

FINANCIAL STATEMENTS
TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota

For the Year Ended
JUNE 30, 2018

Prepared By

MORTENSON & RYGH
Certified Public Accountants
P.O. Box 287
Park River, North Dakota 58270

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
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TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
LIST OF OFFICIALS
June 30, 2018

Albin Jallo
Scott Nelson
Lana McLean

President
Vice President
Secretary/Treasurer

Debby Behm
Mark Landeis
Michael Yoney

Board Member
Board Member
Board Member

Mike Blessum

Manager



Accounting For Success

INDEPENDENT AUDITOR’S REPORT

Governing Board
Tri-County Water District
Petersburg, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Tri County Water District, Petersburg, North Dakota, as of and for the year ended June 30, 2018, 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.

CAVALIER | PARK RIVER | LANGDON | STEPHEN
206 Dakota Street West | 1203 Park Street East | 817 3rd Street | 413 5th Street
P.O. BOX 33 | P.O. BOX 287 | FM Mall | P.O. BOX 45
Cavalier, ND 58220 | Park River, ND 58270 | Langdon, ND 58249 | Stephen, MN 56757
(701) 265-8644 | (701) 284-7616 | (701) 256-3559 | (218) 478-2880

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 the Tri County Water District, Petersburg, North Dakota, as of June 30, 2018, and the respective changes in financial position and 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 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 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. As discussed in Note 1 of the notes to the financial statements, Tri County Water District does not prepare an annual budget.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2018, on our consideration of the Tri County Water District, Petersburg, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Tri County Water District, Petersburg, North Dakota's internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 6, 2018

BASIC FINANCIAL STATEMENTS

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF NET POSITION
June 30, 2018

	Business-Type Activities -
	Enterprise Funds
	Water System
ASSETS	
Current assets:	
Cash & Cash Equivalents	\$ 84,174
Cash Restricted for Debt Service	205,108
Accounts Receivable	99,369
Inventory	134,008
Prepaid Expense	12,208
Total Current Assets	534,866
Noncurrent assets:	
Land	6,155
Capital Assets net of Accumulated Depreciation	8,860,711
Total noncurrent assets	8,866,866
Other assets:	
Capital Credits - Utility Co-op	52,338
Total Other Assets	52,338
Total assets	\$ 9,454,071
LIABILITIES:	
Current liabilities:	
Accounts Payable	\$ 21,774
Interest Payable	52,356
Customer Deposits	9,933
Current Maturities LT Debt	202,569
Total current liabilities	286,632
Non-current liabilities	
Bonds Payable	3,967,616
Lease Payable	128,577
Less: Current Maturities	(202,569)
Total non-current liabilities	3,893,623
Total liabilities	4,180,255
NET POSITION:	
Net investment in capital assets	4,770,674
Restricted for debt service	205,108
Unrestricted	298,034
Total net position	5,273,816
Total liabilities and net position	\$ 9,454,071

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs:	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue & Change in Net Position
					Total Business-Type Activities
<u>Primary Government:</u>					
<u>Business Type Activities:</u>					
Water System:					
Production	\$ 948,233	\$ 1,152,319	\$ -	\$ 46,712	\$ 250,798
General	63,344	-	-	-	(63,344)
Interest Expense	155,578	-	-	-	(155,578)
Total Business-Type Activities	\$ 1,167,155	\$ 1,152,319	\$ -	\$ 46,712	\$ 31,877
Total Primary Government	\$ 1,167,155	\$ 1,152,319	\$ -	\$ 46,712	\$ 31,877
General Revenues:					
Federal & State Aid not restricted to special purposes					
Earnings on Investments					\$ 472
New Memberships					64,100
Sale of Assets					6,500
Other Income					2,506
Total General Revenues					73,579
Change in Net Position					105,455
Net Position - July 1					5,076,963
Restatements					91,397
Net Position as restated - July 1					5,168,361
Net Positon - June 30					\$ 5,273,816

