

AUDIT REPORT

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

For the Year Ended December 31, 2021

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

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MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

DISTRICT OFFICIALS

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

Rath & Mehrer, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the major fund of McLean-Sheridan Rural Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the district, as of December 31, 2021, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the district, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the district's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the district's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the district's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

June 17, 2022

MCLEAN-SHERIDAN RURAL WATER DISTRICT

Management's Discussion and Analysis

December 31, 2021

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, 2021. 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, 2021 are as follows:

- ◇ Total net position of the district increased \$3,065,510 as a result of the current year's operations.
- ◇ Enterprise Fund net position totaled \$14,960,160.
- ◇ Total revenues from all sources were \$4,628,285.
- ◇ Total expenses were \$1,562,776.

USING THIS ANNUAL REPORT

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 fund. 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, 2021. 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 \$3,065,510 for the year ended December 31, 2021. Changes in net position may serve over time as a useful indicator of the district's financial position.

As of December 31, 2021, the district's net position of \$14,960,160 is segregated into three separate categories. Net investment in capital assets represents 87% 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 4% 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 9% of the district's net position and is available to meet the district's ongoing obligations.

Table I
Net Position
As of December 31, 2021
(With comparative totals for December 31, 2020)

	2021	2020
<u>Assets</u>		
Current Assets	2,311,248	2,129,922
Capital Assets (net of accumulated depreciation)	18,829,985	16,401,964
Total Assets	21,141,233	18,531,886
<u>Liabilities</u>		
Current Liabilities	593,016	996,418
Long-Term Liabilities	5,588,057	5,640,817
Total Liabilities	6,181,073	6,637,235
<u>Net Position</u>		
Net Investment in Capital Assets	13,017,928	10,462,104
Restricted	588,392	283,072
Unrestricted	1,353,840	1,149,474
Total Net Position	14,960,160	11,894,651

Table II shows the changes in net position for the fiscal year ended December 31, 2021. 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, 2021
 (With comparative totals for December 31, 2020)

	<u>2021</u>	<u>2020</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	1,366,176	973,074
Operating Grants and Contributions	326,358	279,143
Capital Grants and Contributions	2,234,788	3,871,677
<u>General Revenues:</u>		
Interest Earnings and Other Revenue	28,219	145,622
Settlement from Bond Company	351,256	
Loan Forgiveness	301,336	
Gain on Sale of Capital Assets	<u>20,152</u>	<u>16,068</u>
Total Revenues	<u>4,628,285</u>	<u>5,285,583</u>
Expenses		
Enterprise	<u>1,562,776</u>	<u>1,647,520</u>
Net Change in Position	<u>3,065,510</u>	<u>3,638,063</u>

Operating grants and contributions constituted 7%, capital grants and contributions 48% and charges for services made up 30% of the total revenues of all activities of the district for the fiscal year ended December 31, 2021.

Enterprise services constituted 100% of total expenses for all activities during the fiscal year ended December 31, 2021.

CAPITAL ASSETS

As of December 31, 2021, the district had \$18,928,985 invested in capital assets. The following table shows the balance as of December 31, 2021.

Table III
 Capital Assets
 (Net of Accumulated Depreciation)
 As of December 31, 2021
 (With comparative totals for December 31, 2020)

	<u>2021</u>	<u>2020</u>
Land	32,000	20,000
Constuction in Progress	456,560	4,331,801
Buildings and Infrastructure	18,066,384	11,761,229
Vehicles	55,435	48,547
Other Assets	<u>219,606</u>	<u>240,387</u>
Total (net of depreciation)	<u>18,829,985</u>	<u>16,401,964</u>

This total represents an increase of \$2,428,021 in capital assets from January 1, 2021. This change includes the completion of phase 1 of the expansion project, Brush/Blue Lake project and the purchase of a 2022 Ford F250 pickup.

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 7 to the audited financial statements, which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2021, the district had \$5,812,057 in outstanding debt of which \$224,000 was due within one year. During fiscal year 2021, the district issued two new long-term debt obligations:

Revenue Bonds Payable in the amount of \$64,067. 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. This was the final drawdown for these bonds. The current outstanding balance at December 31, 2021 is \$1,155,000. These bonds will have a final payment on September 1, 2045.

Revenue Bonds Payable in the amount of \$632,028. The water resource district issued the Water Revenue Bonds, Series 2020, original funding of \$2,656,200 to provide funding for phase 1 of a water line expansion project. Additional funding of \$2,004,000 was received for phase 2 of this project. Total approved funding for this project is currently \$4,660,000. The current outstanding balance at December 31, 2021 is \$1,739,057. Based on the most current repayment schedule, these bonds will have a final payment on September 1, 2053.

