

AUDIT REPORT

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

For the Year Ended December 31, 2019

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

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For the Year Ended December 31, 2019

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MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

DISTRICT OFFICIALS

Lynn Oberg	President
Marshall Maxwell	Vice President
Char Anderson	Secretary/Treasurer
Clifton Dockter	Board Member
Walter Lipp	Board Member
Darwin Saari	Board Member
Terry Strobel	Board Member
Ann Oberg	General Manager

Rath & Mehner, P.C.

Certified Public Accountants

Jayson Rath, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McLean-Sheridan Rural Water District
Turtle Lake, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the McLean-Sheridan Rural Water District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2019, 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 judgement, 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 district'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 district'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 major fund of the McLean-Sheridan Rural Water District, Turtle Lake, North Dakota, as of December 31, 2019, and the respective changes in financial position and cash flows, where applicable, 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 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020 on our consideration of the district's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

July 31, 2020

MCLEAN-SHERIDAN RURAL WATER DISTRICT

Management's Discussion and Analysis

December 31, 2019

The Management's Discussion and Analysis (MD&A) of the McLean-Sheridan Rural Water District's financial performance provides an overall review of the district's financial activities for the fiscal year ended December 31, 2019. The intent of the MD&A is to look at the district's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2019 are as follows:

- * Total net position of the district increased \$766,772 as a result of the current year's operations.
- * Enterprise Fund net position totaled \$8,256,587.
- * Total revenues from all sources were \$1,644,983.
- * Total expenses were \$878,211.

USING THIS ANNUAL REPORT

This annual report presents the following two components of the financial statements:

1. Fund financial statements provide detailed information for the district's significant fund.
2. Notes to the financial statements provide additional information that is essential to understanding the fund statements.

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. The McLean-Sheridan Rural Water District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the district's significant fund. The district's fund is considered a proprietary fund.

Proprietary Funds - The McLean-Sheridan Rural Water District maintains one type of proprietary funds. Enterprise funds are used to report activities that charge for services it provides to outside customers. The district uses its enterprise fund to account for its water distribution system.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

Table I provides a summary of the district's net position as of December 31, 2019. A comparative analysis of district-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the district's net position increased by \$766,772 for the year ended December 31, 2019. Changes in net position may serve over time as a useful indicator of the district's financial position.

As of December 31, 2019, the district's net position of \$8,256,587 is segregated into three separate categories. Net investment in capital assets represents 85% of the district's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 3% of the district's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 12% of the district's net position and is available to meet the district's ongoing obligations.

Table I
Net Position
As of December 31, 2019
(With comparative totals for December 31, 2018)

	2019	2018
<u>Assets</u>		
Current Assets	1,379,139	1,394,083
Capital Assets (net of accumulated depreciation)	10,380,621	9,743,211
Total Assets	11,759,760	11,137,294
<u>Liabilities</u>		
Current Liabilities	339,831	558,364
Long-Term Liabilities	3,163,342	3,089,115
Total Liabilities	3,503,173	3,647,479
<u>Net Position</u>		
Net Investment in Capital Assets		
Restricted	7,050,279	6,487,096
Unrestricted	214,305	200,715
	992,003	802,004
Total Net Position	8,256,587	7,489,815

Table II shows the changes in net position for the fiscal year ended December 31, 2019. A comparative analysis of district-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2019
(With comparative totals for December 31, 2018)

	2019	2018
Revenues		
<u>Program Revenues:</u>		
Charges for Services	903,069	916,063
Operating Grants and Contributions	11,472	14,000
Capital Grants and Contributions	713,706	1,082,298
<u>General Revenues:</u>		
Interest Earnings and Other Revenue	16,736	8,879
Gain on Sale of Capital Assets		4,606
Total Revenues	1,644,983	2,025,845
Expenses		
Enterprise	878,211	814,980
Net Change in Position	766,772	1,210,865
	=====	=====

Operating grants and contributions constituted 1%, capital grants and contributions 43% and charges for services made up 55% of the total revenues of all activities of the district for the fiscal year ended December 31, 2019.

Enterprise services constituted 100% of total expenses for all activities during the fiscal year ended December 31, 2019.

