

Tripp County Water User District

**Independent Auditor's Report
and Financial Statements**

**For the Years Ended
December 31, 2020 and 2019**

Tripp County Water User District
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**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***

To the Board of Directors
Tripp County Water User District
Winner, South 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 the Tripp County Water User District of Winner, South Dakota, (District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated May 27, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tripp County Water User 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 Tripp County Water User District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Tripp County Water User 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tripp County Water User 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "CLO Prof LLC".

Chamberlain, South Dakota
May 27, 2021



Independent Auditor's Report

To the Board of Directors
Tripp County Water User District
Winner, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Tripp County Water User District, South Dakota, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Tripp County Rural Water User District, South Dakota'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 an opinion 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 District'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 opinion.

Opinion

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 Tripp County Rural Water User District, South Dakota, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2021, on our consideration of the Tripp County Rural Water User District, South Dakota'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 Tripp County Rural Water User District, South Dakota'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 Tripp County Rural Water User District, South Dakota's internal control over financial reporting and compliance.



Chamberlain, South Dakota

May 27, 2021

Tripp County Water User District
Management's Discussion and Analysis
For the Years Ended
December 31, 2020 and 2019

Management's Discussion and Analysis

Our discussion and analysis of Tripp County Water User District's financial performance provides an overview of the Water District's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the Water District's financial statements, which begin on page 12.

Financial Highlights

- During 2020, the Water District's net capital assets increased by \$908,395, or 4.2% as a result of water system improvements, equipment purchases & disposals, and depreciation expense. During 2019 net capital assets decreased by \$755,975, or 3.37% as a result of water system improvements, equipment purchases & disposals, and depreciation expense.
- For the 2020 fiscal year, water sales for the District were \$3,041,640, an increase of \$243,131, or 8.7% from 2019, while operating expenses were \$2,441,351, a decrease of \$200,828, or 7.6% from 2019. For the 2019 fiscal year, water sales for the District were \$2,798,509, a decrease of \$107,651, or 3.7% from 2018, while operating expenses were \$2,642,179, an increase of \$148,322, or 5.9% from 2018.
- The Water District had an increase of \$3,144,538 in net position in the 2020 fiscal year and an increase of \$57,492 in net position in the 2019 fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position (on pages 12 through 13) provide information about the activities of the Water District as a whole and present a longer-term view of the Water District's finances.

Tripp County Water User District
Management's Discussion and Analysis
For the Years Ended
December 31, 2020 and 2019

Reporting the Water District as a Whole

One of the most important questions asked about the Water District's finances is, "Is the Water District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Water District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water District's net position and changes in them. You can think of the Water District's net position - the difference between assets and liabilities - as one way to measure the Water District's financial health, or financial position. Over time, increases or decreases in the Water District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Water District's water revenue base and the condition of the Water District's water distribution system, to assess the overall health of the Water District.

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, the Water District only has one type of activity.

- Business-type activities – The Water District charges a fee to customers to help it cover all of the cost of operating the water distribution system.

Reporting the Water District's Significant Funds

Because the Water District only has one fund (a proprietary fund), no fund statements were presented in the financial reports. The proprietary fund uses the following approach in its financial statement presentation.

- Proprietary funds – When the Water District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position.

Tripp County Water User District
Management's Discussion and Analysis
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The Water District as a Whole

The Water District's combined net position changed from 2019 to 2020 – increasing from \$9.93 million to \$13.14 million, for a \$3.2 million, or 31.9% increase in net position. From 2018 to 2019, combined net position increased from \$9.94 million to \$9.99 million, for a \$57 thousand, or 0.58% increase. Our analysis below will focus on the net position (Table 1) and changes in net position (Table 2) of the Water District's business-type activities.