For a detailed breakdown of the long-term debt, readers are referred to Note 11 to the audited financial statements, which follow this analysis.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Water sales for 2021 increased \$393,101.83 from the prior year. Actual sales for 2021 were \$1,366,175.66 compared to the district's 2021 estimate of \$1,253,900. There was an increase of 223 additional accounts compared to 2020. These increases are due to the addition of new accounts in the Riverdale area and the new hook-ups added as part of phase 1 of the expansion project. The rural water district's operating expenses for 2021 increased \$194,389.54 compared to the totals for 2020. This increase was mainly due to the increase in water purchases for the new addition and repairs and maintenance to the existing system. Overall, the district reported an operating income of \$101,729.23 compared to an operating loss of \$96,983.06 for the previous year.

Starting January 1, 2018, the district increased its minimum water charge from \$49 to \$59. This amount remained unchanged for 2021. 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. Expansion project users have a \$82 monthly minimum and are charged \$7.80 per thousand gallons of water. Users served by Riverdale water have a \$65 monthly minimum and are charged \$6.54 per thousand gallons of water. The district estimates total sales of \$1,364,250 for the year ending December 31, 2022.

System maintenance cost is expected to remain somewhat high due to current economic issues affecting supply and demand. 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. In 2021, telemetry was added to Booster Y in the Washburn area. This allows the district the ability to remotely monitor this booster station.

In prior years, the district had received \$1,435,000 grant from the State Water Commission and additional MR&I funding from the Bureau of Reclamation to help fund the Brush/Blue Lake Project. In addition to these grant funds, the district's governing board approved a long-term loan with the Bank of North Dakota for \$1,350,000 to finance the balance of the project. This area north of Mercer has the potential for 250 new water users. As of 2021, there are 144 users. For the last several years, the district has been involved in a dispute with the project contractor due to unsatisfactory construction of the infrastructure in this part of the water system. The district has come to a settlement with F&D, the contractor's bonding company in October 2021 and after mediation, agreed to pay Merryman Construction \$228,255.98. As part of this agreement, the bonding company made a payment of \$351,255.98 to the district to resolve our dispute over the work performed.

The rural water district received grant funding of \$2,378,450 from the State Water Commission to help fund the City of Turtle Lake Tower Project. The district has a contract with the city for an agreement of repayment of their portion of the project costs. The district's share of costs is 51%. The water tower has been in service since August 2020. The district requested the final drawdown of DWSRF funds in January 2021. In February of this year, McLean-Sheridan Rural Water was notified by Shannon Fisher with the Division of Municipal Facilities, Manager, Drinking Water State Revolving Fund Program that there were remaining loan forgiveness dollars available and were being applied to the water tower project. The outstanding balance as of December 31, 2020 was \$965,898. The total amount of loan forgiveness for this project was \$590,855. The current loan balance is \$370,000.

The water district received a \$4,980,000 grant from the State Water Commission to provide funding for phase 1 of an expansion project. Construction on this project began in June of 2020, and as of December 2021, 105 new users have been added to the system. In addition to the new sign ups, a new booster station was completed to replace Booster A, north of Mercer, and the 100,000-gallon underground storage reservoir was replaced with an above ground 250,000-gallon reservoir. The district's governing board approved a long-term loan with the Bank of North Dakota in the amount of \$2,656,000 for the initial phase of this project. Phase 1 of this project has been completed and the district has received \$670,000 from the State Water Commission for preconstruction costs for phase 2. Project design was completed at the end of 2021 and the project was bid. In March of 2022, the district was notified that Eatherly Constructors was awarded the project construction contract with a pipeline construction base bid of \$5,252,243 and the bid based on alternate 1 to the construction contract in the amount of \$1,322,757. Construction for this phase will begin in the spring of 2022 and continue into the fall of 2023. The district anticipates adding an additional 75 new users to the current system and improving the existing system to resolve long standing pressure issues that our users are currently experiencing. As part of phase 2 of this project, McLean-Sheridan Rural Water has received an additional \$2,004,000 in DWSRF Funds from the Bank of North Dakota. Total approved loan funding is currently \$4,660,000. As of December 31, 2021, the district had drawdowns of \$1,739,057 and remaining available funding of \$2,920,943.

