

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

*For the Year Ended*  
**JUNE 30, 2017**

Prepared By

**MORTENSON & RYGH**  
*Certified Public Accountants*  
**P.O. Box 287**  
**Park River, North Dakota 58270**

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
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June 30, 2017

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**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**LIST OF OFFICIALS**  
June 30, 2017

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Albin Jallo  
Scott Nelson  
Lana McLean

President  
Vice President  
Secretary/Treasurer

Debby Behm  
Mark Landeis  
Michael Yoney  
John Sweeney

Board Member  
Board Member  
Board Member  
Board Member

Mike Blessum

Manager



**Accounting For Success**

**INDEPENDENT AUDITOR’S REPORT**

Governing Board  
Tri-County Water District  
Petersburg, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Tri County Water District, Petersburg, North Dakota, as of and for the year ended June 30, 2017, 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.

<p><b>CAVALIER</b></p> <p>206 Dakota Street West P.O. BOX 33 Cavalier, ND 58220 (701) 265-8644</p>	<p><b>PARK RIVER</b></p> <p>1203 Park Street East P.O. BOX 287 Park River, ND 58270 (701) 284-7616</p>	<p><b>LANGDON</b></p> <p>817 3rd Street FM Mall Langdon, ND 58249 (701) 256-3559</p>	<p><b>STEPHEN</b></p> <p>413 5th Street P.O. BOX 45 Stephen, MN 56757 (218) 478-2880</p>
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## 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, 2017, 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 3, 2017, on our consideration of the Tri County Water District, Petersburg, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri County Water District, Petersburg, North Dakota's internal control over financial reporting and compliance.



Mortenson & Rygh  
Certified Public Accountants  
Park River, North Dakota

November 3, 2017

## **BASIC FINANCIAL STATEMENTS**

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF NET POSITION**  
June 30, 2017

	<b>Business-Type Activities -</b>
	<b>Enterprise Funds</b>
	<b>Water System</b>
<b>ASSETS</b>	
Current assets:	
Cash & Cash Equivalents	\$ 72,641
Cash Restricted for Debt Service	66,615
Accounts Receivable	96,175
Inventory	42,610
Prepaid Expense	9,375
Total Current Assets	287,417
Noncurrent assets:	
Land	6,155
Capital Assets net of Accumulated Depreciation	9,107,860
Total noncurrent assets	9,114,015
Other assets:	
Capital Credits - Utility Co-op	53,776
Total Other Assets	53,776
Total assets	\$ 9,455,209
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts Payable	\$ 117,032
Interest Payable	53,136
Customer Deposits	2,483
Current Maturities LT Debt	201,056
Total current liabilities	373,708
Non-current liabilities	
Bonds Payable	4,054,668
Lease Payable	150,926
Less: Current Maturities	(201,056)
Total non-current liabilities	4,004,538
Total liabilities	4,378,245
<b>NET POSITION:</b>	
Net investment in capital assets	4,805,003
Restricted for debt service	66,615
Unrestricted	205,345
Total net position	5,076,963
Total liabilities and net position	\$ 9,455,209

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

<b>Functions/Programs:</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue &amp; Change in Net Position</b>
					<b>Total Business-Type Activities</b>
<u>Primary Government:</u>					
<u>Business Type Activities:</u>					
Water System:					
Production	\$ 892,573	\$ 1,051,367	\$ -	\$ 884,868	\$ 1,043,661
General	59,179	-	-	-	(59,179)
Interest Expense	157,377	-	-	-	(157,377)
<b>Total Business-Type Activities</b>	<b>\$ 1,109,129</b>	<b>\$ 1,051,367</b>	<b>\$ -</b>	<b>\$ 884,868</b>	<b>\$ 827,105</b>
<b>Total Primary Government</b>	<b>\$ 1,109,129</b>	<b>\$ 1,051,367</b>	<b>\$ -</b>	<b>\$ 884,868</b>	<b>\$ 827,105</b>
<b>General Revenues:</b>					
Federal & State Aid not restricted to special purposes					
Earnings on Investments					\$ 121
New Memberships					3,350
Other Income					1,569
Total General Revenues					<u>5,040</u>
Change in Net Position					<u>832,145</u>
<b>Net Position - July 1</b>					4,244,818
<b>Net Positon - June 30</b>					<u><u>\$ 5,076,963</u></u>

