

**NORTH CENTRAL RURAL WATER CONSORTIUM II
MINOT, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
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 <i>Government Auditing Standards</i>	17



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Central Rural Water Consortium II
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of North Central Rural Water Consortium II as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise North Central Rural Water Consortium II'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 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 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 financial position of the business-type activities of North Central Rural Water Consortium II as of December 31, 2016, and the changes in financial position and cash flow, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017 on our consideration of North Central Rural Water Consortium II'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 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 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 Consortium's internal control over financial reporting and compliance.

JAMES J WOSEPKA, P.C.

By James J. Wozepka CPA

January 27, 2017
Beach, North Dakota

NORTH CENTRAL RURAL WATER CONSORTIUM II
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	1,454,780
Accounts receivable	132,484
Prepaid expenses	4,134
Total current assets	<u>1,591,398</u>
Investments:	
Reserved for construction	651,535
Total investments	<u>651,535</u>
Capital Assets:	
Construction in progress	5,596,070
Water system	46,677,866
Less: Accumulated depreciation	<u>(5,463,698)</u>
Net Capital Assets	<u>46,810,238</u>
TOTAL ASSETS	<u>49,053,171</u>
LIABILITIES	
Current liabilities:	
Accounts payable	40,161
Accrued interest	299,839
Other accrued liabilities	34,312
Cash reserved for CPIS	46,453
Unearned revenue	187,983
Loans and bonds payable	305,494
Total current liabilities	<u>914,242</u>
Noncurrent liabilities:	
Loans and bonds payable	<u>20,942,054</u>
Total noncurrent liabilities	<u>20,942,054</u>
TOTAL LIABILITIES	<u>21,856,295</u>
NET POSITION	
Net investment in capital assets	25,562,690
Restricted for debt service	1,314,650
Restricted for construction	660,047
Unrestricted	<u>(340,511)</u>
TOTAL NET POSITION	<u>\$ 27,196,876</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH CENTRAL RURAL WATER CONSORTIUM II
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating revenues:	
Water sales	\$ 1,578,411
User agreement income	6,850
Penalty Fee income	19,940
Transfer Fee income	2,500
Feasability fee income	75
Other income	79,851
Total operating revenues	<u>1,687,627</u>
Operating expenses:	
Cost of water	421,587
Contract management	35,230
Repairs and maintenance	45,139
Supplies	53,725
Insurance	8,296
Professional services	67,979
Administration	19,797
Depreciation expense	850,407
Other operating expenses	9,925
Total operating expenses	<u>1,512,085</u>
Operating income (loss)	<u>175,542</u>
Non-operating revenues (expenses):	
Grant income	1,875,661
Management Fee	216,950
Interest income	679
Interest expense	(744,146)
Total non-operating revenues (expenses)	<u>1,349,144</u>
Change in net position	1,524,686
Net position - December 31, 2015	<u>25,672,190</u>
Net position - December 31, 2016	<u>\$ 27,196,876</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH CENTRAL RURAL WATER CONSORTIUM II
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities:	
Receipts from customers	\$ 1,614,090
Proceeds from user agreement and feasibility fees	52,218
Payments to suppliers	(668,213)
Other receipts	79,851
Net cash provided (used) by operating activities	<u>1,077,945</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	964,741
Capital contributions	1,875,661
Purchase of capital assets	(2,613,854)
Purchase of investments	(129,671)
Principal payments on long-term debt	(393,710)
Interest paid on capital debt	(741,349)
Net cash provided (used) by financing activities	<u>(1,038,182)</u>
Cash flows from investing activities:	
Interest	679
Net cash provided (used) by investing activities	<u>679</u>
Net increase (decrease) in cash and cash equivalents	40,442
Cash and cash equivalents - December 31, 2015	<u>1,414,338</u>
Cash and cash equivalents - December 31, 2016	<u>\$ 1,454,780</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 175,542
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	850,407
(Increase) decrease in receivables	13,239
(Increase) decrease in prepaids	(734)
Increase (decrease) in accounts payable	(22,404)
Increase (decrease) in accrued payables	16,603
Increase (decrease) in deferred inflows of resources	45,293
Net cash provided (used) by operating activities	<u>\$ 1,077,945</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – North Central Rural Water Consortium II is a joint powers entity established in October 2007 by North Prairie Rural Water District and Central Plains Water District pursuant to North Dakota Century Code Chapter 54-40.3. The Chapter authorizes any political subdivision to enter into an agreement with any other political subdivision of North Dakota upon approval of its respective governing body for the cooperative or joint administration of any power or function that is authorized by law or assigned to one of more of them. North Prairie and Central Plains are both political subdivisions organized as water districts pursuant to North Dakota Century Code Chapter 61-35.