The water district is working with the City of McClusky and Moore Engineering to replace the existing water tower with a 400,000-gallon water tower to be shared by the city and the district. The project split will be 60% with McLean-Sheridan Rural Water and 40% with the City of McClusky. In June of 2021, the district received \$274,000 in grant funding from the State Water Commission for preconstruction costs. Project design was completed and bids were opened in December 2021. Maguire Iron, Inc was recommended to be awarded Contract A – Water Tower General for their low bid of the Base Bid plus Alternate 2 in the amount of \$2,474,000. It was recommended that D.L. Barkie Construction, Inc be awarded Contract B – Underground & Site Work in the amount of \$474,645. Construction will begin in the spring of 2022 and should be completed by the fall of 2023. The district will take out a DWSRF loan in the amount of \$1,015,000, to be split with the city based on the estimated split noted above.

The district's governing board will continue to review the operating budget and cash flow in 2022 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 Ann Oberg, Manager with 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, 2021

	Enterprise Fund
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	1,616,466.59
Investments	172,935.00
Accounts Receivable	91,680.51
Due from ND State Water Commission	170,096.58
Due from ND Department of Health	81,490.00
Due from City of Turtle Lake	178,578.98
Total Current Assets	2,311,247.66
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr):	
Land	32,000.00
Construction in Progress	456,560.00
Buildings and Infrastructure	18,066,384.00
Vehicles	55,435.00
Other Assets	219,606.00
Total Noncurrent Assets	18,829,985.00
Total Assets	21,141,232.66
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Payroll Taxes Payable	693.00
Accounts Payable	255,847.39
Expansion 2018 Deposits	112,475.00
Revenue Bonds Payable	224,000.00
Total Current Liabilities	593,015.39
<u>Noncurrent Liabilities:</u>	
Revenue Bonds Payable	5,588,057.00
Total Liabilities	6,181,072.39
<u>NET POSITION</u>	
Net Investment in Capital Assets	13,017,928.00
Restricted for 2018 Expansion Project	262,000.00
Restricted for Debt Service	326,392.42
Unrestricted	1,353,839.85
Total Net Position	14,960,160.27

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, 2021

	<u>Enterprise</u> <u>Fund</u>
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Sales	1,359,056.22
Late Fees	7,119.44
	<hr/>
Total Operating Revenues	1,366,175.66
 <u>Operating Expenses:</u>	
Governing Board	13,166.24
Salaries and Benefits	258,654.58
Workman's Compensation	2,456.01
Utilities	101,951.24
Chemicals	17,110.64
Supplies	10,052.79
Office Expense	44,666.66
Repairs and Maintenance	121,680.42
Vehicle Expense	32,130.14
Insurance	5,550.00
Professional Fees	18,312.12
Education and Training	1,376.38
Water Purchases	126,424.96
Advertising	3,622.20
Dues and Subscriptions	5,099.50
Other	3,339.55
Depreciation	498,853.00
	<hr/>
Total Operating Expenses	1,264,446.43
	 <hr/>
Operating Income	101,729.23

(continued)

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, 2021
(continued)

	Enterprise Fund
<u>Non-Operating Revenues (Expenses):</u>	
Garrison Diversion Conservancy District:	
MR&I Funds	115,995.49
Water Supply Assistance Grant	2,325.00
North Dakota State Water Commission	2,118,792.69
Agricultural Products Utilization Grant	17,798.00
Connection Fees	284,950.00
Blue Flint Reimbursement	14,972.67
Contribution from the City of Turtle Lake	6,312.46
Interest/Dividend Income	8,361.10
Settlement from Bond Company	351,255.98
Other Revenues	19,858.04
Gain on Sale of Capital Assets	20,152.00
Loan Forgiveness	301,336.05
Engineering Fees	(32,770.67)
Legal Fees	(15,463.77)
Other Project Costs	(29,384.06)
Crop Damage Payouts	(107,164.62)
Interest Expense	(97,977.12)
Service Charges	(15,568.85)
	2,963,780.39
Total Non-Operating Revenues (Expenses)	
	3,065,509.62
Change In Net Position	
	11,894,650.65
Net Position - January 1	
	14,960,160.27
Net Position - December 31	

