

**FINANCIAL STATEMENTS**  
**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**

*For the Year Ended*  
**JUNE 30, 2020**

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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June 30, 2020

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**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**LIST OF OFFICIALS**  
June 30, 2020

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Scott Nelson	President
Albin Jallo	Vice President
Debbie Behm	Secretary/Treasurer
Mark Landeis	Board Member
Troy Peitron	Board Member
Michael Yoney	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, 2020, 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

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

## 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, 2020, 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 November 10, 2020, 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

November 10, 2020

## **BASIC FINANCIAL STATEMENTS**

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF NET POSITION**  
June 30, 2020

	<b>Business-Type Activities -</b>
	<b>Enterprise Funds</b>
	<b>Water System</b>
<b>ASSETS</b>	
Current assets:	
Cash & Cash Equivalents	\$ 50,816
Cash Restricted for Debt Service	231,442
Accounts Receivable	104,965
Grants and Bond Proceeds Receivable	674,553
Inventory	134,008
Prepaid Expense	16,983
Total Current Assets	1,212,767
Noncurrent assets:	
Land	11,155
Construction in Progress	4,437,520
Capital Assets net of Accumulated Depreciation	8,270,450
Total noncurrent assets	12,719,125
Other assets:	
Capital Credits - Utility Co-op	51,557
Total Other Assets	51,557
Total assets	\$ 13,983,450
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts Payable	\$ 675,178
Interest Payable	29,970
Customer Deposits	10,483
Current Maturities LT Debt Paid from Unrestricted Cash	299,584
Total current liabilities	1,015,215
Non-current liabilities	
Bonds Payable	4,873,845
Lease Payable	81,830
Less: Current Maturities	(299,584)
Total non-current liabilities	4,656,091
Total liabilities	5,671,306
<b>NET POSITION:</b>	
Net investment in capital assets	7,789,589
Restricted for debt service	231,442
Restricted for capital projects	9,959
Unrestricted	281,154
Total net position	8,312,144
Total liabilities and net position	\$ 13,983,450

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2020

<b>Functions/Programs:</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue &amp; Change in Net Position</b>
					<b>Total Business-Type Activities</b>
<u>Primary Government:</u>					
<u>Business Type Activities:</u>					
Water System:					
Production	\$ 1,012,170	\$ 1,125,157	\$ -	\$ 1,745,232	\$ 1,858,220
General	70,064	-	-	-	(70,064)
Interest Expense	120,723	-	-	-	(120,723)
<b>Total Business-Type Activities</b>	<b>\$ 1,202,957</b>	<b>\$ 1,125,157</b>	<b>\$ -</b>	<b>\$ 1,745,232</b>	<b>\$ 1,667,433</b>
<b>Total Primary Government</b>	<b>\$ 1,202,957</b>	<b>\$ 1,125,157</b>	<b>\$ -</b>	<b>\$ 1,745,232</b>	<b>\$ 1,667,433</b>
<b>General Revenues:</b>					
Earnings on Investments					\$ 765
New Memberships					28,200
Sale of Assets					(26,075)
Other Income					5,329
<b>Total General Revenues</b>					<b>8,220</b>
Change in Net Position					1,675,653
<b>Net Position - July 1</b>					<b>6,636,491</b>
<b>Net Positon - June 30</b>					<b>\$ 8,312,144</b>

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, 2020

	06/30/2020
	Business-Type Activities -
	Enterprise Funds
	Water System
<b><u>Operating Revenues:</u></b>	
Water Sales	\$ 1,064,325
Fees and Penalties	23,099
Backhoe Income	22,910
Miscellaneous Income	14,823
Total Operating Revenue	1,125,157
<b><u>Operating Expenses:</u></b>	
<b><u>Production Expense</u></b>	
Salaries & Benefits	341,708
Utilities - Pumping	95,263
Repairs & Maintenance	73,193
Water purchase	45,980
Chemicals	30,754
Vehicle Expense	33,871
Communications	9,378
Backhoe & Truck Expense	10,389
Insurance	15,098
Fees & Permits	3,151
Miscellaneous	1,300
Depreciation	352,027
Total Production Expense	1,012,170
Gross Profit	\$ 112,987
<b><u>General Expenses</u></b>	
Advertising & Printing	5,520
Bank Charges	10,987
Directors Fees & Expenses	5,678
Dues & Memberships	2,301
Legal & Professional Fees	14,421
Office Expense	12,743
Taxes - Real Estate	766
Vehicle Expense Reimbursements	6,005
Utilities	4,420
Depreciation	6,833
Miscellaneous Expense	390
Total General Expense	70,064
<b>Operating Income (Loss)</b>	<b>\$ 42,924</b>
<b><u>Non-operating Revenues (Expense)</u></b>	
Interest expense	(120,723)
State Capital Grants	1,699,064
Federal Capital Grants	46,169
Capital Credits	5,329
Interest income	765
Membership additions	28,200
Gain (Loss) on Disposal of Assets	(26,075)
Total Non-operating Revenue (Expense)	1,632,729
<b>Change in Net Assets</b>	1,675,653
<b>Total Net Assets - July 1</b>	6,636,491
<b>Total Net Assets - June 30</b>	<b>\$ 8,312,143</b>