	Table 1 Net Position		
	Business-type Activities		
	2020	2019	2018
Current and other assets	\$ 6,825,714	\$ 5,119,403	\$ 4,592,338
Capital assets	<u>22,562,598</u>	<u>21,654,203</u>	<u>22,410,178</u>
Total assets	<u>\$ 29,388,312</u>	<u>\$ 26,773,606</u>	<u>\$ 27,002,516</u>
Long-term debt outstanding	\$ 15,552,441	\$ 16,097,364	\$ 16,437,547
Other liabilities	<u>697,889</u>	<u>682,798</u>	<u>629,017</u>
Total liabilities	16,250,330	16,780,162	17,066,564
Invested in capital assets, net of debt	6,465,234	5,021,573	5,489,031
Restricted for debt service & reser	427,907	471,744	221,832
Restricted for retirement	204,693	206,217	195,396
Unrestricted (deficit)	<u>6,040,148</u>	<u>4,293,910</u>	<u>4,029,693</u>
Total net position	<u>13,137,982</u>	<u>9,993,444</u>	<u>9,935,952</u>
Total liabilities and net position	<u>\$ 29,388,312</u>	<u>\$ 26,773,606</u>	<u>\$ 27,002,516</u>

Net position of the Water District increased by 31.9% (\$13.14 million compared to \$9.99 million) in 2020. In 2019, net position increased by 0.58% (\$9.99 million compared to \$9.70 million). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$1,746,238, or 40.6% (\$4.29 million compared to \$6.04 million) in 2020 and increased \$264,217, or 6.56% (\$4.29 million compared to \$4.03 million).

Tripp County Water User District
Management's Discussion and Analysis
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Table 2
Changes in Net Position

	Business-type		
	Activities		
	2020	2019	2018
Revenues			
Program revenues:			
Water sales	\$ 3,041,640	\$ 2,798,509	\$ 2,906,160
Rent	60,159	61,239	62,319
Other operating revenue	272,748	131,846	196,972
Nonoperating revenues:			
Interest income	112,089	127,422	49,001
Gain on sale of assets	--	16,545	--
Total Revenues	<u>\$ 3,486,636</u>	<u>\$ 3,135,561</u>	<u>\$ 3,214,452</u>
Expenses			
Operating expenses:			
Cost of sales & service	741,220	917,432	819,230
Administrative	460,298	501,682	429,920
Depreciation	1,239,833	1,223,065	1,244,707
Nonoperating expenses:			
Interest expense	<u>391,424</u>	<u>435,890</u>	<u>467,687</u>
Total Expenses	<u>2,832,775</u>	<u>3,078,069</u>	<u>2,961,544</u>
Income Before Contributions	653,861	57,492	252,908
Capital Contributions	2,490,677	--	--
Net Change in Net Position	3,144,538	57,492	252,908
Net Position - Beginning of Year	9,993,444	9,935,952	9,698,045
Prior Period Adjustment	--	--	(15,001)
Adjusted Net Position, Beginning of Year	<u>9,993,444</u>	<u>9,935,952</u>	<u>9,683,044</u>
Net Position - End of Year	<u>\$ 13,137,982</u>	<u>\$ 9,993,444</u>	<u>\$ 9,935,952</u>

In 2020, the total revenues of the Water District increased by \$351,075, or 11.2%, mainly from water sales. In 2019, the total revenues of the Water District decreased by \$78,891, or 2.45%. The total cost of all programs and services decreased by \$245,294, or 8% in 2020, compared to an increase of \$116,525, or 3.93% in 2019.

Tripp County Water User District
Management's Discussion and Analysis
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The Water District's revenues from its operating activities (see Table 2) increased by \$382,953, or 12.8% in 2020 compared to decreased by \$173,857, or 5.49% in 2019, \$3,374,547 in 2020, and \$2,991,594 in 2019) while operating expenses decreased by \$200,828, or 7.6% in 2020 and increased by \$148,322, or 5.9% in 2019.

