

**NORTH PRAIRIE RURAL WATER DISTRICT
MINOT, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Prairie Rural Water District
Minot, North Dakota

Report on the Financial Statements

We have audited the financial statements of North Prairie Rural Water District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Prairie Rural Water District, Minot, North Dakota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 this 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 the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

JAMES J WOSEPKA, P.C.

By  CPA

January 27, 2017
Beach, North Dakota

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	1,001,373
Accounts receivable (less allowance for doubtful accounts of \$16,481)	318,867
Interest receivable	146
Prepaid expenses	18,080
Total current assets	<u>1,338,466</u>
CAPITAL ASSETS	
Water plant in service	23,712,016
Construction in progress	1,881,511
Less accumulated depreciation	<u>(8,709,516)</u>
Net utility plant	<u>16,884,011</u>
OTHER ASSETS AND INVESTMENTS	
Cash reserved for debt service	1,124,609
Investments - certificates of deposit	82,032
Investments in associated companies	161,312
Total other assets and investments	<u>1,367,953</u>
TOTAL ASSETS	<u><u>19,590,430</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	115,871
Accrued liabilities	65,720
Interest and fee payable	87,291
Current portion of long-term debt	449,782
Total current liabilities	<u>718,664</u>
LONG-TERM LIABILITIES	
Long-term debt	9,474,674
Water cents program	121,797
Total long-term liabilities	<u>9,596,471</u>
TOTAL LIABILITIES	<u>10,315,135</u>
NET POSITION	
Net investment in capital assets	6,959,555
Restricted reserve for debt service	1,124,609
Unrestricted	1,191,131
TOTAL NET POSITION	<u><u>\$ 9,275,295</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUE	
Water sales	\$ 3,139,402
New member hook up and user fee	105,510
Other	483,729
Total operating revenue	<u>3,728,641</u>
OPERATING EXPENSES	
Operations and maintenance	
Sewer	21,868
Cost of water	858,111
Labor and benefits	700,236
Utilities	235,336
Chemical and supplies	189,636
Repairs and maintenance	240,582
Miscellaneous	1,393
Transportation expense	83,948
Administration and general expenses	
Billing and software support	11,160
Office repairs and maintenance	31,360
Postage and delivery	16,755
Dues, fees and subscriptions	6,051
Utilities	28,537
Bad debt expense	6,322
Training	1,992
Miscellaneous	6,483
Insurance	23,025
Board and meeting expense	27,241
Marketing and advertising	10,635
Legal and professional	131,250
Depreciation expense	856,339
Total operating expenses	<u>3,488,260</u>
OPERATING INCOME (LOSS)	<u>240,381</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NON-OPERATING REVENUE (EXPENSES)	
Impact source fees	24,978
Interest and dividend income	10,581
Interest and fee expense	(347,185)
Gain/(loss) on sale of fixed assets	4,180
Total non-operating revenue (expenses)	<u>(307,446)</u>
GRANT REVENUE	<u>1,028,695</u>
CHANGE IN NET POSITION	<u>961,630</u>
NET POSITION, BEGINNING OF YEAR	8,313,665
CHANGE IN NET POSITION	<u>961,630</u>
TOTAL NET POSITION END OF YEAR	<u>\$ 9,275,295</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating cash receipts from customers	\$ 3,713,907
Cash payments to suppliers	(1,986,668)
Cash payments to employees	(668,877)
Net cash provided by operating activities	<u>1,058,362</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of property and equipment	(2,074,472)
Proceeds from the sale of equipment	4,180
Proceeds from long-term borrowings	410,388
Payments of principal on long-term borrowings	(422,122)
Capital grants and charges	1,028,695
Interest paid on long-term debt	(355,251)
Retirement of patron's equities	(8,285)
Capital grants and charges	24,978
Net cash used by capital and related financing activities	<u>(1,391,889)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividend income on investments	<u>10,088</u>
Net cash provided by investing activities	<u>10,088</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(323,439)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
	<u>2,449,421</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR*	<u>\$ 2,125,982</u>
 *CONSISTS OF:	
Cash equivalents	\$ 1,001,373
Cash restricted for debt service	1,124,609
Total cash and cash equivalents	<u>\$ 2,125,982</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income(loss)	\$ 240,381
Adjustments to reconcile operating income(loss)	
to net cash provided by operating activities:	
Depreciation	856,339
Effects on operating cash flows due to changes in:	
Accounts receivable - net	(57,587)
Prepaid expense	(1,568)
Accounts payable	(10,339)
Accrued liabilities	31,136
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,058,362</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background Information

North Prairie Rural Water District is organized as a municipal water system under North Dakota Century Code 61-35. Its purpose is to pump and distribute water to its users. It is exempt from Federal income tax under Section 501(c)1 of the Internal Revenue Code. The District is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent 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.