CAPITAL ASSETS

As of December 31, 2019, the district had \$10,380,621 invested in capital assets. The following table shows the balance as of December 31, 2019.

Table III
Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2019
(With comparative totals for December 31, 2018)

	2019	2018
Land	20,000	20,000
Construction in Progress	4,438,196	3,633,603
Buildings and Infrastructure	5,619,953	5,748,632
Vehicles	41,304	59,027
Other Assets	261,168	281,949
Total (net of depreciation)	10,380,621	9,743,211
	=====	=====

This total represents an increase of \$637,410 in capital assets from January 1, 2019. This change includes the ongoing construction of a water tower and other infrastructure projects. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2019, the district had \$3,330,342 in outstanding debt of which \$167,000 was due within one year. During fiscal year 2019, the district issued two new long-term debt obligations:

Revenue Bonds Payable in the amount of \$235,452. The water resource district issued the Water Revenue Bonds, Series 2018, original funding of \$1,074,000 to provide funding for a water tower project. These bonds will have a final payment on September 1, 2049.

Revenue Bonds Payable in the amount of \$5,775. The water resource district issued the Water Revenue Bonds, Series 2016, original funding of \$1,350,000 to provide funding for the Brush/Blue Lake project. These bonds will have a final payment on September 1, 2045.

For a detailed breakdown of the long-term debt, readers are referred to Note 8 to the audited financial statements which follow this analysis.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Water sales for 2019 decreased \$12,994 from the prior year. There was an increase of 4 additional accounts from the prior year. The slight decrease was due to fluctuation in water usage. The rural water district's operating expenses for 2019 increased by \$54,988 compared to the totals for 2018. This was mainly due to an increase in employee salaries and benefits of \$12,358 and repairs and maintenance of \$44,295 being offset by a decrease in expenses for office expenses of \$8,156. Overall, the district reported an operating income of \$119,119 compared to \$187,101 for the previous year.

Starting January 1, 2018, the district increased its minimum water charge from \$49 to \$59. This amount remains unchanged for 2020. Effective May 1, 2020, rates for bulk water sales were increased by \$.10, from \$3.80 to \$3.90 and the monthly minimum was increased by \$.30, from \$6.91 per thousand to \$7.21 per thousand.

System maintenance costs are expected to remain the same as in previous years. The district is committed to the repair and replacement of all major pumps, motors and variable drives as needed to keep the system in good working condition.

The McLean-Sheridan Rural Water District is working on an expansion of services to the Brush Lake/Blue Lake area north of the City of Mercer, located in McLean County. This expansion project has the potential of adding an additional 250 water users in future years and currently has about 135 new water users committed to use water with this project. The district is working with the North Dakota State Water Commission and has been approved for a total of \$1,435,000 in grant funding for this expansion project. During the year ending December 31, 2019, the district did receive an additional \$5,775 of grant funds. The district has received a total of \$1,306,301 of funding for this project since its commencement in 2013. The governing board has voted to approve a long-term loan of \$1,350,000 to finance the balance of the project and has been approved to receive this funding as part of the Drinking Water State Revolving Fund Program from the North Dakota Public Finance Authority. During the year, the district requested an additional \$5,775 from the North Dakota Public Finance Authority. Since the inception of this project, the district has received a total of \$1,285,933 of the \$1,350,000 available. As of December 31, 2019, this project is approximately 98% completed and is estimated to be completed during 2020.

The district has been approved by the North Dakota State Water Commission for the construction of a water tower. This project consists of the construction of a 400,000 gallon water tower near the City of Turtle Lake. The water district would use 240,000 gallons for storage so as to allow the system to provide additional water to other parts of the water system. The district is working with the North Dakota State Water Commission and has been approved for a total of \$2,378,450 in grant funding for this construction project. During the year ending December 31, 2019, the district received a total of \$707,932 in grant funds. The district has received a total of \$1,789,705 of funding for this project since its commencement in 2018. The governing board has voted to approve a long-term loan of \$1,074,000 to finance the balance of the project and has been approved to receive this funding as part of the Drinking Water State Revolving Fund Program from the North Dakota Public Finance Authority. During the year, the district requested \$235,452 in funds from the North Dakota Public Finance Authority. Since the inception of this project, the district has received a total of \$796,409 of the \$1,074,000 available. As of December 31, 2019, this project is approximately 60% completed and is estimated to be completed by the fall of 2020.

