

**NORTH CENTRAL REGIONAL WATER DISTRICT
MINOT, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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>	18



PO Box 970
41 Central Ave S
Beach, ND 58621-0970
Phone: 701-872-4321
Fax: 701-872-4320

PO Box 602
115 North Main, Suite B
Baker, MT 59313-0602
Phone: 406-778-2816
Fax: 406-778-2866

James J. Wosepka, PC - Certified Public Accountant

Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Central Regional Water District
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of North Central Regional Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise North Central Regional Water 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 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 Regional Water District as of December 31, 2017, 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 February 28, 2018 on our consideration of North Central Regional Water 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 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 District's internal control over financial reporting and compliance.

JAMES J WOSEPKA, P.C.

*By James J Wosepka
CMA*

Beach, North Dakota
February 28, 2018

NORTH CENTRAL REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,931,911
Accounts receivable	157,046
Prepaid expenses	2,697
Total current assets	<u>2,091,654</u>

Investments:

Reserved for construction	820,354
Cooperative credits	7,507
Total investments	<u>827,861</u>

Capital Assets:

Construction in progress	7,907,208
Water system	46,685,549
Less: Accumulated depreciation	<u>(6,314,785)</u>
Net Capital Assets	<u>48,277,972</u>

TOTAL ASSETS	<u>51,197,487</u>
---------------------	--------------------------

LIABILITIES

Current liabilities:

Accounts payable	37,616
Accrued interest	297,283
Other accrued liabilities	15,983
Cash reserved for CPIS	350,762
Unearned revenue	204,783
Loans and bonds payable	331,892
Total current liabilities	<u>1,238,319</u>

Noncurrent liabilities:

Loans and bonds payable	<u>21,521,099</u>
Total noncurrent liabilities	<u>21,521,099</u>

TOTAL LIABILITIES	<u>22,759,418</u>
--------------------------	--------------------------

NET POSITION

Net investment in capital assets	26,424,981
Restricted for debt service	1,294,235
Restricted for construction	809,174
Unrestricted	<u>(90,321)</u>

TOTAL NET POSITION	<u>\$ 28,438,069</u>
---------------------------	-----------------------------

NORTH CENTRAL REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating revenues:	
Water sales	\$ 1,850,558
User agreement income	8,400
Penalty Fee income	20,790
Transfer Fee income	1,710
Other income	12,643
Total operating revenues	<u>1,894,101</u>
Operating expenses:	
Cost of water	470,841
Contract management	28,149
Repairs and maintenance	9,474
Supplies	55,377
Insurance	7,075
Utilities	20,095
Professional services	65,565
Administration	17,987
Depreciation expense	851,087
Other operating expenses	19,219
Total operating expenses	<u>1,544,869</u>
Operating income (loss)	<u>349,232</u>
Non-operating revenues (expenses):	
Grant income	1,637,459
Interest and dividend income	15,212
Interest expense	(760,709)
Total non-operating revenues (expenses)	<u>891,962</u>
Change in net position	1,241,194
Net position - December 31, 2016	<u>27,196,875</u>
Net position - December 31, 2017	<u>\$ 28,438,069</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH CENTRAL REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 1,808,036
Proceeds from user agreement and feasibility fees	48,400
Payments to suppliers	(695,592)
Other receipts	12,274
Net cash provided (used) by operating activities	<u>1,173,118</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	910,990
Capital contributions	1,637,459
Purchase of capital assets	(2,318,821)
Purchase of investments	118,530
Principal payments on long-term debt	(300,086)
Interest paid on capital debt	(751,765)
Net cash provided (used) by financing activities	<u>(703,693)</u>
Cash flows from investing activities:	
Interest and dividends	<u>7,706</u>
Net cash provided (used) by investing activities	<u>7,706</u>
Net increase (decrease) in cash and cash equivalents	477,131
Cash and cash equivalents - December 31, 2016	<u>1,454,780</u>
Cash and cash equivalents - December 31, 2017	<u><u>\$ 1,931,911</u></u>
Reconciliation of operating income (loss) to	
net cash provided (used) by operating activities:	
Operating income (loss)	\$ 349,232
Adjustments to reconcile net income	
to net cash provided by operating activities:	
Depreciation	851,087
(Increase) decrease in receivables	(24,564)
(Increase) decrease in prepaids	1,437
Increase (decrease) in accounts payable	(2,545)
Increase (decrease) in accrued payables	(18,329)
Increase (decrease) in deferred inflows of resources	16,800
Net cash provided (used) by operating activities	<u><u>\$ 1,173,118</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

North Central Regional Water District is a joint powers entity established in October 2007 by North Prairie Regional 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.