Reporting Entity

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization's; or (2) the District is legally entitled to or can otherwise access the organizations resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget and issuance of debt.

Based on the above criteria, the District has no component units included in its report.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis. The District reports as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB). Business-Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with Governmental Accounting Standards Board Statement No. 20 the District follows all applicable pronouncements as well as Financial Accounting Standards Board pronouncements.

The District's activities are accounted for similar to those often found in the private sector using the flow of economic resources measuring focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single business-type activity with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Business type activities distinguish operating revenue and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Revenues from water sales, fines and penalties and sales of supplies are reported as operating revenues. Interest income and patronage dividends are reported as non-operating revenues. All expenses related to operating the District are reported as operating expenses. Interest expense and financing costs are reported as non-operating.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and investments with an original maturity of three months or less.

Cash Restricted for Construction Payment

Cash and cash equivalents required to be in separate cash accounts and can only be used for approved construction expenditures.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on an analysis of the individual's accounts. Accounts receivable are written off when they are one year past due. Recoveries of trade receivables previously written off are recorded when received.

Late fees are charged on trade receivables that age 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.

Materials and Supplies

Materials and supplies are stated at average cost.

Capital Assets

Capital assets are recorded at historical cost less accumulated depreciation. A portion of the cost of plant and equipment is charged against earnings each year as depreciation expense. Depreciation is computed on an equal charge, annually, over the estimated useful life of the asset. 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. The district has established the following useful lives:

Treatment Plant and System	20 to 100 yrs
Office and storage buildings	15 to 50 yrs
Equipment	5 to 50 yrs

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Reserve for Debt Service

Reserve for debt consists of cash and cash equivalents set aside for debt retirement.

Investment policy

The District has a formal investment policy. State statutes authorize local governments 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 are of the type listed above, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) obligations of the state.

Investments in Associated Companies

Investments are principally in cooperatives. They are recorded at cost plus the face value of equities received as patronage refunds. The face value of equities redeemed by the cooperatives is deducted from the investment balance. The investments are not transferable. No cash is received until such time as the investments are redeemed at the discretion of the cooperative. Patronage refunds and redemption's are recorded in the year they are received.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

For the year ended December 31, 2016, the Authority implemented GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Net Position

GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, *Elements of Financial Statements*.

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of 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 – This component of net position consists of constraints imposed by (1) external groups such as creditors, grantor, contributors or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

District employees accumulate vacation hours for subsequent use or for payment upon termination or retirement. Vacation expenses to be paid in future periods are accrued when incurred. A liability for these amounts is reported in the statement of net position.

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

The District does have a deposit policy. The policy requires all cash accounts to be maintained at a local financial institution.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

As of December 31, 2016, the District's bank balances were approximately \$2,150,000. Of that balance, approximately \$733,000 was covered by federal depository insurance, the balance was covered by pledged securities.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable are shown net after an allowance for doubtful accounts is as follows at December 31, 2016.

Water billing receivable	\$ 280,661
Projects accounts receivable	35,207
NC Water Cents receivable	19,480
	<u>335,348</u>
Less allowance	<u>(16,481)</u>
	<u><u>\$ 318,867</u></u>