The McLean-Sheridan Rural Water District continues to look to expand its water system with the potential of adding an additional 150 water users. The district is currently collecting \$1,500 deposits for interested customers and has signed up approximately 113 users. The district's engineering firm has completed the design phase for this project, has put the project out for bids and has awarded the contracts. Phase 1 of this project will add an additional 85 users of the estimated 150 total users. The district has been awarded \$4,980,000 of grant funds from the State Water Commission. The governing board has voted to approve a long-term loan of \$2,656,000 to finance the balance of the project and has been approved to receive this funding as part of the Drinking Water State Revolving Fund Program from the North Dakota Public Finance Authority.

The district's governing board will continue to review the operating budget and cash flow in 2020 to determine if the rates are adequate to maintain required levels of operating funds to make timely loan payments and replace worn or outdated equipment.

CONTACTING THE WATER RESOURCE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons and creditors with a general overview of the water resource district's finances and to show the water resources district's accountability for the money it receives to provide the best possible services to the rural water users. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact the McLean-Sheridan Rural Water District, Turtle Lake, ND 58575.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Net Position
Proprietary Fund
December 31, 2019

	Enterprise Fund
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	736,312.14
Investments	172,935.00
Accounts Receivable	63,583.04
Due from City of Turtle Lake	406,309.00
Total Current Assets	1,379,139.18
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr):	
Land	20,000.00
Construction in Progress	4,438,196.00
Buildings and Infrastructure	5,619,953.00
Vehicles	41,304.00
Other Assets	261,168.00
Total Noncurrent Assets	10,380,621.00
Total Assets	11,759,760.18
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Payroll Taxes Payable	3,180.83
Expansion 2018 Deposits	169,650.00
Revenue Bonds Payable	167,000.00
Total Current Liabilities	339,830.83
<u>Noncurrent Liabilities:</u>	
Revenue Bonds Payable	3,163,342.00
Total Liabilities	3,503,172.83
<u>NET POSITION</u>	
Net Investment in Capital Assets	7,050,279.00
Restricted for Debt Service	214,305.00
Unrestricted	992,003.35
Total Net Position	8,256,587.35

The accompanying notes are an integral part of these financial statements.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

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

For the Year Ended December 31, 2019

	Enterprise Fund
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Sales	895,690.45
Late Fees	7,378.45
Total Operating Revenues	903,068.90
<u>Operating Expenses:</u>	
Governing Board	10,213.44
Salaries and Benefits	233,766.32
Workman's Compensation	1,892.35
Utilities	88,395.63
Chemicals	14,524.56
Supplies	3,926.71
Office Expense	15,619.97
Repairs and Maintenance	117,069.43
Vehicle Expense	27,313.82
Insurance	4,996.95
Professional Fees	14,524.67
Education and Training	218.00
Water Purchases	37,652.23
Advertising	2,737.69
Dues and Subscriptions	2,645.90
Depreciation	205,179.00
Other	3,273.38
Total Operating Expenses	783,950.05
Operating Income	119,118.85
<u>Non-Operating Revenues (Expenses):</u>	
ND State Water Commission	707,931.65
Garrison Diversion Conservancy District:	
MR&I Funds	5,774.73
Connection Fees	7,000.00
Interest/Dividend Income	8,921.72
Contribution from City of Turtle Lake	4,471.60
Other Revenues	7,814.36
Other Expenses	(11,254.98)
Interest Expense	(72,951.78)
Service Charges	(10,054.14)
Total Non-Operating Revenues (Expenses)	647,653.16
Change in Net Position	766,772.01
Net Position - January 1	7,489,815.34
Net Position - December 31	8,256,587.35

The accompanying notes are an integral part of these financial statements.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2019

