

AUDIT REPORT

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

For the Year Ended December 31, 2023

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2023

	<u>Page(s)</u>
District Officials	1
Independent Auditor's Report	2 - 4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	6 - 7
Statement of Cash Flows – Proprietary Fund	8 - 9
Notes to the Financial Statements	10 - 16
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	18 - 19
Report on Compliance for each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	20 - 22
Schedule of Findings and Responses	23 - 24
Summary Schedule of Prior Audit Findings	25
Corrective Action Plan	

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

DISTRICT OFFICIALS
December 31, 2023

Gerard Goven	President
Jeffrey Walcker	Vice President
Darwin Saari	Secretary/Treasurer
Clifton Dockter	Board Member
Jackson Hagen	Board Member
Walter Lipp	Board Member
Terry Strobel	Board Member
Ann Broussard	Manager

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

1003 E. Interstate Ave. Ste. 7
Bismarck, ND 58503-0500
Phone 701-258-4560
rathandmehrer@hotmail.com

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 the McLean-Sheridan Rural Water District, as of and for the year ended December 31, 2023, 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, 2023, 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.

Management has omitted the 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.

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 July 5, 2024 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

July 5, 2024

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Net Position
Proprietary Fund
December 31, 2023

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	822,584.10
Investments	1,492,618.00
Accounts Receivable	96,893.36
Prepaid Expense	10,329.08
Due from ND Department of Water Resources	106,483.12
Due from ND Department of Health	35,495.00
Due from City of Turtle Lake	165,045.18
Due from City of McClusky	424,883.00
Total Current Assets	<u>3,154,330.84</u>
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr.):	
Land	32,000.00
Construction in Progress	11,959,051.00
Buildings and Infrastructure	17,291,517.00
Vehicles	73,551.00
Other Assets	178,044.00
Total Noncurrent Assets	<u>29,534,163.00</u>
Total Assets	<u>32,688,493.84</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Payroll Taxes Payable	426.00
Accounts Payable	136,075.32
Interest Payable	51,954.60
Expansion 2018 Deposits	266,600.00
Revenue Bonds Payable	371,000.00
Total Current Liabilities	<u>826,055.92</u>
<u>Noncurrent Liabilities:</u>	
Revenue Bonds Payable	8,179,923.00
Total Liabilities	<u>9,005,978.92</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	20,983,240.00
Restricted for Construction Projects	469,925.54
Restricted for Debt Service	350,618.00
Unrestricted	1,878,731.38
Total Net Position	<u>23,682,514.92</u>

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, 2023

	<u>Enterprise Fund</u>
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Sales	1,438,909.97
Late Fees	<u>6,229.89</u>
Total Operating Revenues	<u>1,445,139.86</u>
<u>Operating Expenses:</u>	
Governing Board	17,561.58
Salaries and Benefits	392,720.39
Workman's Compensation	2,700.77
Utilities	108,191.91
Chemicals	21,070.88
Supplies	14,020.36
Office Expense	28,994.53
Repairs and Maintenance	71,580.12
Vehicle Expense	45,061.15
Insurance	7,874.00
Professional Fees	20,007.00
Education and Training	2,787.18
Water Purchases	104,007.85
Advertising	6,059.06
Dues and Subscriptions	4,053.55
Other	11,656.57
Depreciation	<u>425,673.00</u>
Total Operating Expenses	<u>1,284,019.90</u>
Operating Income (Loss)	<u>161,119.96</u>

(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, 2023
(continued)

	<u>Enterprise</u> <u>Fund</u>
<u>Non-Operating Revenues (Expenses):</u>	
North Dakota Department of Water Resources	3,887,485.16
Connection Fees	9,000.00
Falkirk Mine Reimbursement	138,005.00
Contribution from the City of Turtle Lake	3,528.00
Contribution from the City of McClusky	3,681.88
Interest/Dividend Income	19,535.90
Other Revenues	4,813.95
Falkirk Mine Project	(124,475.00)
Other Project Costs	(595.59)
Easements	(1,009.00)
Crop Damage Payouts	(116,498.49)
Interest Expense	(192,841.07)
Service Charges	(26,661.32)
	<u>3,603,969.42</u>
Total Non-Operating Revenues (Expenses)	<u>3,603,969.42</u>
Change In Net Position	<u>3,765,089.38</u>
Net Position - January 1	<u>19,917,425.54</u>
Net Position - December 31	<u><u>23,682,514.92</u></u>