NOTE 4 PREPAID EXPENSES

Prepaid expenses, which will be expensed during the coming year, are comprised of prepaid insurance and other miscellaneous prepaid expenses totaling \$18,080 for the year ended December 31, 2016.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance 01/01/16	Additions	Disposals	Reclass	Balance 12/31/16
Capital assets, not being depreciated					
Land	\$ 63,603	\$ 25,283	\$ -	\$ -	\$ 88,886
Construction in progress	206,500	1,675,011	-	-	1,881,511
Total capital assets, not being depreciated	<u>270,103</u>	<u>1,700,294</u>	<u>-</u>	<u>-</u>	<u>1,970,397</u>
Capital assets being depreciated					
Treatment plant and system	21,668,636	323,866	-	-	21,992,502
Office and storage buildings	384,058	5,348	-	-	389,406
Equipment	1,196,258	44,964	-	-	1,241,222
Total capital assets being depreciated	<u>23,248,952</u>	<u>374,178</u>	<u>-</u>	<u>-</u>	<u>23,623,130</u>
Less accumulated depreciation					
Treatment plants	6,251,500	1,448,039	-	-	7,699,539
Office and storage buildings	115,703	30,999	-	-	146,702
Equipment	740,670	122,605	-	-	863,275
Total accumulated depreciation	<u>7,107,873</u>	<u>1,601,643</u>	<u>-</u>	<u>-</u>	<u>8,709,516</u>
Total capital assets being depreciated, net	<u>16,141,079</u>	<u>(1,227,465)</u>	<u>-</u>	<u>-</u>	<u>14,913,614</u>
Net capital assets	<u>\$ 16,411,182</u>	<u>\$ 472,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,884,011</u>

Depreciation expense was \$856,339 for the year ended December 31, 2016.

NOTE 6 INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are carried at cost and as of December 31, 2016 were as follows:

Verendrye Electric	\$ 138,415
Souris River Telephone	21,491
Enerbase of Minot	1,406
Total	<u>\$ 161,312</u>

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following:

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due within one year
Notes payable					
S. Transmission	\$ -	\$ 239,975	\$ -	\$ 239,975	\$ 11,129
Bonds					
2007 revenue bonds	3,805,000	-	295,000	3,510,000	305,000
2009 revenue bonds	2,656,190	-	37,122	2,619,068	38,653
2014 revenue bonds - series A	3,100,000	-	-	3,100,000	-
2014 revenue bonds - series B	375,000	-	90,000	285,000	95,000
Line of credit	-	170,413	-	170,413	-
Total	<u>\$ 9,936,190</u>	<u>\$ 410,388</u>	<u>\$ 422,122</u>	<u>\$ 9,924,456</u>	<u>\$ 449,782</u>

Notes Payable

In 2016, the District entered into a loan agreement with the Bank of North Dakota for \$239,975. The loan carries an interest rate of 1.5% and matures October 2036. The loan requires an annual interest only payment starting in April 2017; as well as annual principal and interest payment of \$12,955 starting in October 2017.

Revenue Bonds

In 2007 the District issued \$5,700,000 of revenue bonds. The bonds carry an interest rate of 2.50%. Yearly payments ranging from \$259,000 to \$400,000 are required through September 1, 2026. The District has pledged income derived from the enterprise operations to pay the bonds.

In 2009, the District issued \$2,850,000 of revenue bonds. The bonds carry an interest rate of 4.125% and require yearly payments of \$146,690 through December 21, 2049. The District has pledged income derived from its operations to pay the bonds.

In 2014, the District issued \$3,100,000 of revenue bonds. The bonds carry an interest rate that ranges from 2.10% to 4.30%. Yearly payments ranging from \$115,000 to \$215,000 are required beginning September 1, 2020 through September 1, 2039. The District has pledged income derived from its operations to pay the bonds.

In 2014, the District issued \$400,000 of revenue bonds. The bonds carry an interest rate that ranges from 1.50% to 2.25%. Yearly payments ranging from \$25,000 to \$95,000 are required beginning September 1, 2015 through September 1, 2019. The District has pledged income derived from its operations to pay the bonds.

Line of Credit

The District has a \$1,126,000 line of credit with the Bank of North Dakota. As of December 31, 2016, there was a balance on the line of credit of \$170,413. The line of credit carries an interest rate of 2%.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Net Revenue Bond Covenants/Collateral

All of the District's net revenues are pledged to cover the debt service. The District has complied with all required loan covenants.

The annual future principal and interest payments are as follows:

Year ending December 31,

	Principal			Interest			Total
	Revenue Bonds	Notes Payable	Line of Credit	Revenue Bonds	Notes Payable	Line of Credit	
2017	\$ 438,653	\$ 11,129	\$ 170,413	\$ 312,727	\$ 3,642	\$ 114	\$ 936,678
2018	456,195	11,214	-	307,929	3,473	-	778,811
2019	468,379	11,300	-	296,881	3,303	-	779,863
2020	500,206	11,386	-	284,987	3,138	-	799,717
2021	512,105	11,473	-	272,496	2,958	-	799,032
2022 - 2026	2,776,794	58,689	-	1,120,461	12,149	-	3,968,093
2027 - 2031	1,039,433	60,962	-	822,101	7,614	-	1,930,110
2032 - 2036	1,269,859	63,322	-	596,888	2,907	-	1,932,976
2037 - 2041	1,096,063	-	-	316,782	-	-	1,412,845
2042 - 2046	576,571	-	-	156,879	-	-	733,450
2047 - 2051	405,365	-	-	33,859	-	-	439,224
2050 - 2054	-	-	-	-	-	-	-
Total	\$ 9,539,623	\$ 239,475	\$ 170,413	\$ 4,521,990	\$ 39,184	\$ 114	\$ 14,510,799