	Enterprise Fund
<u>Cash flows from operating activities:</u>	
Receipts from customers	903,903.44
Payments to suppliers	(345,014.39)
Payments to employees	(233,582.42)
Net cash provided (used) by operating activities	325,306.63
<u>Cash flows from noncapital financing activities:</u>	
Connection fees	7,000.00
Contribution from City of Turtle Lake	9,376.60
Other receipts	7,814.36
Other disbursements	(11,255.94)
Net cash provided (used) by noncapital financing activities	12,935.02
<u>Cash flows from capital and related financing activities:</u>	
ND State Water Commission	923,711.61
Garrison Diversion Conservancy District:	
MR&I Funds	5,774.73
DWSRF bonds issued	313,154.00
Customer project deposits	69,000.00
Water tower construction project	(1,225,068.00)
Water well	(37,996.00)
Brush/Blue lake project	(22,591.00)
Principal payments	(167,000.00)
Interest expense	(72,951.78)
Service charges	(10,054.14)
Net cash provided (used) by capital and related financing activities	(224,020.58)
<u>Cash flows from investing activities:</u>	
Interest/dividend income	8,921.72
Net increase in cash and cash equivalents	123,142.79
Cash and cash equivalents, January 1	613,169.35
Cash and cash equivalents, December 31	736,312.14
	=====

(continued)

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2019
(continued)

	<u>Enterprise Fund</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	119,118.85
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	205,179.00
Net decrease in accounts receivable	834.54
Net (decrease) in due from state water commission	215,779.96
Net (decrease) in due from department of health	71,927.00
Net increase in payroll taxes payable	183.90
Net decrease in accounts payable	(287,716.62)
Net cash provided (used) by operating activities	<u>325,306.63</u> =====

The accompanying notes are an integral part of these financial statements.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Notes to the Financial Statements
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the water resource district have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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 water resource district. The water resource district has considered all potential component units for which the water resource district is financially accountable and other organizations for which the nature and significance of their relationships with the water resource district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the 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 district.

Based on these criteria, there are no component units to be included within the McLean-Sheridan Rural Water District as a reporting entity.

B. Basis of Presentation

Governments engaged only in a single business-type activity should present only the financial statements required for enterprise funds.

Fund Financial Statements: The fund financial statements provide information about the water resource district's fund. The emphasis of fund financial statements is on the major enterprise fund.

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

The water resource district reports the following major enterprise fund:

Enterprise Fund. This fund accounts for the activities of the district's water distribution system.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The fund financial statements are reported using a the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the district gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit, stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Capital assets are defined by the water resource district as assets with an initial, individual cost of \$5,000 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 Infrastructure	6 to 80 years
Vehicles	5 years
Other Assets	5 to 20 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported as it is considered immaterial.

G. Long-Term Obligations

The long-term debt financed from the proprietary fund operations are accounted for in those funds.

H. Use of Estimates

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 certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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 investments 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 any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2019 the water resource district's carrying amount of deposits was \$909,247 and the bank balance was \$943,906. Of the bank balance, \$496,899 was covered by Federal Depository Insurance. The remaining balance of \$447,007 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The water resource district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) 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.
- (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.
- (4) Obligations of the State.

At December 31, 2019 the water resource district held certificates of deposit in the amount of \$172,935, which are all considered deposits.

Concentration of Credit Risk

The water resource district does not have a limit on the amount the district may invest in any one issuer.

Note 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from patrons for monthly water usage.

Note 4 DUE FROM THE CITY OF TURTLE LAKE

The amount due from the City of Turtle Lake consists of the city's share of construction loans obtained by the McLean-Sheridan Rural Water District to provide funding for a water tower construction project. The city has entered into an agreement with the water district to repay the city's proportionate share of principal and interest costs over the 30 year life of the loan, starting in 2019.