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, 2023

	Enterprise Fund
<u>Cash flows from operating activities:</u>	
Receipts from customers	1,429,512.22
Payments to suppliers	(465,626.51)
Payments to employees	(403,266.47)
Net cash provided (used) by operating activities	<u>560,619.24</u>
<u>Cash flows from noncapital financing activities:</u>	
Falkirk Mine reimbursement	138,005.00
Other receipts	4,813.95
Connection fees	9,000.00
Falkirk Mine project	(124,475.00)
Net cash provided (used) by noncapital financing activities	<u>27,343.95</u>
<u>Cash flows from capital and related financing activities:</u>	
North Dakota Department of Water Resources	3,850,318.79
DWSRF bonds issued	1,289,650.00
Contribution from City of Turtle Lake	10,294.90
Contribution from City of McClusky	3,681.88
Customer project deposits	79,625.00
Crop damage payouts	(116,498.49)
Easements	(1,009.00)
Other project costs	(595.59)
Customer project deposits refunds	(3,000.00)
Water tower construction project	(1,945,719.21)
Expansion project	(2,825,978.80)
Water treatment plant expansion project	(306,540.00)
Principal payments	(220,000.00)
Interest expense	(140,886.47)
Service charges	(26,661.32)
Net cash provided (used) by capital and related financing activities	<u>(353,318.31)</u>
<u>Cash flows from investing activities:</u>	
Purchase of investments	(1,319,683.00)
Interest/dividend income	19,535.90
Net cash provided (used) by investing activities	<u>(1,300,147.10)</u>
Net increase in cash and cash equivalents	<u>(1,065,502.22)</u>
Cash and cash equivalents, January 1	<u>1,888,086.32</u>
Cash and cash equivalents, December 31	<u><u>822,584.10</u></u>

(continued)

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2023
(continued)

	<u>Enterprise</u> <u>Fund</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u> <u>(Used) by Operating Activities</u>	
Operating income (loss)	<u>161,119.96</u>
<u>Adjustments to reconcile operating income to net cash</u> <u>provided (used) by operating activities:</u>	
Depreciation expense	425,673.00
Net (increase) decrease in accounts receivable	(15,627.64)
Net (increase) decrease in prepaid expense	(10,329.08)
Net increase (decrease) in payroll taxes payable	<u>(217.00)</u>
Net cash provided (used) by operating activities	<u><u>560,619.24</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, 2023

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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

F. 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 80 years
Vehicles	5 years
Other Assets	10 years

G. 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.

H. Long-Term Obligations

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

I. 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, 2023 the water resource district's carrying amount of deposits was \$2,315,202 and the bank balance was \$2,324,572. Of the bank balance, \$500,000 was covered by Federal Depository Insurance. Of the remaining balance, \$1,824,572 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, 2023, the water resource district held certificates of deposit in the amount of \$1,492,618, 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 **PREPAID EXPENSE**

Prepaid expense consists of amounts paid in 2023, which are applicable to 2024. It is the intent of the district to expense these items in the subsequent year.

Note 5 **DUE FROM ND DEPARTMENT OF WATER RESOURCES**

The amount due from the North Dakota Department of Water Resources 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, 2023, but received subsequent to that date.

Note 6 **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 City of McClusky water tower project and the expansion project for the year ending December 31, 2023, but received subsequent to that date.

Note 7 **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 8 **DUE FROM THE CITY OF MCCLUSKY**

The amount due from the City of McClusky 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 2024.

Note 9 **CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2023:

	Balance January 1	Increases	Decreases	Balance December 31
<i>Capital assets not being depreciated:</i>				
Land	32,000			32,000
Construction in Progress	7,098,652	4,860,399		11,959,051
Total	7,130,652	4,860,399	-	11,991,051
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	22,854,475			22,854,475
Vehicles	155,915			155,915
Other Assets	395,172			395,172
Total	23,405,562	-	-	23,405,562
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	5,183,305	379,653		5,562,958
Vehicles	57,125	25,239		82,364
Other Assets	196,347	20,781		217,128
Total	5,436,777	425,673	-	5,862,450
Total capital assets being depreciated, net	17,968,785	(425,673)	-	17,543,112
Total Capital Assets, Net	25,099,437	4,434,726	-	29,534,163

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

Enterprise Fund	<u>425,673</u>
-----------------	----------------

Note 10 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 11 ACCOUNTS PAYABLE

Accounts payable consist of amounts owed for expenses related to the water resource district's water tower and expansion projects, incurred prior to December 31, 2023 but paid for subsequent to that date.