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2020

	<b>Business-Type Activities</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Customers	\$ 1,124,451	
Cash paid to suppliers	(430,442)	
Cash paid to employees for services	(341,708)	
Net Cash Flows from Operating Activities		352,301
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCIAL ACTIVITIES:</b>		
Purchases and construction of capital assets	(2,798,694)	
Proceeds from long-term borrowings	631,371	
Principal paid on long-term debt	(1,194,138)	
Interest paid on long-term debt	(142,847)	
Debt issuance costs paid	(6,500)	
Proceeds from grants	2,017,689	
Proceeds from patronage dividends	5,035	
Increase in Contributed/Donated Capital	28,200	
Net Cash Flows from Capital & Related Financial Activities		(1,459,884)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	765	
Net Cash Flows from Investing Activities		765
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		(1,106,818)
<b>CASH &amp; CASH EQUIVALENTS, JULY 1</b>		1,389,076
<b>CASH &amp; CASH EQUIVALENTS, JUNE 30</b>		\$ 282,258
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 42,924	
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Depreciation	358,860	
(Increase) Decrease in Accounts Receivable	377,958	
(Increase) Decrease in Prepaid Expenses	(3,009)	
Increase (Decrease) in Customer Deposits	600	
Increase (Decrease) in Accounts Payable	(428,982)	
Increase (Decrease) in Interest Payable	(22,124)	
Book Loss on Disposal of Assets	26,075	
Net Cash Provided (Used) by Operating Activities		\$ 352,301

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2020

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**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. Basis of Presentation**

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

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. Cash and Cash Equivalents**

Cash and cash equivalents include 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. State law requires district funds to be deposited in financial institutions situated and doing business within the state of North Dakota.

### **E. Accounts Receivable**

Accounts receivable include amounts due from members for water purchased. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts. Member accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible accounts. Allowances for uncollectible accounts netted with accounts receivable were \$7,501 and \$9,096 for the years ended June 30, 2020 and 2019, respectively.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

### **F. Inventory**

The District maintains an inventory of materials and supplies. Inventory items are stated at cost and are recorded as expenditures when consumed rather than when purchased.

## **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. Compensated Absences**

General leave for the District includes both vacation and sick pay. Vacation is based on an employee's length of employment and are eligible to earn between one and three weeks based upon the number of years employed with the District. Sick leave is earned at a rate of one day per full month of employment and allowed to accumulate to maximum of 88 days. Upon termination, employees are paid full value for unused vacation time.

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

## **I. Bonds and Related Premiums, Discounts, and Issuance Costs**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the business-type activities, or proprietary fund statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

## **J. Net Position/Fund Balance**

### ***Government-wide Financial Statements***

Equity is classified in the government-wide financial statements and proprietary fund types as net position and is displayed in three components:

*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.”

## **K. Restricted Resources**

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

## **L. Budgets**

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

## **M. 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.

## **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, 2020, the reported amount of the District’s deposits was \$282,158 and the bank balance was \$290,304. Of the bank balance, \$290,304 was covered by Federal Depository Insurance.