The Water District's Funds

As the Water District completed the year, it reported a fund balance of \$13,137,982, which was more than \$9,993,444 in 2019. The following events that caused changes in fund balances should be noted:

- As shown in Note 3 to the financial statements, the Water District added capital assets in the amount of \$2,148,228 this year, 51.4% of that being in construction in progress. The District added capital assets in the amount of \$467,090 in 2019.
- As shown in Note 5 to the financial statements, the Water District made principal payments during 2020 of \$532,090. During 2019, the Water district paid principal payments of \$3,863,796 and acquired \$3,575,279 in new debt.
- During 2020 and 2019, the Water District also received \$88,513 and \$61,550, respectively, in "Tap Fees" from new hook-ups from its members, which is included as a component of other operating revenue on the statement of changes in net position.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020 the Water District had \$46,778,002 invested in a broad range of capital assets, including land, buildings, equipment, and the water distribution system. (See Table 3). This amount represents an increase of capital assets owned by the Water District (including additions and deductions) of \$2,117,748, or 4.7%. At the end of 2019, the Water District had \$44,660,254 invested in a broad range of capital assets, including land, buildings, equipment, and the water distribution system.

Tripp County Water User District
Management's Discussion and Analysis
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Table 3
Capital Assets at Year-end
(Net of Depreciation)

	Business-type		
	Activities		
	2020	2019	2018
Land	\$ 645,247	\$ 645,247	\$ 645,247
Buildings	415,355	402,800	402,800
Equipment	832,532	725,864	659,348
Construction in progress	1,106,233	--	--
Water system	43,778,635	42,886,343	42,503,021
	<u>46,778,002</u>	<u>44,660,254</u>	<u>44,210,416</u>
Less depreciation	24,215,404	23,006,051	21,800,238
Totals	<u>\$ 22,562,598</u>	<u>\$ 21,654,203</u>	<u>\$ 22,410,178</u>

Major additions included:

2020: Water system improvements.

2019: Water system improvements.

The Water District's fiscal year 2020 capital plans consist of continuing internal upgrade projects including replacing meters, meter pits, adding waterline and sensus tower upgrades. The total expected cost for these projects is approximately \$670,500, which will be paid through internal funding. Also, the Water District will be installing ten miles of pipe around the Witten area, and will be installing new water crossings throughout the service area. Both of these projects are to assist the Keystone XL Pipeline and will be reimbursed by the Keystone XL Pipeline at an estimated cost of \$1,814,000.

Debt

At year-end, the Water District had \$16.09 million in bonds and notes outstanding, versus \$16.63 million last year and \$16.9 million in 2018 – a decrease of \$535,266, or 3.2% in 2020 and a decrease of \$288,517, or 1.71% in 2019, or 5.64% in 2018 – as shown in Table 4.

	Business-type		
	Activities		
	2020	2019	2018
Loans payable	\$ 12,641,320	\$ 13,058,410	\$ 16,921,147
2019 Bond Indebtedness, net	3,456,044	3,574,220	--
Totals	<u>\$ 16,097,364</u>	<u>\$ 16,632,630</u>	<u>\$ 16,921,147</u>

Tripp County Water User District
Management's Discussion and Analysis
For the Years Ended
December 31, 2020 and 2019

More detailed information about the Water District's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Water District's Board of Directors has approved the budget for the next fiscal year. Also, water rates have been set to provide adequate cash flow to fund operating expenses as well as debt obligations.

Contacting the Water District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Water District's finances and to show the Water District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Water District office at 1052 West 1st Street, Winner, SD 57580.

Tripp County Water User District
Statements of Net Position

	December 31,	
	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,126,447	\$ 2,460,788
Accounts receivable	273,713	225,304
Inventory	176,334	179,263
Prepaid expenses	38,883	36,893
Total Current Assets	4,615,377	2,902,248
Restricted Noncurrent Assets		
Restricted assets		
Cash and cash equivalents	305,364	303,953
Certificates of deposits	122,543	167,791
Retirement plan deposit	204,693	206,217
Total Noncurrent Assets	632,600	677,961
Capital assets		
Land	645,247	645,247
Buildings	415,355	402,800
Equipment	832,532	725,864
Construction in progress	1,106,233	--
Water system	43,778,635	42,886,343
Total Property, Plant and Equipment	46,778,002	44,660,254
Less accumulated depreciation	24,215,404	23,006,051
Net Property, Plant and Equipment	22,562,598	21,654,203
Other Noncurrent Assets		
Certificates of deposits	1,576,043	1,537,500
Other noncurrent assets	1,694	1,694
Total Other Noncurrent Assets	1,577,737	1,539,194
	\$ 29,388,312	\$ 26,773,606
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 41,909	\$ 39,339
Accrued interest	110,635	107,979
Current maturities of long-term debt	544,923	535,266
Other current liabilities	422	214
Total Current Liabilities	697,889	682,798
Noncurrent Liabilities		
Loans payable	15,552,441	16,097,364
Total Noncurrent Liabilities	15,552,441	16,097,364
Net Position		
Net investment in capital assets	6,465,234	5,021,573
Restricted for debt service and reserves	427,907	471,744
Restricted for retirement	204,693	206,217
Unrestricted	6,040,148	4,293,910
Total Net Position	\$ 13,137,982	\$ 9,993,444