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, 2021

	Enterprise Fund
<u>Cash flows from operating activities:</u>	
Receipts from customers	1,350,915.33
Payments to suppliers	(506,938.85)
Payments to employees	(259,214.23)
Net cash provided (used) by operating activities	584,762.25
<u>Cash flows from noncapital financing activities:</u>	
Garrison Diversion Conservancy District grants:	
Water supply assistance grant	2,325.00
Agricultural Products Utilization grant	17,798.00
Blue Flint reimbursement	14,972.67
Other receipts	19,858.04
Connection fees	23,000.00
Contribution from City of Turtle Lake	8,783.53
Engineering fees	(32,770.67)
Crop damage payouts	(107,164.62)
Net cash provided (used) by noncapital financing activities	(53,198.05)
<u>Cash flows from capital and related financing activities:</u>	
Garrison Diversion Conservancy District grants:	
MR&I funds	115,995.49
ND State Water Commission	2,272,250.08
Sale of fixed assets	26,000.00
Customer project deposits	100,675.00
Settlement from bond company	351,255.98
DWSRF bonds issued	719,884.00
Legal fees	(5,257.12)
Other project costs	(29,384.06)
Purchase of land	(12,000.00)
Purchase of fixed assets	(31,556.00)
Brush/Blue lake project	(228,250.00)
City of Washburn project	(29,556.00)
Water tower construction project	(131,728.18)
Expansion project	(2,676,363.35)
Principal payments	(233,043.00)
Interest expense	(97,977.12)
Service charges	(15,568.85)
Net cash provided (used) by capital and related financing activities	95,376.87

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MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2021
(continued)

	<u>Enterprise Fund</u>
<u>Cash flows from investing activities:</u>	
Interest/dividend income	8,361.10
Net increase in cash and cash equivalents	<u>635,302.17</u>
Cash and cash equivalents, January 1	<u>981,164.42</u>
Cash and cash equivalents, December 31	<u><u>1,616,466.59</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income (loss)	<u>101,729.23</u>
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	498,853.00
Net (increase) decrease in accounts receivable	(15,260.33)
Net increase (decrease) in payroll taxes payable	<u>(559.65)</u>
Net cash provided (used) by operating activities	<u><u>584,762.25</u></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, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of McLean-Sheridan Rural Water 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 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. These criteria include 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 investment 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 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	20 to 60 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 water resource 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 investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or 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, 2021 the water resource district's carrying amount of deposits was \$1,789,402 and the bank balance was \$1,735,719. Of the bank balance, \$771,627 was covered by Federal Depository Insurance. Of the remaining balance, \$964,093 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The 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, 2021, 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 ND STATE WATER COMMISSION

The amount due from the North Dakota State Water Commission consists of grant funding for the City of McClusky water tower project and phase 2 of the expansion project requested for the year ending December 31, 2021, but received subsequent to that date.

Note 5 DUE FROM ND Department of Health

The amount due from the North Dakota Department of Health consists of grant funding as part of the Drinking Water State Revolving Fund Program requested for the ongoing expansion project for the year ending December 31, 2021, but received subsequent to that date.

Note 6 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 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2021:

	<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	12,000		32,000
Construction in Progress	4,331,801	2,631,360	6,506,601	456,560
Total	<u>4,351,801</u>	<u>2,643,360</u>	<u>6,506,601</u>	<u>488,560</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	16,292,142	6,764,407	220,324	22,836,225
Vehicles	90,158	31,556	29,236	92,478
Other Assets	401,468		6,296	395,172
Total	<u>16,783,768</u>	<u>6,795,963</u>	<u>255,856</u>	<u>23,323,875</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,530,913	459,252	220,324	4,769,841
Vehicles	41,611	18,820	23,388	37,043
Other Assets	161,081	20,781	6,296	175,566
Total	<u>4,733,605</u>	<u>498,853</u>	<u>250,008</u>	<u>4,982,450</u>
Total capital assets being depreciated, net	<u>12,050,163</u>	<u>6,297,110</u>	<u>5,848</u>	<u>18,341,425</u>
Total Capital Assets, Net	<u>16,401,964</u>	<u>8,940,470</u>	<u>6,512,449</u>	<u>18,829,985</u>

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

Enterprise Fund	<u>498,853</u>
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Note 8 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 9 ACCOUNTS PAYABLE

Accounts payable consist of amounts owed for engineering services and legal fees related to the water resource district's water tower, Brush/Blue Lake and expansion projects, incurred prior to December 31, 2021 but paid for subsequent to that date.

Note 10 EXPANSION PROJECT DEPOSITS

Expansion project 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 phase 2 of a proposed expansion project. The water resource district is required to refund project deposits any time before potential water user is connected.