**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 GRANTS AND BOND PROCEEDS RECEIVABLE**

Grants and bond proceeds receivable are relating to the District’s ongoing construction projects, and as of June 30, 2020 are as follows:

**Grants and Bonds Receivable**

North Dakota Public Finance Authority	
<i>Series 2020 Revenue Bonds</i>	\$ 157,096
North Dakota State Water Commission Grant	
<i>Phase 5 Expansion Project</i>	471,289
US Dept of Interior Bureau of Reclamation Grant	
<i>Automated Meter Read Project Phase I</i>	<u>46,169</u>
<b>Total Grants and Bonds Receivable</b>	<u><u>\$ 674,553</u></u>

**NOTE 4 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, 2020, 2019, and 2018, the district contributed \$9,873, \$9,713, and \$9,216 respectively.

**NOTE 5 CAPITAL ASSETS**

Following is a summary of property and equipment and related depreciation for the fiscal year ended June 30, 2020. Total depreciation expense for the year was \$358,860. 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.

<b>Business-Type Activities</b>	<b>Balance June 30, 2019</b>	<b>Additions</b>	<b>(Deletions)</b>	<b>Balance June 30, 2020</b>
<b>Non-depreciated assets</b>				
Land	6,155	5,000	-	11,155
Construction in Progress	2,126,438	2,311,082	-	4,437,520
Total non-depreciated assets	2,132,593	2,316,082	-	4,448,675
<b>Depreciable assets</b>				
Plant Equipment	15,405,576	15,750	(80,338)	15,340,988
Machinery & Equipment	843,149	68,292	(23,108)	888,334
Buildings	70,483	-	-	70,483
Office Furn. & Equip	80,465	22,263	(20,353)	82,375
Total depreciable assets	16,399,673	106,305	(123,799)	16,382,179
<b>Less: accumulated depreciation</b>				
Plant Equipment	(7,075,122)	(294,998)	54,263	(7,315,857)
Machinery & Equipment	(661,770)	(56,181)	23,108	(694,842)
Buildings	(34,971)	(2,842)	-	(37,813)
Office Furn. & Equip	(78,727)	(4,839)	20,353	(63,213)
Total accumulated depreciation	(7,850,590)	(358,860)	97,724	(8,111,726)
<b>Net depreciable assets</b>	8,549,082	(252,554)	(26,075)	8,270,453
<b>Net business-type activities</b>	\$ 10,681,676	\$ 2,063,528	\$ (26,075)	\$ 12,719,125

**NOTE 6 ACCOUNTS PAYABLE**

At June 30, 2020, accounts payable are as follows:

<b>Accounts payable:</b>	
Payroll taxes payable	\$ 1,544
Operating expenditures payable	25,220
Capital asset purchases payable	20,030
Construction Payable	
<i>Phase 5 Expansion Project</i>	628,385
<b>Total accounts payable</b>	<u>\$675,178</u>



**NOTE 7 LONG TERM OBLIGATIONS**

Below is a summary of long term obligation activity for the year ended June 30, 2020:

Business-Type Activities:	Balance			Balance 06/30/2020	Due Within One Year
	06/30/2019	(Paid)	Issued		
Revenue Bonds	\$ 5,519,289	\$(1,170,608)	\$ 525,163	\$ 4,873,844	\$ 275,146
Capital Lease Obligations	105,551	(23,721)	-	81,830	24,438
<b>Total Business-Type Activities</b>	<b>\$ 5,624,841</b>	<b>\$(1,194,329)</b>	<b>\$ 525,163</b>	<b>\$ 4,955,675</b>	<b>\$ 299,584</b>

*REVENUE BONDS*

Water District Revenue Bonds are collateralized by a pledge of revenues derived and to be derived from the operation of the Water District after deduction therefrom of the amount necessary to pay all operating and maintenance charges of the District as required by applicable bond resolutions. The District is also required to maintain rates sufficient (1) provide gross revenues sufficient to pay when due all costs payable under the operations and maintenance account, (2) provide net revenues equal to 120% of average annual interest and principal requirements on all outstanding bonds, (3) to establish and maintain the reserve funds.

At June 30, 2020, average annual principal and interest on debt was 355,322. Total net water revenues for the year ended June 30, 2020 were \$407,878. No interest was capitalized during June 30, 2020; interest incurred and charged to expense totaled \$120,723. On June 30, 2020, principal and interest to maturity in 2042 to be paid from pledged future revenues totaled \$7,817,085.