The accompanying Notes to Financial Statements are an integral part of this statement.

Tripp County Water User District
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended	
	December 31,	
	2020	2019
Operating Revenues:		
Water sales	\$ 3,041,640	\$ 2,798,509
Rent	60,159	61,239
Other	272,748	131,846
Total Operating Revenue	<u>3,374,547</u>	<u>2,991,594</u>
Operating Expenses:		
Cost of sales and service	741,220	917,432
Administration	460,298	501,682
Depreciation	1,239,833	1,223,065
Total Operating Expenses	<u>2,441,351</u>	<u>2,642,179</u>
Operating Income	<u>933,196</u>	<u>349,415</u>
Nonoperating Revenues (Expense):		
Interest income	112,089	127,422
Interest expense	(391,424)	(435,890)
Gain on sale of assets	--	16,545
Total Nonoperating Revenue (Expense)	<u>(279,335)</u>	<u>(291,923)</u>
Income Before Contributions	653,861	57,492
Capital Contributions	2,490,677	--
Net Change in Net Position	3,144,538	57,492
Net Position - Beginning of Year	<u>9,993,444</u>	<u>9,935,952</u>
Net Position - End of Year	<u>\$ 13,137,982</u>	<u>\$ 9,993,444</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Tripp County Water User District
Statements of Cash Flows

	Years Ended	
	December 31,	
	2020	2019
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,993,231	\$ 2,781,111
Cash paid to suppliers	(583,218)	(757,180)
Cash paid to employees	(613,059)	(671,173)
Other receipts	332,907	193,085
Net Cash Provided by Operating Activities	2,129,861	1,545,843
Cash Flows from Capital and Related Financing Activities:		
Capital contributed	2,490,677	--
Purchase of capital assets	(2,148,228)	(450,545)
Principal paid on capital debt	(532,090)	(3,862,732)
Proceeds from bond issuance	--	3,575,279
Interest expense paid	(391,944)	(393,085)
Net Cash (Used) in Capital and Related Financing Activities	(581,585)	(1,131,083)
Cash Flows from Investing Activities:		
Redemption of certificates of deposit	48,158	--
Purchase of certificates of deposit	(41,453)	(39,180)
Interest received	112,089	127,422
Net Cash Provided by Investing Activities	118,794	88,242
Net Increase in Cash and Cash Equivalents	1,667,070	503,002
Cash, Cash Equivalents, and Restricted Cash, at Beginning of Year	2,764,741	2,261,739
Cash, Cash Equivalents, and Restricted Cash, at End of Year	\$ 4,431,811	\$ 2,764,741
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 933,196	\$ 349,415
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,239,833	1,223,065
(Increase) decrease in:		
Accounts receivable	(48,409)	22,312
Inventory	2,929	4,216
Prepaid expenses	(1,990)	(590)
Retirement deposit	1,524	(10,821)
Increase (Decrease) in:		
Accounts payable - trade	2,570	(2,095)
Unearned revenues	--	(39,710)
Other current liabilities	208	51
Net Cash Provided by Operating Activities	\$ 2,129,861	\$ 1,545,843
Composition of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 4,126,447	\$ 2,460,788
Restricted cash and cash equivalents	305,364	303,953
	\$ 4,431,811	\$ 2,764,741

The accompanying Notes to Financial Statements are an integral part of this statement.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

1. Significant Accounting Policies:

Reporting Entity: The Tripp County Water User District (the District) was created in 1972 for the purpose of financing, constructing, maintaining and operating a rural water distribution system. The District was organized under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district.