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

	6/30/18
	Business-Type Activities -
	Enterprise Funds
	Water System
<u>Operating Revenues:</u>	
Water Sales	\$ 1,072,386
Fees and Penalties	11,494
Backhoe Income	44,950
Miscellaneous Income	23,490
Total Operating Revenue	1,152,319
<u>Operating Expenses:</u>	
Production Expense	
Salaries & Benefits	292,407
Repairs & Maintenance	70,028
Water purchase	63,059
Chemicals	22,866
Vehicle Expense	35,918
Communications	8,204
Backhoe & Truck Expense	14,245
Insurance	11,358
Fees & Permits	2,325
Utilities - Pumping	78,404
Miscellaneous	55
Depreciation	349,364
Total Production Expense	948,233
Gross Profit	\$ 204,086
General Expenses	
Advertising & Printing	4,641
Bank Charges	6,706
Directors Fees & Expenses	10,606
Dues & Memberships	2,563
Legal & Professional Fees	10,717
Office Expense	9,668
Taxes - Real Estate	37
Vehicle Expense Reimbursements	7,439
Utilities	3,735
Depreciation	7,082
Miscellaneous Expense	150
Total General Expense	63,344
Operating Income (Loss)	\$ 140,743
<u>Non-operating Revenues (Expense)</u>	
Interest expense	(155,578)
Capital Grants	46,712
Capital Credits	2,506
Interest income	472
Membership additions	64,100
Sale of assets	6,500
Total Non-operating Revenue (Expense)	(35,288)
Change in Net Assets	105,455
Total Net Assets - July 1	5,076,963
Restatements	91,397
Net assets as restated - July 1	5,168,361
Total Net Assets - June 30	\$ 5,273,816

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Customers	\$ 1,149,126	
Cash Paid to Employees	(292,407)	
Cash Paid to Suppliers	(453,365)	
Net Cash Flows from Operating Activities		403,354
 CASH FLOWS FROM CAPITAL & RELATED FINANCIAL ACTIVITIES:		
Purchases of Capital Assets	(109,297)	
Sale of Assets	6,500	
Patronage Dividends	3,944	
Debt Proceeds Received	86,655	
Payments on Debt	(196,057)	
Interest Paid on Debt	(156,359)	
Grant Proceeds Received	46,712	
Increase in Contributed/Donated Capital	64,100	
Net Cash Flows from Capital & Related Financial Activities		(253,801)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	472	
Net Cash Flows from Investing Activities		472
 NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		
		150,026
 CASH & CASH EQUIVALENTS, JULY 1		
		139,256
 CASH & CASH EQUIVALENTS, JUNE 30		
		\$ 289,282
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)		\$ 140,743
 ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation		356,446
(Increase) Decrease in Accounts Receivable		(3,194)
(Increase) Decrease in Prepaid Expenses		(2,833)
Increase (Decrease) in Customer Deposits		7,450
Increase (Decrease) in Accounts Payable		(95,258)
Net Cash Provided (Used) by Operating Activities		\$ 403,354

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tri-County Water District operates as a governmental water district. The district provides water treatment and delivery of water to district members within the geographical boundaries of the district. The financial statements of the water district have been prepared on the accrual basis where revenues are recognized when earned and expenses when incurred. 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. Financial Reporting Entity

The accompanying financial statements present the activities of the Tri-County Water District. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in *GASB Statement No. 14*. The basis, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential unit addressed defining the government's reporting entity:

Included within the reporting entity:

There are no component units meeting the criteria for inclusion.

Excluded from the reporting entity:

The Petersburg Park District and City. These potential component units have separate elected boards and provide services to residents, generally within the geographic boundaries of the water district. These potential component units are excluded from the reporting entity because the water district does not have the ability to exercise influence over their daily operations, approve budgets, provide funding, and is not responsible for any deficits or debts of these entities. We also considered other cities, school districts and other governmental entities located within the geographical boundaries of the water district and concluded that none of them met the criteria for inclusion as component units.

B. Fund Financial Statements

The financial transactions of the entity are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance

and to aid financial management by segregating transactions related to certain government functions or activities.

Tri County Water District reports the following major proprietary fund:

Water Fund – The water fund is used to account for operations of the water system, that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accrual basis of accounting is used by all business-like fund types. Under the accrual basis of accounting, revenues are recognized when the service or product is provided to the customer. Expenses are recorded when the related good or purchased service is utilized. Principal on general long-term debt is recorded as a fund liability when incurred. Fixed assets are capitalized and depreciated or amortized over the expected useful life of the asset.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

D. Budgets

Budgets are not required in North Dakota for an enterprise fund activity of a political subdivision.

E. Cash and Cash Equivalents

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less. The investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost. Currently, the District does not have assets considered to be investments.

F. Inventory

The District maintains an inventory of materials and supplies. Inventory items are stated at cost and are considered expenses when used.

G. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical 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. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-40
Infrastructure	40
Distribution systems	40
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

H. Net Position/Fund Balance

Government-wide Financial Statements

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories, invested in capital assets net of related debt, restricted and unrestricted. Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restrictions of net position shown in the statement of net positions are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net positions – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

I. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with North Dakota statutes, the District maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the District to invest in:

- a) 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,
- b) 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,
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or pledge of governmental securities,
- d) Obligations of the state.

The District's deposits at balance sheet date were entirely covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the District's agent in the District's name (Category II assets).

Custodial Credit Risk – This is the risk that deposits would be lost in the event of a bank failure. Deposits that exceed federal agency insurance limits are collateralized as stated above in accordance with state law. The District requires depository banks to furnish the District with periodic assurance of collateral coverage of district deposits.

At June 30, 2018, the reported amount of the District's deposits was \$289,182 and the bank balance was \$292,127. Of the bank balance, \$250,002 was covered by Federal Depository Insurance. The remaining bank balance of \$42,125 was collateralized with securities held by the pledging financial institution's agent in the government's name.

B. Investments

Concentration of credit risk – The risk of loss due to the magnitude of investments in a single issuer. The District only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

Interest rate risk – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District only invests in Certificates of Deposit which are always purchased and redeemable at face value.

NOTE 3 PENSION PLAN

The water district participates in a simplified employee pension (SEP) plan for the benefit of its employees. The plan is administered by Edward Jones of Grand Forks, ND.

DESCRIPTION OF PLAN:

Current terms of the plan provide that the district will contribute, as determined by the Governing Board, up to 6% of eligible employee salaries to the plan. There is no employee match requirement as it is the District's policy to be the sole contributor to the plan. Employees are immediately 100% vested. The plan is a defined contribution plan and the district is only liable for current contributions. For the years ended June 30, 2018, 2017 and 2016, the district contributed \$9,216, \$9,148, and \$8,685 respectively.

NOTE 4 CAPITAL ASSETS

Following is a summary of property and equipment and related depreciation for the fiscal year ended June 30, 2018. Total depreciation expense for the year was \$356,446. Fixed assets are presented at historical cost less depreciation. The District has a capitalization policy of capitalizing all assets with a cost over \$1,000 and having an expected life or usage of more than one year.

Business-Type Activities	Balance July 1, 2017	Additions	(Deletions)	Balance June 30, 2018
Non-depreciated assets				
Land	\$ 6,155	\$ -	\$ -	\$ 6,155
Construction in Progress	-	5,112	-	5,112
Total non-depreciated assets	6,155	5,112	-	11,267
Depreciable assets				
Plant Equipment	15,356,564	33,968	-	15,390,532
Machinery & Equipment	784,506	70,216	(37,823)	816,899
Buildings	59,248	-	-	59,248
Office Furn. & Equip	80,465	-	-	80,465
Total depreciable assets	16,280,782	104,184	(37,823)	16,347,143
Less: accumulated depreciation				
Plant Equipment	(6,486,051)	(294,228)	-	(6,780,279)
Machinery & Equipment	(585,017)	(54,850)	37,823	(602,043)
Buildings	(30,036)	(2,280)	-	(32,316)
Office Furn. & Equip	(71,817)	(5,088)	-	(76,905)
Total accumulated depreciation	(7,172,921)	(356,446)	37,823	(7,491,544)
Net depreciable assets	9,107,861	(252,261)	-	8,855,600
Net business-type activities	\$ 9,114,016	\$ (247,149)	\$ -	\$ 8,866,866

NOTE 5 COMPENSATED ABSENCES

The District does not account for compensated absences. The amount of the liability cannot be readily ascertained.

NOTE 6 LONG TERM DEBT

REVENUE BONDS - The Tri-County Water District is obligated to the following revenue bond issues:

Refunding Water Revenue Bonds, Series 1999A

Original issue was \$285,000 at an average interest rate of 5% due semi-annually with annual principal payments varying from \$10,000 in 2006 to \$25,000 in 2022. North Dakota Municipal Bond Bank is the bondholder. At June 30, 2018, the District had \$25,775 reserved for payment of this issue.