Future principal and interest requirements on long term obligations issues are as follows:

	<u>REVENUE BONDS</u>			<u>CAPITAL LEASE OBLIGATIONS</u>		
	Principle	Interest	Total	Principle	Interest	Total
2020	\$ 275,146	\$ 129,483	\$ 404,629	\$ 24,438	\$ 2,273	\$ 26,711
2021	335,146	133,728	468,874	57,392	861	58,253
2022	345,146	126,323	471,469	-	-	-
2023	356,146	118,683	474,829	-	-	-
2024	346,146	111,046	457,191	-	-	-
2025-2029	1,793,728	439,244	2,232,972	-	-	-
2023-2034	1,360,728	268,366	1,629,094	-	-	-
2035-2039	1,315,728	108,441	1,424,170	-	-	-
2040-2044	251,337	2,522	253,859	-	-	-
	<b>\$ 6,379,249</b>	<b>\$ 1,437,837</b>	<b>\$ 7,817,085</b>	<b>\$ 81,830</b>	<b>\$ 3,134</b>	<b>\$ 84,964</b>

Revenue bonds outstanding at June 30, 2020 are as follows:

Water Treatment Revenue Bonds of 2008

Original issue was \$250,000 with an interest rate of 2.5% due semiannually with annual principal payments increasing from \$15,000 in 2013 to \$20,000 beginning in 2023. Final maturity occurs on September 1, 2027. ND Public Finance Authority is the debt holder. As of June 30, 2020, the District had \$19,650 reserved for payment of this issue.

June 30, 2020, Balance \$145,000

Refunding Revenue Bonds Series 2012

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. Final maturity occurs on June 1, 2041. ND Public Finance Authority is the debt holder. At June 30, 2020, the District had \$14,050 reserved for payment of this issue.

June 30, 2020, Balance \$1,130,000

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 final maturity on September 1, 2027. ND Public Finance Authority is the debt holder.

June 30, 2020, Balance \$35,000

Water Treatment Revenue Bonds of 2015

Original issue was for \$750,000, of which \$225,000 will be forgiven, resulting in a remaining \$525,000 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 final maturity on September 1, 2035. ND Public Finance Authority is the debt holder. At June 30, 2020, the District had \$35,700 reserved for payment of this issue.

June 30, 2020, Balance \$420,000

Water Treatment Revenue Bonds of 2018

The district is eligible to draw up to \$1,050,000. As of June 30, 2020, the district has drawn \$997,500. The bonds have an interest rate of 1.5% due semiannually. Annual principal payments varying from \$45,000 to \$60,000 are due annually until final maturity on September 1, 2038. ND Public Finance Authority is the debt holder. At June 30, 2020, the District had \$12,900 reserved for payment of this issue.

June 30, 2020, Balance \$952,500

Water Revenue Refunding Bonds, Series 2019A

The Water Revenue Refunding Bonds, Series 2019A were issued on June 20, 2019 in the amount of \$2,010,000 to refund the ND Public Finance Authority Refunding Revenue Bonds Series 2009, Refunding Water Revenue Bonds, Series 1999A, and Water System Improvement Bonds, Series 2005 bonds. In total, \$1,976,414 outstanding revenue bonds were refunded.

The new bonds bear interest from 2.50% to 3.20%, and an effective interest rate of 2.93%. The bonds are due in annual installments starting at \$145,000 and decreasing \$20,000 through September 1, 2041. The new issue reduced debt service payments for the District by \$414,670 with a net present value benefit on

the date of issue totaling \$236,144. US Bank is the debt holder. At June 30, 2020, the District had \$106,120 reserved for payment of this issue.

	Series 2019A Bonds Payable	\$2,010,000
	Bond Premium	<u>24,249</u>
\$2,034,249	June 30, 2020, Balance	

Water Treatment Revenue Bonds of 2020

The district is eligible to draw up to \$1,610,000. As of June 30, 2020, the district has applied for \$157,096. The bonds have an interest rate of 1.5% due semiannually. Annual principal payments varying from \$65,000 to \$95,000 are due annually until final maturity at September 1, 2040. ND Public Finance Authority is the debt holder.