The District operates under the direction of a Board of Directors who are elected by the members of the district and provides safe drinking water to its members throughout south central South Dakota.

Basis of Presentation: Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or service. Activities are required to be reported as enterprise funds if any one of the following criteria is met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
2. Laws or regulations require that the activity’s cost of providing services, including capital costs (such as depreciation of debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The financial statements are presented using the economic resources measurement focus, applied on the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Deposits, Investments and Cash Equivalents: For the purpose of the District’s Statement of Cash Flows, the District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

1. Significant Accounting Policies: (continued)

Deposits, Investments and Cash Equivalents: (continued)

Deposits – The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of open-end, no-load funds administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District’s cash and cash equivalents consisted only of checking and savings accounts, and money market accounts. At December 31, 2020 and 2019, investments classified in the financial statements consist entirely of certificates of deposits whose terms to maturity at date of acquisition exceeds three months. These accounts are insured or collateralized in the District’s name.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits eligible investments of the District as discussed above. The District has no investment policy that would further limit its investment choices.

Concentration Risk: The District places no limit on the amount that may be invested in any one issuer.

Federal Income Taxes: The District qualifies as a political subdivision incorporated under the laws of South Dakota and is not subject to federal income taxes. South Dakota does not levy a state income tax.

Inventory: The District’s inventories, consisting of parts, materials and supplies, are stated at the lower of cost or market, using the first-in, first-out method.

Property, Plant and Equipment: Assets in property, plant and equipment are stated at cost. The District provides for depreciation on a straight-line basis at an annual rate which will amortize the undepreciated cost of depreciable property over estimated remaining service lives. The cost of current repairs and minor replacements is charged to appropriate operating expense and clearing accounts, and the cost of renewals and betterments is capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

1. Significant Accounting Policies: (continued)

Property, Plant and Equipment: (continued)

Estimated useful lives for financial reporting purposes are as follows:

	<u>Years</u>
Vehicles	3-5
Equipment	5-12
Buildings	20-35
Water System	20-40

The District currently capitalizes all property, plant and equipment purchases exceeding \$5,000 that have a useful life exceeding one year.

Unearned Revenues: The District has all taps on a monthly bill and read service. There are no unearned revenues reported in the accompanying financial statements.

Capitalized Interest: Interest costs are capitalized when incurred by the District on debt where proceeds are used to finance the construction of assets. Interest earned on proceeds, if any, of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. In 2020 and 2019 \$0 in construction period interest was capitalized.

Revenue Recognition: Revenues are recorded based on cycle billings rendered. Unbilled service amounts are not recognized until billed and are considered immaterial. Customer accounts receivable are deemed fully collectable, therefore, no allowance for doubtful accounts has been established.

Operating Revenues and Expenditures: Operating revenues and expenses for the District are those that result from providing services and include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Net Position: Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) 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.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

1. Significant Accounting Policies: (continued)

Net Position: (continued)

2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted net position – All other net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Accumulated Unpaid Vacation and Sick Leave: Employees earn 12 to 18 days of annual leave per calendar year depending upon length of employment. In the event of termination, an employee is reimbursed for only unused accumulated annual leave. Employees are required to use their accumulated annual leave in the year in which it is earned; if not used, the annual leave is lost. Therefore, there is no accrual for annual leave at the end of the calendar year.

Sick leave is accumulated by full-time employees at a rate of 1 day per month of employment, not to exceed 180 days. No cash payment will be made for sick leave upon termination; therefore, no accrual is recognized.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

2. Restricted Assets:

Restricted assets consisted of the following on December 31,

	2020	2019
Restricted deposit required by USDA	\$ 427,907	\$ 471,744
	<u>\$ 427,907</u>	<u>\$ 471,744</u>

These funds are presented as restricted for debt service as part of net position on the Statements of Net Position.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