NOTE 8 OPERATING LEASES

The District entered into a five-year lease agreement for the rental of a skid steer beginning August 15, 2014. The lease requires an advance lease payment of \$535 and monthly payments of \$535.

Rent expense totaled \$6,419 for the year ended December 31, 2016.

Future minimum annual lease payments payable by the District on the above lease are as follows:

Year ending December 31,	
2017	6,415
2018	6,415
2019	3,742
	<u>\$ 16,572</u>

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 9 COMMITMENTS

Purchase water agreements - The District has a water contract with the City of Minot, North Dakota, whereby the District purchases water at rates established by ordinance until December 31, 2017. The rates paid by the District under the contract are subject to review by the City of Minot at such intervals as it deems appropriate.

Water supply contract - The District has entered into a water supply contract with North Central Rural Water Consortium, whereby the District supplies water at a rate agreed upon by both parties based on the terms in the contract. The rate is subject to review at the end of each 1 year period from the contract date of January 1, 2006.

NOTE 10 CONCENTRATION OF CREDIT RISK

The majority of the District's business is with customers in Ward, McLean, and McHenry counties. The amount of accounting loss is equivalent to trade accounts receivable totaling \$318,867 as of December 31, 2016 if parties to the transaction fail to perform.

NOTE 11 RISK MANAGEMENT

North Prairie Rural Water District is exposed to various risks relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

North Prairie Rural Water District participates in the North Dakota Insurance Reserve Fund and the North Dakota Fire and Tornado Fund. The District pays annual premiums to the North Dakota Insurance Reserve fund to cover property damage to vehicles and to the North Dakota Fire and Tornado fund to cover property damage to buildings and pump stations. Replacement cost coverage is provided by estimating replacement cost in consultation with the Insurance Reserve Fund. The Insurance Reserve Fund reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in Workforce Safety Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from the above risks, have not exceeded insurance coverage in any of the past three fiscal periods.

NOTE 12 JOINT VENTURE

The District, in conjunction with another Water District, has created the North Central Rural Water Consortium II (Consortium). The Consortium board is composed of members from each of the Districts Boards. The Consortium, a governmental organization, was created to provide a more feasible and efficient water supply to rural users in the two districts.

Both districts have entered into a joint powers agreement with the consortium. This agreement states the consortium 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. The Consortium has outstanding debt of approximately \$21,200,000 as of December 31, 2016. Under the terms of the debt agreements both Water Districts are jointly and severally liable for the Consortium's debt. As of December 31, 2016, the Consortium is accumulating sufficient financial resources to meet its current obligations.

The joint venture has been determined to have no explicit contractual interest so no amounts are reported in the accompanying financial statements for an equity interest. The joint venture agreement may be terminated with a one year notice. A complete financial statement for the Consortium can be obtained from North Central Rural Water Consortium administrative office at 3811 Burdick Expressway East, Minot, ND 58701.

In 2016 the District received approximately \$377,000 from the Consortium for the supply of water and other project costs. As of December 31, 2016 the Consortium owed the District approximately \$30,000.

In addition, the two entities share expenses related to office supplies, administration, etc. The Consortium will reimburse the District for these expenses. In 2016, total reimbursed expenses were approximately \$72,000.

NOTE 13 FEDERAL GRANTS

The District receives grant funds from various state and federal agencies from time to time. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 14 NEW ACCOUNTING 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.

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 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.

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.

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.

Management has not yet determined what effect these statements will have on the entity's financial statements.

NOTE 15 SUBSEQUENT EVENTS

No other significant events occurred subsequent to the District 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 Prairie Rural Water District
Minot, 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 North Prairie Rural Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, 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 Prairie Rural 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Prairie Rural Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 North Prairie Rural 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*.

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.

JAMES J WOSEPKA, P.C.

By  CPA

January 27, 2017
Beach, North Dakota