North Central Rural Water Consortium II is the result of the reorganization of North Central Rural Water Consortium, which was a not-for-profit organization. The new entity was established to allow different types of financing. All assets and liabilities of North Central Rural Water Consortium were transferred into North Central Rural Water Consortium II.

The Consortium's purpose is to provide a more feasible and efficient water supply to rural areas in the two water districts.

Reporting Entity – For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within North Central Rural Water Consortium II as a reporting entity.

Basis of Presentation – Pursuant to the provisions of Governmental Accounting Standards Board (GASB), the full scope of the Consortium's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements. Business-type activities use the accrual basis of accounting and the measurement focus is the flow of economic resources. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Board follows the pronouncements of GASB, which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities. The Consortium follows all applicable GASB pronouncements as well as Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Revenue and Expense Recognition – The Consortium presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Consortium. Operating revenues include all charges to customers. Revenues from interest income and other fees are considered non-operating since these are investing or financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or non-capital financing activities.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Revenue is reflected in the accounts only at the time such revenue is actually billed to customers. Accordingly, the revenues related to water delivered but not billed are not accrued. Contributions and revenues which finance either capital or current operations are reported as other income instead of operating revenue.

When both restricted and unrestricted resources are available for use, it is the Consortium's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Cash Equivalents and Investments – Cash and cash equivalents consist of amounts in demand deposits, savings accounts, and certificates of deposit with a maturity of three months or less when purchased. Investments are stated at fair value and the Consortium is authorized by the board to invest in short-term and long-term certificates of deposit.

Accounts Receivable – Trade receivables are carried at original invoice amount less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Payments of trade receivables are applied to the earliest unpaid invoices. Management has determined that as of December 31, 2016, an allowance for doubtful accounts is not necessary. Management's estimate is based on past history of write-offs and the balance of receivables over ninety days past due. Once a trade receivable is deemed uncollectible it is written off and recoveries of trade receivables previously written off are recorded when received.

Late fees are charged on trade receivables that are outstanding for more than 30 days and are recognized as they are charged. Late fees are charged until such time as the balance is determined to be uncollectible by management.

Capital Assets – Capital assets are stated at cost. The cost of additions to water system includes contracted work, direct labor and materials, and allocable overhead. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated provision for depreciation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation – A portion of the cost of capital assets is charged against earnings each year as depreciation expense. Depreciation is computed on the straight-line method. The Consortium depreciates the components of the water system in service over the following useful lives:

Water System	40 – 100 years
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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 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 these estimates.

Unearned Revenue – The Consortium charges a hook up fee to all potential customers. These fees are refundable until the project bid is accepted and approved by the Rural Development. Once the project is approved, these fees are transferred to revenues.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restrictions on the Consortium. External restrictions may be imposed through state or local laws, and grant or contract provision. Unrestricted net position is all other assets that do not meet the definition of net investment in capital assets or restricted net position.

NOTE 2 DEPOSITS

In accordance with North Dakota statutes, the Consortium maintains deposits at depository banks designed by the governing board. All depositories are members of the Federal Reserve System.

North Dakota laws require all public deposits to be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 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 other political subdivision of the state of North Dakota, whether payable from special revenues of supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

At December 31, 2016, the Consortium's carrying amount of deposits was \$1,454,780 and the bank balances totaled \$2,132,505. The bank balances at December 31, 2016 were under collateralized by \$1,245,755. At December 31, 2016, \$736,256 of the bank balances were covered by Federal Depository Insurance. The remaining balance of \$1,396,248 was un-collateralized.

Credit Risk

The Consortium may invest idle funds as authorized in North Dakota Statutes, as follows:

- a) 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.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of a type listed above.
- c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- d) Obligations of the state.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Concentration of Credit Risk

The Consortium has not adopted a policy limiting the amount that can be invested with any one issuer.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable is made up of trade receivables from the billing of water supplied to customers, construction fees, and other amounts billed but not received as of December 31, 2016.