3. Capital Assets:

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Balance			Balance
	January 1, 2020	Additions	Deletions	December 31, 2020
Land	\$ 645,247	\$ --	\$ --	\$ 645,247
Buildings	402,800	12,555	--	415,355
Equipment	725,864	137,148	(30,480)	832,532
Construction in progress	--	1,106,233	--	1,106,233
Water System	42,886,343	892,292	--	43,778,635
Total, being depreciated	<u>44,660,254</u>	<u>2,148,228</u>	<u>(30,480)</u>	<u>46,778,002</u>
Less accumulated depreciation for:				
Buildings	161,508	14,227	--	175,735
Equipment	598,934	39,383	(30,480)	607,837
Water System	22,245,609	1,186,223	--	23,431,832
Total accumulated depreciation	<u>23,006,051</u>	<u>1,239,833</u>	<u>(30,480)</u>	<u>24,215,404</u>
Net Capital Assets	<u>\$ 21,654,203</u>	<u>\$ 908,395</u>	<u>\$ --</u>	<u>\$ 22,562,598</u>

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance			Balance
	January 1, 2019	Additions	Deletions	December 31, 2020
Land	\$ 645,247	\$ --	\$ --	\$ 645,247
Buildings	402,800	--	--	402,800
Equipment	659,348	83,768	(17,252)	725,864
Water System	42,503,021	383,322	--	42,886,343
Total, being depreciated	<u>44,210,416</u>	<u>467,090</u>	<u>(17,252)</u>	<u>44,660,254</u>
Less accumulated depreciation for:				
Buildings	147,880	13,628	--	161,508
Equipment	581,103	35,083	(17,252)	598,934
Water System	21,071,255	1,174,354	--	22,245,609
Total accumulated depreciation	<u>21,800,238</u>	<u>1,223,065</u>	<u>(17,252)</u>	<u>23,006,051</u>
Net Capital Assets	<u>\$ 22,410,178</u>	<u>\$ (755,975)</u>	<u>\$ --</u>	<u>\$ 21,654,203</u>

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

4. Long-Term Debt:

The following is a summary of changes in long-term debt:

	<u>Debt</u> <u>12/31/2019</u>	<u>Retired</u>	<u>Additions</u>	<u>Debt</u> <u>12/31/2020</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable:					
State of SD - Revolving Fund	\$ 13,058,410	\$ 417,090	\$ --	\$ 12,641,320	\$ 426,747
2019 Bond Indebtedness	3,480,000	115,000	--	3,365,000	115,000
Unamortized Premiums	94,220	3,176	--	91,044	3,176
Total Debt	<u>\$ 16,632,630</u>	<u>\$ 535,266</u>	<u>\$ --</u>	<u>\$ 16,097,364</u>	<u>\$ 544,923</u>

		2020	2019
State of SD-Revolving Fund #C462434-01	2.5%, due in quarterly installments of \$41,364. Due October, 2034.	\$ 1,949,370	\$ 2,064,291
State of SD-Revolving Fund #C462434-02	0.0%, due in monthly installments of \$1,096. Due October, 2034.	61,352	65,734
State of SD-Revolving Fund SRF Loan	2.25%, due in quarterly installments of \$135,2046. Due October, 2046.	10,630,598	10,928,385
Robeert W Baird & Co, Inc - 2019 Revenue Bond	3.00% due in monthly installments of \$18,281.33. Due July, 2044. Net of unamortized premiums.	3,456,044	3,574,220
		<u>16,097,364</u>	<u>16,632,630</u>
	Less Current Portion	<u>(544,923)</u>	<u>(535,266)</u>
	Long-Term Debt	<u>\$ 15,552,441</u>	<u>\$ 16,097,364</u>

The State Revolving Fund Loans are secured by real estate, goods, and equipment.

The Bonds constitute an absolute and unconditional obligation of the District and shall be payable solely from its gross revenues and amounts held therefore by the Trustee under resolution.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

4. Long-Term Debt: (continued)

The annual requirements to retire debt is as follows:

<u>Year(s) Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2021	\$ 544,923	\$ 385,215	\$ 930,138
2022	551,631	371,883	923,514
2023	566,746	358,317	925,063
2024	577,099	344,364	921,463
2025	592,694	330,170	922,864
2026-2046	13,264,271	3,310,786	16,575,057
	<u>\$ 16,097,364</u>	<u>\$ 5,100,735</u>	<u>\$ 21,198,099</u>

5. Restricted Net Position:

The following table shows the net position restricted as shown on the Statements of Net Position:

<u>Description</u>	<u>Restricted by</u>	<u>2020</u>	<u>2019</u>
Restricted for Debt Service	USDA	\$ 427,907	\$ 471,744
Restricted for Retirement	NTCA	\$ 204,693	\$ 206,217

6. Retirement Plan:

The Water District participates in the National Telephone Cooperative Association (NTCA), a cost-sharing, multiple employers defined benefit pension plan. This plan is authorized by SDCL 46A-9-78.