June 30, 2018 Balance

\$100,000

Bank of North Dakota Water System Improvement Bonds

USDA RUS loan used to reconstruct and improve the water delivery system. Total bond issue was \$1,257,000. Interest is at 4.125% amortized over 40 years. Principal payments vary from \$12,467 to \$63,194 in the final year. At of June 30, 2018, the District had \$106,120 reserved for payment of this issue.

June 30, 2018 Balance 1,066,961

ND Public Finance Authority Refunding Revenue Bonds Series 2009

Original issue was \$1,415,000 with an average interest rate of 3.16% interest due semi-annually with semi-annual principal payments varying from \$50,000 in 2010 to \$105,000 in 2029. ND Public Finance Authority is the debt holder.

June 30, 2018 Balance 915,000

Water Treatment Revenue Bonds of 2008

Original issue was \$222,337 with an interest rate of 2.5% due semi-annually. At of June 30, 2018 the District had \$19,650 reserved for payment of this issue.

June 30, 2018 Balance 175,000

ND Public Finance Authority Refunding Revenue Bonds Series 2010

Original issue was \$1,405,000 with an interest rate ranging from 2.0% to 3.75% due semiannually with annual principal payment varying from \$25,000 in 2013 to \$75,000 in 2041. ND Public Finance Authority is the debt holder

June 30, 2018 Balance 1,205,000

Water Treatment Revenue Bonds of 2012

Original issue was for \$63,289 with an interest rate of 2.0% due semiannually. Annual principal payments varying from \$4,000 to \$5,000 are due annually until 2027. At June 30, 2018, the District had \$14,050 reserved for payment of this issue.

June 30, 2018 Balance 43,000

Water Treatment Revenue Bonds of 2015

Original issue was for \$727,655, of which \$225,000 will be forgiven, resulting in a remaining \$502,655 balance. The bonds have an interest rate of 3.0% due semiannually. Annual principal payments varying from \$20,000 to \$35,000 are due annually until 2035. At June 30, 2018, the District had \$35,700 reserved for payment of this issue.

June 30, 2018 Balance 462,655

Total Revenue Bond Debt \$3,967,616

OTHER DEBT – The Tri-County Water District is obligated to the following other debt issues:

Caterpillar Financial

In 2016, the District entered into a lease agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar excavator and skid steer. The lease holds an interest rate of 3.00% and is amortized over 5 years. Principal and interest payments of \$10,103 are due semi-annually through April 2021, with a balloon payment of \$55,000 due in October of 2021.

June 30, 2018 Balance \$107,112

Caterpillar Financial

In 2016, the District entered into a lease agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar generator. The lease holds an interest rate of 3.00% and is amortized over 5 years. Principal and interest payments of \$3,253 are due semi-annually through October of 2021.

June 30, 2018 Balance 21,464

Total Other Debt \$128,577

Below is a summary of debt activity for the year ended June 30, 2018:

Business-Type Activities:	Balance			Balance 6/30/2018	Due Within One Year
	7/1/2017	(Paid)	Issued		
Revenue Bonds	\$ 4,054,668	\$ (173,707)	\$ 86,655	\$ 3,967,616	\$ 179,544
Other Debt	150,926	(22,350)	-	128,577	23,025
Total Business-Type Activit	<u>\$ 4,205,594</u>	<u>\$ (196,056)</u>	<u>\$ 86,655</u>	<u>\$ 4,096,192</u>	<u>\$ 202,569</u>

Future principal and interest requirements on these issues are as follows:

	<u>REVENUE BONDS</u>			<u>OTHER DEBT</u>		
	Principle	Interest	Total	Principle	Interest	Total
2019	\$ 179,544	\$ 147,468	\$ 327,012	\$ 23,025	\$ 3,686	\$ 26,711
2020	190,417	140,776	331,193	23,721	2,990	26,711
2021	196,328	133,697	330,025	24,438	2,273	26,711
2022	202,276	126,496	328,773	57,392	861	58,253
2023	208,266	116,856	325,122	-	-	-
2024-2028	1,060,703	472,630	1,533,333	-	-	-
2029-2033	684,560	298,512	983,072	-	-	-
2034-2038	591,442	191,526	782,968	-	-	-
2039-2043	472,100	82,512	554,612	-	-	-
2044-2048	181,980	15,221	197,201	-	-	-
	<u>\$ 3,967,616</u>	<u>\$ 1,725,695</u>	<u>\$ 5,693,311</u>	<u>\$ 128,577</u>	<u>\$ 9,810</u>	<u>\$ 138,386</u>