Note 12 INTEREST PAYABLE

Interest payable consists of interest on long-term liabilities accrued to December 31, 2023.

Note 13 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 14 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2023, 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>7,468,884</u>	<u>1,302,039</u>	<u>220,000</u>	<u>8,550,923</u>	<u>371,000</u>

Outstanding debt at December 31, 2023 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, 2023 are as follows:

\$519,104 Rural Water System Revenue Bonds, due in annual installments of \$30,000 to \$32,000 through September 1, 2027; interest is at 2.5%.	124,000.00
\$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%.	1,085,000.00
\$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%.	350,000.00
\$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>2,070,000.00</u>
Total Revenue Bonds Payable	<u>3,629,000.00</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>
2024	230,000.00	80,662.50
2025	241,000.00	74,412.50
2026	246,000.00	67,887.50
2027	247,000.00	61,212.50
2028	230,000.00	54,512.50
2029-2033	545,000.00	218,837.50
2034-2038	585,000.00	165,562.50
2039-2043	640,000.00	106,837.50
2044-2048	515,000.00	44,400.00
2049-2050	150,000.00	4,837.50
Total	<u>3,629,000.00</u>	<u>879,162.50</u>

The water resource district has also received additional funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority for two additional ongoing projects. Descriptions of each construction project and related funding are as follows:

1. Phase 2 of a water line expansion project. Original funding for this project was \$2,656,000 with additional funding of \$2,004,000 being approved for a total of \$4,660,000.00. As of December 31, 2023, the district had requested drawdowns of \$4,013,665. This project is ongoing as of December 31, 2023 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, 2023 was \$4,013,665. There is still \$646,335 of funding available as of December 31, 2023.

2. Water tower project with the City of McClusky. Original funding for this project was \$1,015,000. As of December 31, 2023, the water resource district had requested drawdowns of \$908,258. This project is ongoing as of December 31, 2023 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, 2023 was \$908,258. There is still \$106,742 of funding available as of December 31, 2023.

Note 15 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 \$5,000,000 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 \$561,365 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 16 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, 2023, the water resource district contributed \$8,684.32.

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Grantor Pass-Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Expenditures
<u>Environmental Protection Agency</u>			
Passed Through the North Dakota Public Finance Authority:			
Capitalization Grants for Drinking Water State			
Revolving Fund	66.468	2801400-04	802,258.42
	66.468	2801400-05	499,781.00
Total Environmental Protection Agency			<u>1,302,039.42</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

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

1003 E. Interstate Ave. Ste. 7
Bismarck, ND 58503-0500
Phone 701-258-4560
rathandmehrer@hotmail.com

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, 2023, and the related notes to the financial statements, which collectively comprise the district's basic financial statements, and have issued our report thereon dated July 5, 2024.

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 2023-001 and 2023-002, 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

July 5, 2024

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

1003 E. Interstate Ave. Ste. 7
Bismarck, ND 58503-0500
Phone 701-258-4560
rathandmehrer@hotmail.com

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, 2023. The district's major federal program is 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 its major federal program for the year ended December 31, 2023.

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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

July 5, 2024

MCLEAN-SHERIDAN RURAL WATER DISTRICT
Turtle Lake, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2023

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Business-Type Activities

Unmodified

Major Business-Type Fund

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

Name of Federal Program

66.468

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. 2023-001 – 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. 2022-001

2. 2023-002- 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. 2022-002

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, 2023

1. Finding No. 2022-001: Segregation of Duties

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2023-001.

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. 2022-002: Financial Statement Preparation

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2023-002.

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.

McLean-Sheridan Rural Water District

987 17th. Avenue NW
Turtle Lake, ND 58575-9649

E-mail msrwater@westriv.com
Website: www.msrwater.com

Phone: 701-448-2686
Fax: 701-448-2315

MCLEAN-SHERIDAN RURAL WATER DISTRICT Turtle Lake, North Dakota

Corrective Action Plan For the Year Ended December 31, 2023

1. Finding No. 2023-001: Segregation of Duties

Contact Person: Ann Broussard, 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. 2023-002: Financial Statement Preparation

Contact Person: Ann Broussard, 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.