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, 2017

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	6/30/17
	<b>Business-Type Activities -</b>
	<b>Enterprise Funds</b>
	<b>Water System</b>
<b><u>Operating Revenues:</u></b>	
Water Sales	\$ 934,406
Fees and Penalties	14,417
Backhoe Income	84,518
Miscellaneous Income	18,026
Total Operating Revenue	1,051,367
<b><u>Operating Expenses:</u></b>	
<b>Production Expense</b>	
Salaries & Benefits	285,979
Repairs & Maintenance	57,187
Water purchase	58,625
Chemicals	20,178
Vehicle Expense	37,360
Communications	7,158
Backhoe & Truck Expense	11,947
Insurance	10,359
Fees & Permits	2,197
Supplies	1,241
Utilities - Pumping	73,816
Miscellaneous	90
Depreciation	326,436
Total Production Expense	892,573
Gross Profit	\$ 158,794
<b>General Expenses</b>	
Advertising & Printing	5,067
Bank Charges	5,841
Directors Fees & Expenses	7,783
Dues & Memberships	2,235
Legal & Professional Fees	11,290
Office Expense	8,736
Taxes - Real Estate	35
Vehicle Expense Reimbursements	7,160
Utilities	3,534
Depreciation	6,909
Miscellaneous Expense	589
Total General Expense	59,179
<b>Operating Income (Loss)</b>	\$ 99,614
<b><u>Non-operating Revenues (Expense)</u></b>	
Interest expense	(157,377)
Capital Grants	884,868
Capital Credits	1,569
Interest income	121
Membership additions	3,350
<b>Total Non-operating Revenue (Expense)</b>	732,530
<b>Change in Net Assets</b>	832,145
<b>Total Net Assets - July 1</b>	<b>4,244,818</b>
<b>Total Net Assets - June 30</b>	<b>\$ 5,076,963</b>

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Customers	\$ 1,029,368	
Cash Paid to Employees	(285,979)	
Cash Paid to Suppliers	(329,473)	
Net Cash Provided (Used) by Operating Activities		413,916
 <b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCIAL ACTIVITIES:</b>		
Purchases of capital assets	(1,424,995)	
Patronage Dividends	5,396	
Debt proceeds received	447,029	
Payments on debt	(193,712)	
Interest paid on debt	(156,352)	
Grant Proceeds Received	908,173	
Increase in contributed/donated capital	3,350	
Net Cash Flows from Capital & Related Financial Activities		(411,111)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	121	
Net Cash Flows from Investing Activities		121
 <b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		
		2,926
 <b>CASH &amp; CASH EQUIVALENTS, JULY 1</b>		
		136,330
 <b>CASH &amp; CASH EQUIVALENTS, JUNE 30</b>		
		\$ 139,256
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)		\$ 99,614
 <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Depreciation		333,345
(Increase) Decrease in Accounts Receivable		1,307
(Increase) Decrease in Prepaid Expenses		(903)
Increase (Decrease) in Customer Deposits		300
Increase (Decrease) in Accounts Payable		(19,746)
Net Cash Provided (Used) by Operating Activities		\$ 413,916

See accompanying notes to the financial statements

**TRI-COUNTY WATER DISTRICT**  
**Petersburg, North Dakota**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Tri-County Water District operates as a governmental water district. The district provides water treatment and delivery of water to district members within the geographical boundaries of the district. The financial statements of the water district have been prepared on the accrual basis where revenues are recognized when earned and expenses when incurred. The *Governmental Accounting Standards Board (GASB)* is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The more significant of the government's accounting policies are described below.

**A. Financial Reporting Entity**

The accompanying financial statements present the activities of the Tri-County Water District. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in *GASB Statement No. 14*. The basis, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential unit addressed defining the government's reporting entity:

*Included within the reporting entity:*

There are no component units meeting the criteria for inclusion.