Note 11 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2021, 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	<u>5,939,860</u>	<u>696,095</u>	<u>823,898</u>	<u>5,812,057</u>	<u>224,000</u>

Outstanding debt at December 31, 2021 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, 2021 are as follows:

\$519,104 Rural Water System Revenue Bonds, due in annual installments of \$29,000 to \$32,000 through September 1, 2027; interest is at 2.5%.	183,000.00
\$1,155,000 Water Revenue Bonds, Series 2016, due in annual installments of \$35,000 to \$65,000 through September 1, 2045; interest is at 2%.	1,155,000.00
\$375,043 Water Revenue Bonds, Series 2018, due in annual installments of \$10,000 to \$15,000 through September 1, 2049; interest is at 1.5%.	370,000.00
\$2,530,000 Water Revenue Refunding Bonds, Series 2020B, due in annual installments of \$45,000 to \$180,000 through September 1, 2050; interest is at 2% to 3%.	<u>2,365,000.00</u>
Total Revenue Bonds Payable	<u>4,073,000.00</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	224,000.00	92,399.20
2023	220,000.00	86,612.50
2024	230,000.00	80,662.50
2025	241,000.00	74,412.50
2026	246,000.00	67,887.50
2027-2031	807,000.00	253,162.50
2032-2036	560,000.00	187,412.50
2037-2041	615,000.00	130,987.50
2042-2046	620,000.00	68,212.50
2047-2050	310,000.00	16,425.00
Total	<u>4,073,000.00</u>	<u>1,058,174.20</u>

The water resource district also received additional funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The water resource district is in the process of a water line expansion project and has completed phase 1 of this project. Phase 2 was started at the end of 2021. Original funding for this project was \$2,656,000 and additional project funding of \$2,004,000 was received totaling \$4,660,000. As of December 31, 2021, the district had requested drawdowns of \$1,739,057. This project is ongoing as of December 31, 2021 and a final debt repayment schedule is not yet available since the water resource district has not received the full amount of funding under this agreement. The outstanding balance at December 31, 2021 was \$1,739,057. There is still \$2,920,943 of funding available as of December 31, 2021.

Note 12 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 district pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile.

The 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 district with a blanket fidelity bond coverage in the amount of \$448,886 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The 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 13 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, 2021, the water resource district contributed \$6,388.52.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor Pass-Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Expenditures
<u>U.S. Department of the Interior</u>			
Passed Through the Garrison Diversion Conservancy District:			
Garrison Diversion Unit Project	15.518	N/A	<u>115,995.49</u>
<u>Environmental Protection Agency</u>			
Passed Through the North Dakota Public Finance Authority:			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	2801400-02	64,067.00
	66.468	2801400-04	<u>632,028.00</u>
Total Environmental Protection Agency			<u>696,095.00</u>
Total Expenditures of Federal Awards			<u>812,090.49</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehrer, P.C.

Certified Public Accountants

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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 business-type activities and the major fund of the McLean-Sheridan Rural Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the district's basic financial statements, and have issued our report thereon dated June 17, 2022.

Report on 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) as a basis for designing 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards require the auditor to perform limited procedures on the district's response to the findings identified in our audit and 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

June 17, 2022

Rath & Mehrer, P.C.

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited McLean-Sheridan Rural Water District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the district's major federal programs for the year ended December 31, 2021. The district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

In our opinion, the district complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the district and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the district's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the district's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the district's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the district's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the district's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the district's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Rath and Mehrer".

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 17, 2022

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2021

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Business-Type Activities
Major Business-Type Fund

Unmodified
Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major program(s):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major program(s):

Federal Assistance Listing Number

66.468

Name of Federal Program

Capitalization Grants for Drinking Water
State Revolving Fund

Dollar threshold used to distinguish between type A and type B Programs:

\$750,000

Auditee qualified as a low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2021-001 – 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2020-001

2. 2021-002- 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 that 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 external 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2020-002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2021

1. Finding No. 2020-001: Segregation of Duties

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2021-001.

Reasons for Recurrence and Corrective Action Plan: The district has determined that it is not cost effective to employ additional personnel just to adequately segregate duties. See Corrective Action Plan.

2. Finding No. 2020-002: Financial Statement Preparation

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2021-002.

Reasons for Recurrence and Corrective Action Plan: The district feels it is more cost effective to have their external auditors prepare the financial statements and note disclosures. See Corrective Action Plan.

3. Finding No. 2020-003: Pledge of Securities

Status: This finding will not be repeated. Corrective action was taken.

McLean-Sheridan Rural Water District

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MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Corrective Action Plan
For the Year Ended December 31, 2021

1. Finding No. 2021-001: Segregation of Duties

Contact Person: Ann Oberg, General Manager

Corrective Action Plan: The district has determined that it is not cost effective to employ additional personnel just to adequately segregate duties.

Completion Date: McLean-Sheridan Rural Water District will implement when it becomes cost effective.

2. Finding No. 2021-001: Financial Statement Preparation

Contact Person: Ann Oberg, General Manager

Corrective Action Plan: The district feels that it is more cost effective to have their external auditors prepare the financial statements and note disclosures.

Completion Date: McLean-Sheridan Rural Water District will implement when it becomes cost effective.