. GAAP, uncollectible assessments receivable were not considered material. The 2017 assessments are recorded as *Deferred Inflow of Resources* and reported in the Statement of Net Position. Total deferred inflow of resources at December 31, 2016 was \$842,859 and is classified as assessments receivable. These items represent increases to net position that applies to a future period and so will not be recognized as revenue until then.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

6. Capital Assets - Fixed assets purchased or acquired by proprietary funds are recorded in the individual fund making the purchase. Any fixed assets donated specifically for a proprietary fund are also recorded in that individual fund.

Proprietary fund fixed assets are recorded at cost or estimated historical cost and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25
Equipment	3-10

The Board of Trustees implemented a capitalization policy whereby equipment and infrastructure costs in excess of \$4,000 are recorded as additions to fixed assets. The cost of normal maintenance and repairs that do not add to the value of the asset or do not materially extend asset lives are not capitalized.

7. Compensated Absences - Liabilities incurred because of unused vacation and sick leave accumulated by employees and paid when they terminate are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

8. Accounts Payable - This is the amount due to the Board of Control at year-end for the District's proportionate share of operations and maintenance, equipment purchases and other reimbursements.

9. Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Details of cash and investments on December 31, 2016 follows:

Cash with Richland County Treasurer	\$ 319,310
Certificate of Deposit-18 month	
Dakota West Credit Union interest at	
0.40% with maturity at 06/23/18	84,061
Total cash & investments	403,371
Less long-term investments which are not	
considered cash equivalents	( 84,061)
Cash & cash equivalents	<u>\$ 319,310</u>

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE B - CASH AND INVESTMENTS

State statutes stipulate that all amounts must be deposited in a financial institution situated and doing business within the state. In addition, state statutes authorize the District to invest in 1) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, 2) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, 3) certificates of deposit fully insured by the federal deposit insurance corporation or the state, 4) obligations of the state.

At December 31, 2016 the carrying amount of the District's deposits with financial institutions was \$84,061 and the bank balance as \$84,061.

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's investment may not be recovered. Investments in local financial institutions included \$250,000 covered by NCUA insurance.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The certificate of deposit with Dakota West Credit Union is in excess of 5% of net position.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rate. The District has a certificate of deposit with a maturity of 18 months and interest rate of 0.40%.

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE C - CAPITAL ASSETS

A summary of capital assets follows:

	Balance 01/01/16	Additions	Deletions	Balance 12/31/16
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land & Land Rights	\$ 3,706	\$ 0	\$ 0	\$ 3,706
CAPITAL ASSETS BEING DEPRECIATED				
Buildings	178,759	0	0	178,759
Equipment	<u>1,557,135</u>	<u>149,215</u>	( <u>127,048</u> )	<u>1,579,302</u>
Total capital assets being depreciated	1,735,894	149,215	( 127,048 )	1,758,061
Less Accumulated Depreciation	( <u>1,166,072</u> )	( <u>103,706</u> )	<u>61,314</u>	( <u>1,208,464</u> )
Net Capital Assets Being Depreciated	<u>569,822</u>	<u>45,509</u>	( <u>65,734</u> )	<u>549,597</u>
TOTAL CAPITAL ASSETS	<u>\$ 573,528</u>	<u>\$ 45,509</u>	( <u>\$ 65,734</u> )	<u>\$ 553,303</u>

Cash outlay for the purchase of equipment was \$84,088. The difference between this amount and the amount reported as capital asset additions from above is the basis of equipment traded for new purchases. The amount of capital asset additions will be depreciated over the life of the new assets purchased.

NOTE D - COMPENSATED ABSENCES

The District accrues a liability for unpaid vacation and sick leave due to employees of the Board of Control. On termination of employment, an employee is paid for unused vacation and 25% of accumulated sick pay based on the current hourly rate of pay. A portion of the compensated absences payable is classified as a current liability, with the remainder classified as long-term liability. A summary of compensated absences payable for the year ended December 31, 2016 follows:

Balance 1-1-16	Increase	Balance 12-31-16
\$64,727	\$11,706	\$75,433

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE E - SUMMARY OF LAND AREA AND ASSESSMENTS LEVIED

Amount of Irrigable Land in District:

McKenzie County, ND	18,734.91 acres
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The assessment was levied at \$41.00 per acre for 2016. The 2017 assessment will be \$45.00 per acre.