*Excluded from the reporting entity:*

The Petersburg Park District and City. These potential component units have separate elected boards and provide services to residents, generally within the geographic boundaries of the water district. These potential component units are excluded from the reporting entity because the water district does not have the ability to exercise influence over their daily operations, approve budgets, provide funding, and is not responsible for any deficits or debts of these entities. We also considered other cities, school districts and other governmental entities located within the geographical boundaries of the water district and concluded that none of them met the criteria for inclusion as component units.

## **B. Fund Financial Statements**

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. Basis of Accounting**

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. Budgets**

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

## **E. Cash and Cash Equivalents**

Cash includes 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.

## **F. Inventory**

The District maintains an inventory of materials and supplies. Inventory items are stated at cost and are considered expenses when used.

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

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

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories, invested in capital assets net of related debt, restricted and unrestricted. Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories:

*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.”

## **I. 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.

## **J. Bond Discounts/Issuance Costs**

In governmental fund types, bond discounts and issuance costs are recognized in the current period.

## **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 fiscal year ended June 30, 2017, the District's carrying amount of deposits totaled \$139,156 and the bank balances totaled \$160,193. Of the bank balances, \$160,193 was covered by Federal Depository Insurance.

## ***B. Investments***

*Concentration of credit risk* – The risk of loss due to the magnitude of investments in a single issuer. The District only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

*Interest rate risk* – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District only invests in Certificates of Deposit which are always purchased and redeemable at face value.

## **NOTE 3 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, 2017, 2016 and 2015, the district contributed \$9,148, \$8,685 and \$8,106 respectively.

**NOTE 4 CAPITAL ASSETS**

Following is a summary of property and equipment and related depreciation for the fiscal year ended June 30, 2017. Total depreciation expense for the year was \$333,345. Fixed assets are presented at historical cost less depreciation. The District has a capitalization policy of capitalizing all assets with a cost over \$1,000 and having an expected life or usage of more than one year.

<b>Business-Type Activities</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>(Deletions)</b>	<b>Balance June 30, 2017</b>
<b>Non-depreciated assets</b>				
Land	\$ 6,155	\$ -	\$ -	\$ 6,155
Construction in Progress	188,305	-	(188,305)	-
Total non-depreciated assets	194,460	-	(188,305)	6,155
<b>Depreciable assets</b>				
Plant Equipment	13,754,016	1,602,547	-	15,356,564
Machinery & Equipment	718,274	88,831	(22,600)	784,506
Buildings	59,248	-	-	59,248
Office Furn. & Equip	78,430	2,035	-	80,465
Total depreciable assets	14,609,968	1,693,414	(22,600)	16,280,782
<b>Less: accumulated depreciation</b>				
Plant Equipment	(6,209,094)	(276,957)	-	(6,486,051)
Machinery & Equipment	(558,424)	(49,192)	22,600	(585,016)
Buildings	(27,756)	(2,280)	-	(30,036)
Office Furn. & Equip	(66,902)	(4,915)	-	(71,817)
Total accumulated depreciation	(6,862,176)	(333,345)	22,600	(7,172,921)
<b>Net depreciable assets</b>	<b>7,747,792</b>	<b>1,360,069</b>	<b>-</b>	<b>9,107,861</b>
<b>Net business-type activities</b>	<b>\$ 7,942,253</b>	<b>\$ 1,360,069</b>	<b>\$ (188,305)</b>	<b>\$ 9,114,015</b>





Water Treatment Revenue Bonds of 2015

Original issue will be for \$750,000, of which \$225,000 will be forgiven, resulting in a remaining \$525,000 balance. As of June 30, 2017, the district has only received proceeds of \$416,000; the remaining \$109,000 is expected to be received during the year ending June 30, 2018. 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 2035. Starting September 1, 2016, the District was required to set aside reserves for the payment of this issue in the amount of \$7,140 each year until the reserves have reached \$35,700. As of June 30, 2017, the District has reserved \$7,140 for payment of this issue.

June 30, 2017 Balance	396,000
Total Revenue Bond Debt	<u>\$4,054,668</u>

OTHER DEBT – The Tri-County Water District is obligated to the following other debt issues:

Caterpillar Financial

In 2016, the District entered into a lease agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar excavator and skid steer. The lease holds an interest rate of 3.00% and is amortized over 5 years. Principal and interest payments of \$10,103 are due semi-annually through April 2021, with a balloon payment of \$55,000 due in October of 2021.