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<i>Capital assets not being depreciated:</i>				
Land	20,000			20,000
Construction in Progress	3,633,603	804,593		4,438,196
Total	3,653,603	804,593		4,458,196
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	9,867,555	37,996		9,905,551
Vehicles	88,616			88,616
Other Assets	401,468			401,468
Total	10,357,639	37,996		10,395,635
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,118,923	166,675		4,285,598
Vehicles	29,589	17,723		47,312
Other Assets	119,519	20,781		140,300
Total	4,268,031	205,179		4,473,210
Total capital assets being depreciated, net	6,089,608	(167,183)		5,922,425
Total Capital Assets	9,743,211	637,410	-0-	10,380,621

Depreciation expense was charged to functions/programs of the water resource district as follows:

Enterprise Fund	205,179
	=====

Note 6 PAYROLL TAXES PAYABLE

Payroll taxes payable consist of amounts owed to federal and state agencies for taxes withheld from employee's salaries as of December 31, but not yet remitted.

Note 7 EXPANSION 2018 DEPOSITS

Expansion 2018 deposits consist of amounts collected from potential customers who are interested in connecting to the McLean-Sheridan Rural Water District's water system as part of a proposed expansion project. The water resource district is required to refund project deposits if the proposed expansion project does not proceed.

Note 8 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2019, the following changes occurred in liabilities reported in the long-term debt of the enterprise fund:

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds Payable	3,256,115	241,227	167,000	3,330,342	167,000
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2019 consists of the following:

Revenue Bonds. The water resource district has issued bonds whereby the district pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2019 are as follows:

\$1,645,000 Water Revenue Refunding Bonds, Series 2014B, due in annual installments of \$75,000 to \$135,000 through September 1, 2029; interest is at 2% to 3.5%.	1,135,000.00
\$519,104 Rural Water System Revenue Bonds, due in annual installments of \$27,000 to \$32,000 through September 1, 2027; interest is at 2.5%.	238,000.00
Total Revenue Bonds	1,373,000.00

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	132,000	39,525
2021	138,000	36,750
2022	144,000	33,850
2023	140,000	29,675
2024	145,000	25,352
2025-2029	674,000	60,663
Total	1,373,000	225,815

The water resource district also received funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The water resource district currently has two separate projects ongoing that have not been completed as follows:

The water resource district is in the process of a water line construction project and issued revenue bonds in the amount of \$1,350,000. As of December 31, 2019, the district had requested drawdowns of \$1,285,933 and repaid principal of \$125,000. This project was not completed as of December 31, 2019 and a final debt repayment schedule is not yet available since the district has not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2019 was \$1,160,933. The water resource district still has \$64,067 of funding available as of December 31, 2019.

The water resource district started the construction of a water tower and related infrastructure during 2018 and issued revenue bonds in the amount of \$1,074,000. As of December 31, 2019, the district had requested drawdowns of \$796,409. This project was not completed as of December 31, 2019 and a final debt repayment schedule is not yet available since the district has not received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2019 was \$796,409. The water resource district still has \$277,591 of funding available as of December 31, 2019.

Note 9 RISK MANAGEMENT

The McLean-Sheridan Rural Water 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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The water resource district pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and \$1,000,000 for automobile.

The water resource district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the water resource district with a blanket fidelity bond coverage in the amount of \$336,200 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The water resource district has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 10 PENSION PLAN

The water resource district provides benefits for all of its full-time employees through a defined contribution plan with Morgan Stanley. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The water resource district contributes 3% of the employee's gross salary for the year. During the year ended December 31, 2019, the water resource district contributed \$5,846.83.

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
McLean-Sheridan Rural Water District
Turtle Lake, 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 major fund of the McLean-Sheridan Rural Water District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2019, 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 31, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Compliance and Other Matters

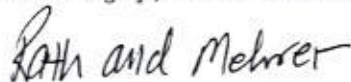
As part of obtaining reasonable assurance about whether the district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

District's Response to Findings

The district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The 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 district's internal control or on compliance. This 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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

July 31, 2020

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2019

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:
Major Fund

Unmodified

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The district has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The district does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The district is aware of the condition and segregates duties whenever possible.

2. 2019-002 Financial Statement Preparation

Criteria: A good system of internal controls requires the district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the district must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The district's financial statements, including the accompanying note disclosures, are prepared by the district's external auditors.

Cause: The district feels it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

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

Recommendation: 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; and review and approve them prior to distribution.

Views of Responsible Officials: The district will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.