Water billings	\$ 132,484
Total accounts receivable	\$ 132,484

Receivables have been pledged as collateral for the Consortium's long-term debt.

NOTE 4 CAPITAL ASSETS

Following is a summary of capital assets activity for the year ended December 31, 2016:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated				
Construction in progress	\$ 3,058,911	\$ 2,537,159	\$ -	\$ 5,596,070
Capital assets being depreciated				
Water System	46,601,171	82,927	(6,232)	46,677,866
Less accumulated depreciation				
Water System	(4,613,291)	(850,407)	-	(5,463,698)
Net capital assets being depreciated	\$ 45,046,791	\$ 1,769,679	\$ (6,232)	\$ 46,810,238

Depreciation expense for the year ended December 31, 2016 was \$850,407.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 LONG-TERM DEBT

Long-term debt consists of the following:

	Balance 12/31/2016	Current Portion
Rural Development - Riverdale #1	\$ 1,247,727	\$ 23,931
Rural Development - Riverdale #2	236,172	4,520
Rural Development - Brooks & Rambling #1	692,863	12,522
Rural Development - Granville	403,337	7,211
Rural Development - Brooks & Rambling #2	101,560	1,723
Rural Development - REAP Phase I	2,256,781	31,217
Rural Development - REAP Phase II	937,398	14,652
Rural Development - Radar Hill	2,819,935	36,889
Rural Development - Ward McLean	4,599,462	74,406
Rural Development - CPWD In-System	1,085,810	17,565
Rural Development - Berthold Carpio	1,227,958	15,406
Rural Development	275,532	4,411
2008 Series A Water Revenue		
Bonds - Des Lacs	1,074,800	15,898
Bank of North Dakota Water Revenue		
Bonds - Des Lacs (Series B)	107,016	2,072
Bank of North Dakota Supplemental Loan	566,717	8,704
Bank of North Dakota - Berthold Carpio	1,216,347	17,075
USDA - CPIS , 2016A	394,540	5,460
CoBank - Granville Surrey Deering	1,185,405	-
CoBank - Berthold Carpio Phase II	201,318	-
CoBank - Plaza	311,376	11,832
	<u>\$ 20,942,054</u>	<u>\$ 305,494</u>

Rural Development – Riverdale #1: In 2005, the Consortium entered into a long-term loan with United States Rural Development for \$1,454,500. The loan carries an interest rate of 4.125% and matures July 2045. The loan required interest only payments for the first two annual payments. The remaining payments of \$6,328 began in August 2007.

Rural Development – Riverdale #2: In 2005, the Consortium entered into a long-term loan with United States Rural Development for \$275,000. The loan carries an interest rate of 4.125% and matures September 2045. The loan required interest only payments for the first two annual payments. The remaining payments of \$1,197 began in September 2007.

Rural Development – Brooks & Rambling #1: In 2006, the Consortium entered into a long-term loan with United States Rural Development for \$795,000. The loan carries an interest rate of 4.25% and matures March 2046. The loan requires interest only payments for the first two annual payments. The remaining payments of \$3,522 began in April 2008.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Rural Development – Granville: In 2006, the Consortium entered into a long-term loan with United States Rural Development for \$460,000. The loan carries an interest rate of 4.125% and matures September 2046. The loan requires interest only payments for the first two annual payments. The remaining monthly payments of \$2,001 began in October 2008.

Rural Development – Brooks & Rambling #2: In 2006, the Consortium entered into a long-term loan with United States Rural Development for \$115,000. The loan carries an interest rate of 4.50% and matures August 2046. The loan requires interest only payments for the first two annual payments. The remaining payments of \$528 began in September 2008.

Rural Development – REAP Phase I: In 2010, the Consortium entered into a long-term loan with United States Rural Development for \$2,426,000. The loan carries an interest rate of 4.25% and matures June 2050. The loan requires an interest only payment for the first annual payment. The remaining 39 annual payments of \$128,457 began in June 2012.

Rural Development – REAP Phase II: In 2011, the Consortium entered into a long-term loan with United States Rural Development for \$1,018,900. This was converted from interim financing with Regions Bank. The loan carries an interest rate of 3.375% and matures July 2051. Annual principal and interest payments of \$46,799 began in 2012.

