

FINANCIAL STATEMENTS
TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota

For the Year Ended
JUNE 30, 2022

Prepared By

HURTT, MORTENSON & RYGH
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P.O. Box 287
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TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
TABLE OF CONTENTS
June 30, 2022

LIST OF OFFICIALS.....	1
INDEPENDENT AUDITOR’S REPORT	2
BASIC FINANCIAL STATEMENTS	4
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION	7
STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10
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	21
SCHEDULE OF FINDINGS AND RESPONSES.....	23

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
LIST OF OFFICIALS
June 30, 2022

Scott Nelson	President
Albin Jallo	Vice President
Debbie Behm	Secretary/Treasurer
Mark Landeis	Board Member
Troy Peitron	Board Member
Mike Blessum	Manager



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, 2022, 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.

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, 2022, 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 15, 2022, 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.



Hurt, Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

November 15, 2022

BASIC FINANCIAL STATEMENTS

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF NET POSITION
June 30, 2022

	Business-Type Activities -
	Enterprise Funds
	Water System
ASSETS	
Current assets:	
Cash & Cash Equivalents	\$ 18,265
Cash Restricted for Debt Service	256,845
Accounts Receivable	111,662
Grants and Bond Proceeds Receivable	5,644
Inventory	134,008
Prepaid Expense	21,431
Total Current Assets	547,855
Noncurrent assets:	
Land	11,155
Construction in Progress	95,269
Capital Assets net of Accumulated Depreciation	14,702,020
Total Noncurrent Assets	14,808,444
Other assets:	
Capital Credits - Utility Co-op	61,024
Total Other Assets	61,024
Total Assets	\$ 15,417,323
LIABILITIES:	
Current liabilities:	
Accounts Payable	\$ 49,521
Interest Payable	32,325
Current Maturities LT Debt Paid from Unrestricted Cash	345,146
Total Current Liabilities	426,992
Non-current liabilities	
Bonds Payable	5,585,378
Less: Current Maturities	(345,146)
Total Non-current Liabilities	5,240,232
Total Liabilities	5,667,224
NET POSITION:	
Net Investment in Capital Assets	9,223,066
Restricted for Debt Service	256,845
Unrestricted	270,188
Total Net Position	9,750,099
Total Liabilities and Net Position	\$ 15,417,323

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

Functions/Programs:	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue & Change in Net Position
					Total Business-Type Activities
<u>Primary Government:</u>					
<u>Business Type Activities:</u>					
Water System:					
Production	\$ 1,396,730	\$ 1,479,876	\$ -	\$ 28,327	\$ 111,473
General	53,663	-	-	-	(53,663)
Interest Expense	141,513	-	-	-	(141,513)
Total Business-Type Activities	\$ 1,591,906	\$ 1,479,876	\$ -	\$ 28,327	\$ (83,703)
Total Primary Government	\$ 1,591,906	\$ 1,479,876	\$ -	\$ 28,327	\$ (83,703)
General Revenues:					
Earnings on Investments					\$ 209
New Memberships					10,500
Other Income					12,456
Total General Revenues					23,165
Change in Net Position					(60,538)
Net Position - July 1					9,810,637
Net Position - June 30					\$ 9,750,099

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, 2022

	Business-Type Activities - Enterprise Funds Water System
<u>Operating Revenues:</u>	
Water Sales	\$ 1,371,908
Fees and Penalties	17,470
Backhoe Income	37,778
Miscellaneous Income	52,720
Total Operating Revenue	1,479,876
<u>Operating Expenses:</u>	
Production Expense	
Salaries & Benefits	417,824
Utilities - Pumping	99,400
Repairs & Maintenance	127,239
Water Purchase	77,244
Chemicals	31,367
Vehicle Expense	65,061
Communications	10,663
Backhoe & Truck Expense	10,910
Insurance	18,223
Fees & Permits	3,654
Supplies	882
Miscellaneous	7,906
Depreciation	526,357
Total Production Expense	1,396,730
Gross Profit	\$ 83,146
General Expenses	
Advertising & Printing	6,181
Directors Fees & Expenses	592
Dues & Memberships	4,324
Legal & Professional Fees	14,315
Office Expense	14,538
Taxes - Real Estate	1,092
Training	1,784
Vehicle Expense Reimbursements	196
Utilities	4,108
Depreciation	6,433
Miscellaneous Expense	100
Total General Expense	53,663
Operating Income (Loss)	\$ 29,483