Employees who retire at or after age 65 are entitled to a retirement benefit, payable monthly for life. The benefit is based on the final average earnings multiplied by a product of 2.168% multiplied by the sum of the accumulated system and participant net contribution percent. Employees may retire at or after age 55 and receive reduced benefits. There are no vesting requirements. The retirement system also provides death benefits.

The National Telephone Cooperative Association issues a stand-alone financial report on an annual basis. Copies are available at the NTCA's service center located in Asheville, NC or can be reviewed at the District's administrative office.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

6. Retirement Plan: (continued)

Covered employees are required to contribute 5 percent of their gross salary to the plan. The District is required to contribute an amount equal to 12.3 percent of the employee's gross salary. These provisions are established by the District's Board of Directors and may be amended contingent upon approval by USDA Rural Development.

Contribution Information:	2020	2019	2018	2017	2016	2015	2014
Contribution requirements (total of employee and employer contribution)	\$ 78,778	\$ 86,246	\$ 84,366	\$ 82,701	\$ 71,107	\$ 62,060	\$ 50,009
Water District contribution	\$ 62,402	\$ 67,800	\$ 66,657	\$ 64,642	\$ 52,370	\$ 44,303	\$ 35,741
Percent of covered payroll	12.85%	12.85%	12.85%	12.85%	12.85%	12.85%	11.08%
Employee contribution	\$ 16,376	\$ 18,446	\$ 17,709	\$ 18,059	\$ 18,737	\$ 17,757	\$ 14,268
Contribution deficiency (excess)	--	--	--	--	--	--	--

100% of the contribution requirements were contributed for all years.

In September 2016, the District received correspondence from NTCA informing the District of a plan to increase employer match costs over the next twelve years. In lieu of annual assessment, members of the NTCA plan could pre-fund the entire estimated assessment (surcharge). Pre-funded contributions will be invested with other plan funds and will grow (or lose value) at the same rate as the program's overall investment returns. If funds remain in the District's pre-funding account, surcharge contributions will be paid from that account. At the end of the surcharge period, any assets remaining in the District's pre-funding account may be applied toward future program contributions. The District made the decision to pre-fund the assessment, which is presented on the Statements of Net Positions as retirement plan deposit.

7. Risks of Loss:

Tripp County Water User District is exposed to certain risks of loss, such as fire, casualty, and damage to property. The Water District has purchased adequate commercial insurance to minimize the loss from these occurrences. There have been no settlements exceeding insurance coverage during the preceding fiscal year.

8. Construction Loan Funding for System Improvements and Expansion:

The South Dakota State Board of Water and Natural Resources in October 2014 approved \$11.75 million in funding from the Drinking Water State Revolving Loan Fund for the District's improvement and expansion project. The thirty-year loan for the project carries a 2.25% annual percentage rate. Repayment began in January 2017.

The project involved major improvements to the District's drinking water distribution mains, service lines, pump stations, and storage capacity. It also involved expanding the distribution system to include 95 new users and installing meter pits to 85 users in areas currently served. The substantial completion date was October 15, 2016, with final costs and loan disbursements completed in 2017.

Tripp County Water User District

Notes to Financial Statements

December 31, 2020 and 2019

9. Risks and Uncertainties:

As a result of the spread of the SARS-COV-2 virus, the incidence of COVID-19, and the world-wide coronavirus pandemic economic uncertainties have arisen which may negatively affect the financial position, results of operations, and cash flows of the District. The District is closely monitoring its operations, liquidity, and capital resources and is working to minimize the current and future impact of this unprecedented situation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.