NOTE 7 RISK MANAGEMENT

The Tri-County Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The water district carries general liability, board member liability, auto, inland marine, property damage to buildings and personal property insurance. Liability insurance coverage is limited to one million dollars per occurrence. Vehicles and personal property is insured for actual cash value. Buildings, pumping and treatment facilities are insured for appraised value. The Tri-County Water District also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 CONTRIBUTED CAPITAL – CHANGE IN STRUCTURE

The Water District was formed July 1, 1999 as a re-organization of Tri-County Water Users, Inc., a non-profit corporation that was operating a rural water system. The entity provided water to rural users in a three county area. The Water District was formed under North Dakota law as a political subdivision. The district is not a taxing district but controls water distribution within the legal boundaries of the district with the exception of existing municipal water systems within its boundaries. Existing depreciation and amortization was carried forward with no changes in asset carrying values.

The primary debt issues of the prior entity were refinanced with revenue bonds to lower the interest rate and debt service. Costs of refinancing are being amortized over the remaining life of the old debt issues.

NOTE 9 CONCENTRATION OF CREDIT

The Water District sells most of its water to farmers and rural dwellings within the geographical boundaries of the district. Almost all of its customers are farmers that raise essentially the same type of crops and are subject to the same weather patterns. Accounts receivable is therefore concentrated within one industry. The Water District has not suffered significant bad debt losses in the past. They do not anticipate any significant losses in the future even if the farm economy suffers economic decline because of the essential nature of the product the Water District sells.

NOTE 10 RESTATEMENTS

On July 1, 2017, the District corrected the cost of inventory. The correction resulted in a restatement to net position of \$91,397.

NOTE 11 SUBSEQUENT EVENTS

The District will begin a water treatment plant expansion project during the fall of 2018. The project is estimated to cost approximately \$3,900,000 and will add approximately 131 new water customers. The project will be funded with revenue bonds and grant proceeds. On March 22, 2018 the District approved Water Treatment Revenue Bonds, Series 2018 of \$1,050,000. Future principal and interest payments are as follows:

WATER TREATMENT REVENUE SERIES 2018

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 13,875	\$ 13,875
2020	45,000	15,413	60,413
2021	45,000	14,738	59,738
2022	45,000	14,063	59,063
2023	45,000	13,388	58,388
2024-2028	245,000	56,213	301,213
2029-2033	270,000	36,900	306,900
2034-2038	295,000	15,713	310,713
2039-2043	60,000	450	60,450
	<u>\$ 1,050,000</u>	<u>\$ 180,750</u>	<u>\$ 1,230,750</u>

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
Tri-County Water District
Petersburg, 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 business-type activities of Tri-County Water District, Petersburg, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Tri-County Water District, Petersburg, North Dakota's basic financial statements and have issued our report thereon dated August 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-County Water 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 Tri-County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-County Water 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2018-1, described in the accompanying schedule of findings and questioned costs, to be a material weakness.

CAVALIER

206 Dakota Street West
P.O. BOX 33
Cavalier, ND 58220
(701) 265 8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

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 finding 2018-2, described in the accompanying schedule of findings and questioned costs, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri County Water 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*.

Tri County Water District, Petersburg, North Dakota's Response to Findings

Tri County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Tri County Water 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.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 6, 2018

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2018-1 Segregation of Duties

Condition:

The Tri-County Water District has primarily two individuals responsible for most accounting functions and general ledger maintenance.

Effect:

Without adequate fraud risk programs and controls the District exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Cause:

There is no segregation of duties as primarily 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. This increases the risk of misstatement of the District's financial condition.

Criteria:

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Tri County Water District.

Recommendation:

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

Client Response:

The District's manager agrees with the recommendation. The manager does approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the manager.

2018-2 Financial Statement Preparation

Condition:

Mortenson & Rygh assist the District's management in preparing financial statements and disclosures that are presented in accordance with generally accepted accounting principles.

Effect:

Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Cause:

The District's internal control system is not designed to provide for the preparation of the financial statements and accompanying notes to the financial statements.

Criteria:

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted account principles.

Recommendation:

Due to the size and funding limitations of the District, we understand that it is not feasible for the District to prepare its own financial statements. We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Client Response:

The Board is aware of this condition, and will consider the risks and costs associated with the financial statement preparation. The District will continue to request that Mortenson & Rygh assist with preparation of financial statements.