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION - CONTINUED
For the Year Ended June 30, 2022

<u>Non-operating Revenues (Expense)</u>	
Interest Expense	(127,483)
Long Term Debt Administration Fees	(14,030)
Federal Capital Grants	28,327
Capital Credits	12,456
Interest Income	209
Membership Additions	10,500
	<hr/>
Total Non-operating Revenue (Expense)	(90,021)
	<hr/>
Change in Net Position	(60,538)
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Total Net Position - July 1	9,810,637
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Total Net Position - June 30	\$ 9,750,099
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See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

	Business-Type Activities	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,499,744	
Cash paid to suppliers	(451,158)	
Cash paid to employees for services	(417,824)	
Net Cash Flows from Operating Activities		630,762
CASH FLOWS FROM CAPITAL & RELATED FINANCIAL ACTIVITIES:		
Purchases and construction of capital assets	(331,230)	
Proceeds from long-term borrowings	190,261	
Principal paid on long-term debt	(386,402)	
Interest and fees paid on long-term debt	(141,513)	
Proceeds from grants	28,327	
Proceeds from patronage dividends	5,124	
Increase in contributed/donated capital	10,500	
Net Cash Flows from Capital & Related Financial Activities		(624,932)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	209	
Net Cash Flows from Investing Activities		209
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		6,039
CASH & CASH EQUIVALENTS, JULY 1		269,071
CASH & CASH EQUIVALENTS, JUNE 30		\$ 275,110
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)		\$ 29,483
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation		532,790
(Increase) Decrease in Accounts Receivable		376,610
(Increase) Decrease in Prepaid Expenses		(2,938)
Increase (Decrease) in Accounts Payable		(304,814)
Increase (Decrease) in Interest Payable		(368)
Net Cash Provided (Used) by Operating Activities		\$ 630,762

See accompanying notes to the financial statements

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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 \$811 and \$2,010 for the years ended June 30, 2022 and 2021, 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, 2022, the reported amount of the District’s deposits was \$275,109 and the bank balance was \$314,729. Of the bank balance, \$307,885 was covered by Federal Depository Insurance and the remaining amount was adequately covered by pledged securities.

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, 2022 are as follows:

	Phase 5 Water Supply Project	Automated Meter Read Project	Totals
Eligible State Water Commission Grant	1,990,000	-	1,990,000
Eligible Federal Grants	-	74,496	74,496
Total	1,990,000	74,496	2,064,496
Revenue FYE 6/30/2020	471,289	46,169	517,458
Revenue FYE 6/30/2021	1,518,711	-	1,518,711
Revenue FYE 6/30/2022	-	28,327	28,327
Total Receipts to date	1,990,000	74,496	2,064,496
Total Grants Outstanding	-	-	-

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, 2022, 2021, and 2020, the district contributed \$14,953, \$10,680, and \$9,873 respectively.

NOTE 5 CAPITAL ASSETS

Following is a summary of property and equipment and related depreciation for the fiscal year ended June 30, 2022. Total depreciation expense for the year was \$532,790. Fixed assets are presented at historical cost less depreciation. The District has a capitalization policy of capitalizing all assets with a cost over \$1,000 and having an expected life or usage of more than one year.

Business-Type Activities	Balance June 30, 2021	Additions	(Deletions)	Balance June 30, 2022
Non-depreciated assets				
Land	11,155	-	-	11,155
Construction in Progress	46,169	49,100	-	95,269
Total non-depreciated assets	57,324	49,100	-	106,424
Depreciable assets				
Plant Equipment	22,450,520	214,780	-	22,665,300
Machinery & Equipment	895,456	67,350	-	962,806
Buildings	70,483	-	-	70,483
Office Furn. & Equip	83,890	-	-	83,890
Total depreciable assets	23,500,349	282,130	-	23,782,479
Less: accumulated depreciation				
Plant Equipment	(7,696,677)	(473,176)	-	(8,169,853)
Machinery & Equipment	(742,255)	(52,333)	-	(794,588)
Buildings	(40,655)	(848)	-	(41,503)
Office Furn. & Equip	(68,079)	(6,433)	-	(74,512)
Total accumulated depreciation	(8,547,666)	(532,790)	-	(9,080,456)
Net depreciable assets	14,952,683	(250,660)	-	14,702,023
Net business-type activities	\$ 15,010,007	\$ (201,560)	\$ -	\$ 14,808,444