Rural Development – Radar Hill: In 2011, the Consortium entered into a long-term loan with United States Rural Development for \$3,019,900. This was converted from interim financing with Regions Bank. The loan carries an interest rate of 4.25% and matures July 2051. Annual principal and interest payments of \$158,304 began in 2012.

Rural Development -- Ward McLean: In 2013, the Consortium entered into a loan agreement with United States Rural Development for \$4,885,350. The loan carries an interest rate of 2.75% and matures May 2053. Annual principal and interest payments of \$202,937 began in 2014.

Rural Development -- CPWD In-System: In 2013, the Consortium entered into a loan agreement with United States Rural Development for \$1,153,300. The loan carries an interest rate of 2.75% and matures May 2053. Annual principal and interest payments of \$47,908 began in 2014.

Rural Development – Berthold Carpio: In 2015, the Consortium entered into a loan agreement with United States Rural Development for \$1,258,249. The loan carries an interest rate of 3.50% and matures May 2055. Annual principal and interest payments of \$58,924 begin in 2016.

Rural Development: In 2011, the Consortium entered into a long-term loan with United States Rural Development for \$300,000. The loan carries an interest rate of 3.25% and matures April 2051. Annual principal and interest payments of \$13,509 began in 2012.

2008 Series A Water Revenue Bonds – Des Lacs: In 2008, the Consortium issued \$1,172,700 in USDA – Rural Utilities Service bonds. The bonds carry an interest rate of 4.50% and mature December 2048. Interest payments are due annually beginning December 2009. Interest payments for the first two years are \$52,772. Annual principal and interest payments of \$64,980 began in 2011.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Bank of North Dakota Water Revenue Bonds (Series B) – Des Lacs: In 2008, the Consortium issued \$120,000 in Series B bonds. The bonds carry an interest rate of 3.00% and mature December 2048. Interest payments are due annually beginning December 2009. Interest payments for the first two years are \$3,600. Annual principal and interest payments of \$5,335 began in 2011.

Bank of North Dakota – Supplemental Loan: In 2013, the Consortium entered into a loan agreement with the Bank of North Dakota for \$600,000. The loan carries an interest rate of 3.00% and matures February 2053. Annual principal and interest payments of \$25,965 began in 2014.

Bank of North Dakota – Berthold Carpio: In 2015, the Consortium entered into a loan agreement with the Bank of North Dakota for \$1,250,000. The loan carries an interest rate of 3.00% and matures May 2055. Annual principal and interest payments of \$54,078 begin in 2016.

USDA -- Water Revenue Bonds (Series 2016A) - CPIS: In 2016, the Consortium issued \$400,000 in Series 2016A bonds. The bonds carry an interest rate of 2.875% and mature December 2056. Annual principal and interest payments of \$16,960 begin in 2017.

CoBank – Granville Surrey Deering: In 2015, the Consortium entered into a long-term interim loan agreement with CoBank carrying an interest rate of 2.20%. Monthly principal and interest payments begin in 2018. The future payment schedule below reflects principal and interest payments of \$640,159, which is the amount of the loan that was drawn down as of December 31, 2015.

CoBank – Berthold Carpio Phase II: In 2015, the Consortium entered into a long-term interim loan agreement with CoBank carrying an interest rate of 2.20%. Monthly principal and interest payments begin in 2017. The future payment schedule below reflects principal and interest payments of \$286,183, which is the amount of the loan that was drawn down as of December 31, 2015.

CoBank -- Plaza Project: In 2013, the Consortium entered into a loan agreement with CoBank for \$355,000. The loan carries an interest rate of 5.50%. Monthly principal and interest payments of \$2,445 began in 2014.

Substantially all of the Consortium's assets are pledged as collateral on the above debt. The Consortium has also complied with the required loan covenants which include establishing reserve funds for debt service and emergency maintenance.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

The annual future principal payments are as follows:

Year Ended December 31:	Principal	Interest	Total
2017	305,495	711,047	1,016,542
2018	316,425	699,953	1,016,378
2019	355,649	723,165	1,078,814
2020	370,877	713,614	1,084,491
2021-2025	2,064,053	3,358,399	5,422,452
2026-2030	2,464,752	2,957,698	5,422,450
2031-2035	2,885,921	2,477,907	5,363,828
2036-2040	3,343,066	1,932,825	5,275,891
2041-2045	3,943,881	1,287,392	5,231,273
2046-2050	3,613,411	611,901	4,225,312
2051-2055	1,567,776	111,874	1,679,650
2056-2060	16,242	466	16,708
	<u>\$ 21,247,548</u>	<u>\$ 15,586,241</u>	<u>\$ 36,833,789</u>

NOTE 6 COMMITMENTS

Purchase Water Agreements – The Consortium has a water contract with the City of Riverdale and the City of Underwood, North Dakota, whereby the Consortium purchases water at rates established in the contracts until November 30, 2044. The rates paid by the Consortium under the contract are subject to review by the Cities at intervals as it deems appropriate.