June 30, 2017 balance	\$123,729
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Caterpillar Financial

In 2016, the District entered into a lease agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar generator. The lease holds an interest rate of 3.00% and is amortized over 5 years. Principal and interest payments of \$3,253 are due semi-annually through October of 2021.

June 30, 2017 balance	<u>\$27,197</u>
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Total Other Debt	<u>\$150,926</u>
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Below is a summary of debt activity for the year ended June 30, 2017:

**Summary of Debt Activity:**

Business-Type Activities:	Balance 7/1/2017	(Paid)	Issued	Balance 6/30/2017	Due Within One Year
Revenue Bonds	\$ 3,859,564	\$ (174,762)	\$ 369,865	\$ 4,054,668	\$ 178,707
Other Debt	92,712	(103,640)	161,854	150,926	22,350
Total Business-Type Activities	<u>\$ 3,952,276</u>	<u>\$ (278,402)</u>	<u>\$ 531,719</u>	<u>\$ 4,205,594</u>	<u>\$ 201,056</u>

Future principal and interest requirements on these issues are as follows:

	<u>REVENUE BONDS</u>			<u>OTHER DEBT</u>		
	Principle	Interest	Total	Principle	Interest	Total
2018	178,707	153,511	332,218	22,350	4,361	26,711
2019	179,544	147,168	326,712	23,025	3,686	26,711
2020	190,417	140,476	330,893	23,721	2,990	26,711
2021	201,328	133,397	334,725	24,438	2,273	26,711
2022	207,276	125,896	333,173	57,392	861	58,253
2023-2027	1,026,089	510,324	1,536,413	-	-	-
2028-2032	790,648	326,432	1,117,080	-	-	-
2033-2037	516,276	213,506	729,782	-	-	-
2038-2042	526,609	101,966	628,575	-	-	-
2043-2047	237,774	25,029	262,803	-	-	-
2048-2052	-	-	-	-	-	-
	\$ 4,054,668	\$ 1,877,706	\$ 5,932,374	\$ 150,926	\$ 14,171	\$ 165,097

**NOTE 7 DEBT RESERVE REQUIREMENTS**

USDA Rural Development Revenue Bonds of 2005 require the District to maintain a debt reserve account of \$106,120. In order to assist with the costs associated with repairing water pipe damage caused by freezing, USDA granted the District a waiver on the reserve requirements. In November 2017, the district set aside reserves of \$84,870 and anticipates setting aside the remaining \$21,250 by June 30, 2018.

**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 is 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      GRANTS**

The District was awarded two grants to assist in funding the water treatment plant expansion project that began in the spring of 2016, and was completed in December, 2016. The ND State Water Commission awarded grants totaling \$845,000. The ND Department of Health awarded loan forgiveness of \$225,000.

**Accounting For Success**

**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, 2017, 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 3, 2017.

**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.

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. 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.

CAVALIER

206 Dakota Street West  
P.O. BOX 33  
Cavalier, ND 58220  
(701) 265-8644

PARK RIVER

1203 Park Street East  
P.O. BOX 287  
Park River, ND 58270  
(701) 284-7616

LANGDON

817 3rd Street  
FM Mall  
Langdon, ND 58249  
(701) 256-3559

STEPHEN

413 5th Street  
P.O. BOX 45  
Stephen, MN 56757  
(218) 478-2880

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. We did identify internal control deficiency 2017-1, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Tri County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Tri County Water District, Petersburg, North Dakota's Response to Findings**

Tri County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Tri County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mortenson & Rygh  
Certified Public Accountants  
Park River, North Dakota

November 3, 2017

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

**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended June 30, 2017**

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

**2017-1 Segregation of Duties**

**Condition:**

The Tri-County Water District has primarily two individuals responsible for most accounting functions and general ledger maintenance.

**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:**

Due to the size and funding limitations of the District, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the District do so. We further recommend that the District implement any controls possible to separate the functions of approval posting of transactions, reconciliation, and custody of assets.

**Client Response:**

The District's manager agrees with the recommendation. The manager does approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the manager.