NOTE 6 ACCOUNTS PAYABLE

At June 30, 2022, accounts payable are as follows:

Accounts payable:	
Payroll taxes payable	5,850
Operating expenditures payable	43,671
Total accounts payable	<u>\$ 49,521</u>

NOTE 7 LONG TERM OBLIGATIONS

Below is a summary of long term obligation activity for the year ended June 30, 2022:

Business-Type Activities:	Balance			Balance	Due Within
	06/30/2021	(Paid)	Issued		
Revenue Bonds	\$ 5,725,262	\$ (330,146)	\$ 190,261	\$ 5,585,377	\$ 345,146
Capital Lease Obligations	56,256	(56,256)	-	-	-
Total Business-Type Activities	\$ 5,781,518	\$ (386,402)	\$ 190,261	\$ 5,585,377	\$ 345,146

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, 2022, average annual principal and interest on debt was \$347,134. Total net water revenues for the year ended June 30, 2022 were \$470,513. No interest was capitalized during June 30, 2022; interest incurred and charged to expense totaled \$127,483. On June 30, 2022, principal and interest to maturity in 2042 to be paid from pledged future revenues totaled \$6,942,683.

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

	<u>REVENUE BONDS</u>		
	Principal	Interest	Total
2023	\$ 345,146	\$ 125,523	\$ 470,669
2024	356,146	117,883	474,029
2025	346,146	110,246	456,391
2026	351,146	102,683	453,829
2027	361,146	94,930	456,076
2028-2032	1,598,728	361,458	1,960,186
2033-2037	1,390,728	203,338	1,594,066
2038-2042	1,029,773	47,664	1,077,437
	\$ 5,778,957	\$ 1,163,725	\$ 6,942,683

Revenue bonds outstanding at June 30, 2022 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, 2022, the District had \$19,650 reserved for payment of this issue.

June 30, 2022, Balance \$115,000

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, 2022, the District had \$14,050 reserved for payment of this issue.

June 30, 2022, Balance \$1,050,000

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, 2022, Balance \$27,000

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, 2022, the District had \$26,880 reserved for payment of this issue.

June 30, 2022, Balance \$380,000

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, 2022, the District had \$12,900 reserved for payment of this issue.

June 30, 2022, Balance \$915,000

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, 2022, the District had \$106,120 reserved for payment of this issue.

Series 2019A Bonds Payable	\$1,725,000
Bond Premium	<u>21,957</u>
June 30, 2022, Balance	\$1,746,957

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 \$1,416,421. 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. At June 30, 2022, the District had \$19,855 reserved for payment of this issue.

June 30, 2022, Balance	\$1,351,421
Total Revenue Bond Debt	<u>\$5,585,378</u>

CAPITAL LEASE

The Tri-County Water District was 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 held an interest rate of 3.00% and was amortized over 5 years. Principal and interest payments of \$10,103 were due semi-annually through April 2021, and a balloon payment of \$55,000 was made in October of 2021. This lease obligation is paid off as of June 30, 2022.

June 30, 2022 Balance	\$0
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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 held an interest rate of 3.00% and was amortized over 5 years. Principal and interest payments of \$3,253 were due semi-annually through October of 2021. This lease obligation is paid off as of June 30, 2022.