Purchase Water Agreements – The Consortium has a water contract with the North Prairie Rural Water District, whereby the Consortium purchases water at rates established in the contracts until February 8, 2046. The rates paid by the Consortium under the contract are subject to review by the District at intervals as it deems appropriate.

Water Sales Agreements – The Consortium has a water contract with Pick City and Lake Sakakawea State Park, whereby the Consortium sells water at rates established in the contract until November 30, 2044.

The rates paid by the entities under the contracts are subject to review by the Consortium at intervals as it deems appropriate.

Construction in Progress – The Consortium has entered into agreements relating to the construction of several water expansion projects. The following is a summary of the remaining commitments by project:

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Project	Total Cost of Project	Remaining Commitment
GSD	\$ 7,900,000	\$ 3,063,000
Carpio-Berthold Phase II	3,400,000	2,641,000
Total	\$ 11,300,000	\$ 5,704,000

NOTE 7 RELATED PARTIES

The Consortium was created by two water districts to provide a more feasible and efficient water supply to rural users in the districts. The joint power agreement creating the Consortium states it shall have authorization to construct and service new water systems within the area of each district. Each district shall be financially responsible for the repayment of any loans incurred for construction of such property situated within their district. Upon approval of USDA Rural Development, the Consortium shall turn over to the districts the systems and facilities constructed pursuant to the terms of this joint power agreement. The Consortium board consists of board members from each water district. The Consortium at times will use the services of the districts to help with the operation of the Consortium. The districts will bill the Consortium at fair market value for these services. During 2016, the Consortium paid North Prairie Rural Water District \$377,454 for water purchases; \$20,000 for management services, and \$52,081 for supplies, legal services, and maintenance.

A member of the board of the Consortium is an insurance agent and the Consortium has purchased general liability in the amount of \$3,187 during 2016.

NOTE 8 NEW PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged. This statement does not affect the Consortium's financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. This statement does not affect the Consortium's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted. This reporting has been implemented.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. This statement does not affect the Consortium's financial statements.

Management has not yet determined the effect these Statements will have on the Consortium's financial statements for statements that have not yet been implemented.

NORTH CENTRAL RURAL WATER CONSORTIUM II
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 CONCENTRATIONS

Credit Risk – The majority of the Consortium's business is with customers in north central North Dakota. The amount of accounting loss is equivalent to accounts receivable totaling \$132,484 as of December 31, 2016, if parties to the transaction fail to perform.

Debt – The United States Department of Agriculture has provided long-term financing for the majority of the Consortium's projects either through Rural Development loans or Rural Utilities Service bonds.

NOTE 10 RISK MANAGEMENT

The Consortium 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.

In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), 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 Consortium pays an annual premium to NDIRF for its general liability insurance.

The Consortium continues to carry commercial insurance for all other risks of loss, including professional liability insurance, and commercial and public property insurance. The Consortium also participates in the State Bonding Fund.

Settlement claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 11 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Consortium's year end. Subsequent events have been evaluated through January 27, 2017, which is the date these financial statements were available to be issued.



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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
North Central Rural Water Consortium II
Minot, North Dakota

We have audited, 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, the financial statements of the business-type activities of North Central Rural Water Consortium II, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise North Central Rural Water Consortium II's basic financial statements, and have issued our report thereon dated January 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Central Rural Water Consortium II'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of North Central Rural Water Consortium II'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.

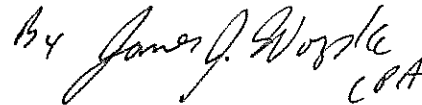
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consortium'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 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*.

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 result 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.

JAMES J WOSEPKA, P.C.

By  CPA

January 27, 2017
Beach, North Dakota