NOTE F - RISK MANAGEMENT

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers compensation, i.e. employee injuries, and f) medical insurance costs of employees.

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, employee torts, and professional liabilities. The District participates in the State Compensation Fund for workers' compensation coverage. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years and settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

NOTE G - OTHER POST-RETIREMENT EMPLOYMENT BENEFIT

According to Montana State Law, qualified retired employees may elect to remain on the Lower Yellowstone Irrigation Project-Board of Control's health insurance plan until they attain the age for Medicare coverage. The retiree pays the cost of health insurance premium, however they are insured together as a group with current employees. This causes the premiums paid by the retirees to be lower than they would have been if the retirees were insured separately. This results in an implicit rate subsidy. The Governmental Accounting Standards Board states that this implicit rate subsidy be considered an other post-retirement employment benefit (OPEB) and an accrual for the valuation of this benefit be included in the Board of Control's financial statements. There are numerous assumptions that are a part of the calculation for estimating this accrued liability. The Board of Control's management has elected

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
MCKENZIE COUNTY, NORTH DAKOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE G - OTHER POST-RETIREMENT EMPLOYMENT BENEFIT (CON'T)

not to accrue a liability for this OPEB because they feel the amount of any required accrual would not be material to the financial statements. Had the Board of Control's management determined a liability for this OPEB existed, a liability for District No. 2's share of this liability would have been accrued.

NOTE H - CONTINGENCIES/SUBSEQUENT EVENTS

The US Bureau of Reclamation requested the need to achieve endangered species fish passage at the Intake Diversion Dam. The Corp of Engineers proposed a partnership to build the fish passage around the existing diversion dam located at Intake. The proposal also included replacing the stacked boulders with a concrete addition to improve fish passage. This proposal was halted by legal action initiated by plaintiffs in a lawsuit. This legal action is still pending by additional hearings. Plaintiffs are suing for ultimate removal of the diversion dam and conversion to a very expensive system of pumps for the delivery of water for the Lower Yellowstone Irrigation Project.

NOTE I - PRIOR PERIOD ADJUSTMENT

During the year, District No. 2 made a correction to the cost of equipment purchased in a prior year, which resulted in restating beginning net position in the amount of (\$604).

# Smith, Lange & Halley, P.C.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Lower Yellowstone Irrigation District No. 2 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Lower Yellowstone Irrigation District No. 2's basic financial statements and have issued our report thereon dated August 15, 2018.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lower Yellowstone Irrigation District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Yellowstone Irrigation District No. 2's internal control.

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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS  
Page 2

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings as item 16-1 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lower Yellowstone Irrigation District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Lower Yellowstone Irrigation District No. 2's Response to Finding**  
Lower Yellowstone Irrigation District No. 2's response to the finding identified in our audit is not included with this audit.

**Purpose of this Report**

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

*Smith, Lange & Halley, PC*

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Smith, Lange & Halley, PC  
Sidney, Montana

August 15, 2018

LOWER YELLOWSTONE IRRIGATION DISTRICT NO. 2  
SCHEDULE OF AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

Finding 16-1 Lack of Segregation of Duties (Repeat Finding June 30, 2015)

**Condition:**

The District has a limited number of office personnel and accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

**Criteria:**

An adequate system of internal accounting control provides for a proper segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Effect:**

Risk of misappropriation of District assets and inaccurate financial records as a result of errors or fraud.

**Cause:**

Limited office staff.

**Recommendation:**

While we recognize that the office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal accounting control, management should review the assignment of accounting functions and segregate duties of receiving, recording, and reconciling to the extent possible.