During 2017, the Consortium was converted from a joint powers entity to a municipal water system pursuant to North Dakota Century Code 61-35. Because of this conversion, the joint powers entity between North Prairie Rural Water District and Central Plains Water District was terminated subsequent to year end. See Note 11 for details of this termination.

The District's 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.

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 Regional Water District as a reporting entity.

Basis of Presentation

Pursuant to the provisions of Governmental Accounting Standards Board (GASB), the full scope of the District'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 District 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Revenue and Expense Recognition

The District 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 District. 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.

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 District'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 District 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, 2017, 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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 District depreciates the components of the water system in service over the following useful lives:

Water System	40 – 100 years
--------------	----------------

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.

Cooperative Credits

Cooperative credits 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 credits are not transferable. No cash is received until such time as the credits are redeemed at the discretion of the cooperative. Patronage refunds and redemption's are recorded in the year they are received.

Unearned Revenue

The District 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.

Cash Reserved for CPWD

The District received payments throughout 2017 from Central Plains Water District in regards to the termination of the joint powers agreement. The funds were used towards debt payments. Any remaining funds will be returned to Central Plains Water District when the termination of the agreement is finalized in 2018, see Note 11.

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 District. 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 DEPOSITS

In accordance with North Dakota statutes, the District 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, 2017, the District's bank balances were approximately \$2,750,000. Of that balance, approximately \$810,000 was covered by federal depository insurance. The bank balances at December 31, 2017 were under collateralized by approximately \$1,940,000.

Credit Risk

The District 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.

Concentration of Credit Risk

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

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017.

Water billings	\$ 156,679
Other Receivable	<u>367</u>
Total accounts receivable	<u>\$ 157,046</u>

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

NOTE 4 CAPITAL ASSETS

Following is a summary of capital assets activity for the year ended December 31, 2017:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Capital assets not being depreciated				
Construction in progress	\$ 5,596,070	\$ 2,311,138	\$ -	\$ 7,907,208
Capital assets being depreciated				
Water System	46,677,866	7,683	-	46,685,549
Less accumulated depreciation				
Water System	<u>(5,463,698)</u>	<u>(851,087)</u>	<u>-</u>	<u>(6,314,785)</u>
Net capital assets being depreciated	<u>\$46,810,238</u>	<u>\$1,467,734</u>	<u>\$ -</u>	<u>\$48,277,972</u>

Depreciation expense for the year ended December 31, 2017 was \$851,087.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 5 LONG-TERM DEBT

Long-term debt consists of the following:

	Balance 12/31/2017	Current Portion
Rural Development - Riverdale #1	\$ 1,247,660	\$ 24,938
Rural Development - Brooks & Rambling #1	692,937	13,065
Rural Development - Riverdale #2	236,187	4,710
Rural Development - Granville	403,357	7,514
Rural Development - Brooks & Rambling #2	101,564	1,802
2008 Series A Water Revenue		
Bonds - Des Lacs	1,074,798	16,613
Rural Development - REAP Phase I	2,256,781	32,544
Rural Development - Radar Hill	2,819,935	38,457
Rural Development - REAP Phase II	937,860	15,146
Bank of North Dakota Water Revenue		
Bonds - Des Lacs (Series B)	107,071	2,134
Rural Development	275,532	4,554
Bank of North Dakota Supplemental Loan	566,710	8,965
Rural Development - Ward McLean	4,599,462	76,452
Rural Development - CPWD In-System	1,085,810	18,048
CoBank - Plaza	311,375	12,499
Rural Development - Berthold Carpio	1,227,958	15,945
Bank of North Dakota - Berthold Carpio	1,216,347	17,588
CoBank - Berthold Carpio Phase II	270,618	-
CoBank - GSD	1,672,489	-
USDA - CPIS , 2016A	394,540	5,617
Bank of North Dakota, 2017A - Berthold Carpio	215,000	9,293
Bank of North Dakota, 2017B - GSD	139,000	6,008
	<u>\$ 21,852,991</u>	<u>\$ 331,892</u>

Rural Development – Riverdale #1: In 2005, the District 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 District 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Rural Development – Brooks & Rambling #1: In 2006, the District 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.