June 30, 2022 Balance	\$0
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Total Capital Lease Obligations	<u>\$0</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, 2022 for the following water treatment plant expansion projects:

	Phase 5 Water Supply Project
	<hr/>
Committed Costs	\$ 3,494,156
Total Completed	\$ 3,486,663
Percent Complete	99.79%

As of June 30, 2022, the District had outstanding State grant awards of \$0 and outstanding bonds of \$193,579 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

On October 1, 2022, the District refinanced Refunding Revenue Bonds Series 2012 to the Water Treatment Revenue Bond Series 2022. The first principal payment is due September 1, 2023. Future principal and interest requirements on long term obligations issues are as follows:

Water Revenue Series 2022

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ -	\$ 6,813	\$ 6,813
2024	50,000	15,975	65,975
2025	50,000	15,225	65,225
2026	50,000	14,475	64,475
2027	50,000	13,725	63,725
2028-2032	270,000	56,775	326,775
2033-2037	295,000	35,588	330,588
2038-2042	325,000	12,488	337,488
	<u>\$ 1,090,000</u>	<u>\$ 171,063</u>	<u>\$ 1,261,063</u>

Water Revenue Series 2022

Original issue was \$1,090,000 with an interest rate of 1.5% due semiannually and an administrative fee of 0.5% due annually. The principal payments vary from \$50,000 to \$70,000 and are due annually until final maturity at September 1, 2041. ND Public Finance Authority is the debt holder.

No other subsequent events have been identified and subsequent events have been evaluated through November 15, 2022, 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, 2022, 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 15, 2022.

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 2022-1, described in the accompanying schedule of findings and responses, to be a material weakness.

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 2022-2, 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 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 disclose an instance 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 questioned costs as item 2022-3. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statement, other instances of noncompliance or other matters may have been identified and reported herein.

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.



Hurtt, Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

November 15, 2022

TRI-COUNTY WATER DISTRICT
Petersburg, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2022

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2022-1 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 reviewed our recommendations. The governing board agreed the lack of segregation of duties should be, in part, mitigated by board oversight. The board decided two board members will review a random selection of disbursements for sufficient supporting documentation. This review will be done quarterly.

2022-2 Financial Statement Preparation

Condition:

Hurtt, 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 Hurtt, Mortenson & Rygh assist with preparation of financial statements.

FINDINGS RELATED TO COMPLIANCE WITH FINANCIAL REPORTING:

2022-3 Payroll Tax Reporting

Condition:

Inaccurate wage and tax information were provided to both employees and government agencies. Wages were accurately reported in the general ledger, and monthly tax deposits were calculated and paid properly, but adjustments were made to Forms 941, thereby underreporting wages. This caused the District to receive erroneous refunds of taxes paid. Additionally, amounts reported on several North Dakota Forms 306, North Dakota Job Service reports and Forms W2 did not tie to general ledger amounts.

Effect:

Incorrect reporting of wages can result in fines and penalties. For fiscal year ended June 30, 2022, taxable wages reported on forms 941 were underreported by \$21,793. The net effect was payroll taxes were underreported by \$3,288 for year ended June 30, 2022. For multiple employees, taxable wages, federal withholding, and ND state withholding on Form W2s were overreported due to amounts included twice in the wage calculation. The total amount of wages overreported for the W2s was \$5,916, total federal withholding and ND state withholding overreported for the W2s was \$460.

Cause:

The District's internal control did not provide for a reconciliation between payroll reporting and the general ledger resulting in incorrect and inconsistent amounts submitted for the employee W2s, Federal 941, ND Form 306, and ND Job Service reports.

Criteria:

Payroll reporting for the Federal 941, ND Form 306, and ND Job Service reports should be an accurate amount based on wages actually paid by the District for the specified period. Management should perform a reconciliation between the general ledger and applicable payroll reports, such as W2s, Federal 941s, ND Forms 306, and ND Job Service.

Recommendation:

We recommend that management correct the amounts of wages and/or withholding reported on affected Forms 941, North Dakota Form 306, and North Dakota Job Service reports by filing amended forms. We also recommend W2s be amended for affected employees. We recommend the District implement an effective reconciliation process to ensure payroll related items are reported accurately.

Client Response:

The District's management agrees with the recommendations and will file amended W2s for 2021, amended federal 941s for quarters 3 and 4 of 2021 and quarter 2 of 2022, amended ND Forms 306 quarter 4 of 2022, and amended ND Job Service quarters 3 & 4 of 2021, and quarter 1 & 2 of 2022. Management will also begin performing reconciliations when preparing the payroll reports.