June 30, 2020, Balance	<u>\$157,096</u>
Total Revenue Bond Debt	<u>\$4,873,845</u>

*CAPITAL LEASE*

The Tri-County Water District is obligated to the following capital lease obligations:

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, 2020 Balance	\$72,357
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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, 2020 Balance	\$9,473
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Total Capital Lease Obligations	<u>\$81,830</u>
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**NOTE 8 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 are 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 9 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 10 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 11 CONSTRUCTION COMMITMENTS**

The District had the following commitments for construction contracts as of June 30, 2020 for the following water treatment plant expansion projects:

	Phase 4 Water Supply Project	Phase 5 Water Supply Project
Committed Costs	\$ 3,957,691	\$ 3,299,211
Total Completed	\$ 3,762,967	\$ 625,385
Percent Complete	95.08%	18.96%

Engineering and construction contracts relating to construction in progress aggregated approximately \$2,868,550. These contracts will be paid in future periods as work is performed. Payment will be made with proceeds remaining from past bond issues and North Dakota State Water Commission grants to be received.

As of June 30, 2020, the District had outstanding State grant awards of \$1,603,189 and outstanding bonds of \$1,505,304 for approved projects by the State Water Commission. The State grant funds and bond proceeds are not available to the District until expenses are incurred and therefore, are not recorded as receivables.

**NOTE 12 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District’s year end. Subsequent events have been evaluated through November 10, 2020, the date the financial statements were available to be issued.

**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, 2020, 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 November 10, 2020.

**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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2020-1, described in the accompanying schedule of findings and responses, to be a material weakness.

**CAVALIER**

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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 2020-2, described in the accompanying schedule of findings and responses, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-3.

### **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

November 10, 2020

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**

**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended June 30, 2020**

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**FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**2020-1 Segregation of Duties**

Condition:

The Tri-County Water District has primarily two individuals responsible for most accounting functions and general ledger maintenance, one administrative assistant/billing clerk and one district manager.

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:

When there is a lack of segregation of duties, COSO primarily points to additional management or governing board review and/or reconciliations. We recommend the governing board increase oversight by applying periodic reviews and/or reconciliations. This may include the governing board reviewing transactions for supporting documentation, reviewing cash reconciliations or performing cash reconciliations independently, and actively reviewing the financial reports and corresponding schedules.

The District manager should consider requiring the bank reconciliation be reviewed and approved by someone separate from the individual preparing the reconciliation. Individuals responsible for authorizing and signing checks should be separate from the individuals responsible for printing and mailing checks. Two people should be responsible for counting cash and both should sign off on the cash counts. Monthly financial statements should be reviewed and approved by a responsible governing board member.

Client Response:

The District will consider the recommendations and implement those they deem appropriate.

## **2020-2 Financial Statement Preparation**

### Condition:

Mortenson & Rygh assisted 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:

We recommend that management 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.

## **FINDINGS RELATED TO COMPLIANCE AND OTHER MATTERS:**

### **2020-3 Rate Covenant on Bond Issues**

#### Condition:

The Refunding Revenue Bonds Series 2012, Revenue Bonds Series 2018, Refunding Revenue Bonds Series 2019A, and Revenue Bonds Series 2020 requires the District to generate net revenues at least equal to 120% of the average annual debt service on all bonds. As of June 30, 2020 net revenues are approximately 115% of the average annual debt service on all bonds.

#### Effect:

The District is not in compliance with the rate covenant as set forth in revenue bond resolutions listed above.

#### Cause:

An expansion project that is expected to add 50 customers experienced construction delays. Due to the delay in construction, new customers were not billed until the fiscal year ended June 30, 2021.



Criteria:

The Refunding Revenue Bonds Series 2012, Revenue Bonds Series 2018, Refunding Revenue Bonds Series 2019A, and Revenue Bonds Series 2020 require the District to generate net revenues at least equal to 120% of the average annual debt service on all Bonds.

Net revenues are defined as gross revenues less operating expenditures. As stated in Note 7, the average annual debt service on all outstanding bonds at June 30, 2020 totaled \$355,322. The district is required to produce net revenues of at least 120% of 355,322, or \$426,386. As stated in Note 7, net revenues for the year ended June 30, 2020 totaled \$407,878.

Recommendation:

The district should review the effects of recent additions to memberships on net revenues and determine if the additional memberships will sufficiently increase net revenues to the required level as stated in the bond covenants. If new customer revenues are not sufficient for any reason, we recommend the District implement a plan to increase net revenues through rate increases to ensure compliance with bond covenants.

Response:

District management states that project delays have been resolved. Management anticipates that additional revenue from the expansion project will generate net revenues of at least 120% of average annual debt service on all bonds.