Rural Development – Granville: In 2006, the District 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 District 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 District 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 District 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 District 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 District 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 District 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 District 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 District 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

2008 Series A Water Revenue Bonds – Des Lacs: In 2008, the District 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.

Bank of North Dakota Water Revenue Bonds (Series B) – Des Lacs: In 2008, the District 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 District 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 District 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.

Bank of North Dakota – 2017A Berthold Carpio: In 2017, the District issued \$215,000 in Series 2017A bonds. The bonds carry an interest rate of 1.50% and mature December 2037. Bi-annual principal and interest payments of \$6,241 begin in 2018.

Bank of North Dakota – 2017B Granville Surrey Deering: In 2017, the District issued \$139,000 in Series 2017B bonds. The bonds carry an interest rate of 1.50% and mature December 2037. Bi-annual principal and interest payments of \$4,035 begin in 2018.

USDA -- Water Revenue Bonds (Series 2016A) - CPIS: In 2016, the District 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 District 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 District 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 District 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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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

The annual future principal payments are as follows:

Year Ended December 31:	Principal	Interest	Total
2018	\$ 331,892	\$ 705,206	\$ 1,037,097
2019	343,639	693,292	1,036,931
2020	401,517	734,642	1,136,159
2021-2025	2,214,003	3,466,784	5,680,788
2026-2030	2,631,113	3,049,673	5,680,786
2031-2035	3,070,674	2,551,490	5,622,164
2036-2040	3,485,625	1,986,942	5,472,568
2041-2045	4,061,310	1,325,582	5,386,892
2046-2050	3,729,165	628,942	4,358,108
2051-2055	1,567,812	111,874	1,679,685
2056-2060	16,240	17,426	33,666
	<u>\$ 21,852,991</u>	<u>\$ 15,271,854</u>	<u>\$ 37,124,845</u>

NOTE 6 COMMITMENTS

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

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

Water Sales Agreements – The District has a water contract with Pick City and Lake Sakakawea State Park, whereby the District 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 District at intervals as it deems appropriate.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Project	Total Cost of Project	Remaining Commitment
GSD	\$ 7,900,000	\$ 5,502,000
Carpio-Berthold Phase II	3,400,000	2,739,000
Total	\$ 11,300,000	\$ 8,241,000

NOTE 7 RELATED PARTIES

The District 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 District 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 District shall turn over to the districts the systems and facilities constructed pursuant to the terms of this joint power agreement. The District board consists of board members from each water district. The District at times will use the services of the districts to help with the operation of the District. The districts will bill the District at fair market value for these services. During 2017, the District paid North Prairie Rural Water District \$424,332 for water purchases; \$20,000 for management services, and \$71,500 for supplies, legal services, and maintenance.

A member of the board of the District is an insurance agent and the District has purchased general liability in the amount of \$2,683 during 2017.

NOTE 8 NEW PRONOUNCEMENTS

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.

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

NORTH CENTRAL REGIONAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 9 CONCENTRATIONS

Credit Risk – The majority of the District's business is with customers in north central North Dakota. The amount of accounting loss is equivalent to accounts receivable totaling \$145,723 as of December 31, 2017, 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 District's projects either through Rural Development loans or Rural Utilities Service bonds.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general liability insurance.

The District continues to carry commercial insurance for all other risks of loss, including professional liability insurance, and commercial and public property insurance. The District 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

As of January 1, 2018, North Prairie Rural Water District and Central Plains Water District agreed to terminate the joint powers agreement detailed in Note 1. Because of this termination, the following assets and corresponding notes payable will be assumed by Central Plains Water District:

Cash	\$ 408,676
Property	12,745,992
Notes Payable	4,950,523



PO Box 970
41 Central Ave S
Beach, ND 58621-0970
Phone: 701-872-4321
Fax: 701-872-4320

PO Box 602
115 North Main, Suite B
Baker, MT 59313-0602
Phone: 406-778-2816
Fax: 406-778-2866

James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

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 Regional Water District
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 Regional Water District's, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise North Central Regional Water District basic financial statements, and have issued our report thereon dated February 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Central Regional 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of North Central Regional Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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  C.P.A.

Beach, North Dakota
February 28, 2018