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**WILLIAMS RURAL WATER DISTRICT  
WILLISTON, NORTH DAKOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

## TABLE OF CONTENTS

	PAGE
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	6
Statements of Cash Flows	7
Notes to the Financial Statements	9
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Employer's Required Contributions and Notes to Required Supplementary Information	28
<b>SUPPLEMENTARY INFORMATION</b>	
Combined Statement of Net Position - 2017	30
Combined Statement of Revenues, Expenses, and Changes in Net Position - 2017	31
Combined Statement of Net Position - 2016	32
Combined Statement of Revenues, Expenses, and Changes in Net Position - 2016	33
Schedule of Expenditures of Federal Awards	34
Notes to the Schedule of Expenditures of Federal Awards	35
<b>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</b>	<b>36</b>
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	<b>38</b>
Schedule of Findings and Questioned Costs	40
Schedule of Prior Year Findings and Questioned Costs	44
Corrective Action Plan	46



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Williams Rural Water District  
Williston, North Dakota

We have audited the accompanying financial statements of Williams Rural Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which collectively comprise Williams Rural 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 audits. We conducted our audits 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Williams Rural Water District as of December 31, 2017 and 2016, and the changes in financial position and cash flow, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of employer required contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Williams Rural Water District's basic financial statements. The combining statements of net position and revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and related notes are presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements of net position and revenues, expenses, and changes in net position, the Schedule of Expenditures of Federal Awards, and Notes to the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position and revenues, expenses, and changes in net position and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018 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 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.



**BRADY, MARTZ & ASSOCIATES, P.C.  
MINOT, NORTH DAKOTA**

October 3, 2018

**WILLIAMS RURAL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,382,000	\$ 3,824,902
Accounts receivable	307,372	413,924
Inventory	260,961	188,954
Current portion of receivable from members	102,079	-
Total current assets	5,052,412	4,427,780
Noncurrent assets:		
Reserve for debt service	149,597	206,136
Cooperative credits	101,122	89,823
Cost shared infrastructure, net	9,296,286	5,590,637
Capital assets, net	11,900,019	12,360,502
Receivable from members, net	3,424,447	-
Total noncurrent assets	24,871,471	18,247,098
<b>Total assets</b>	<b>29,923,883</b>	<b>22,674,878</b>
Deferred outflows of resources		
Deferred outflows - cost shared infrastructure	178,440	-

SEE NOTES TO THE FINANCIAL STATEMENTS

**WILLIAMS RURAL WATER DISTRICT**  
**STATEMENTS OF NET POSITION - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 98,135	\$ 129,453
Due to other governments	327,000	163,700
Interest payable	29,184	6,561
Accrued liabilities	42,265	53,651
Prepayments on account	15,082	18,467
Expansion deposits	248,500	483,000
Current portion of long-term debt	334,503	204,689
Current portion of liability on cost shared infrastructure	137,797	246,364
Total current liabilities	<u>1,232,466</u>	<u>1,305,885</u>
Noncurrent liabilities:		
Notes payable	5,437,397	1,061,348
Bonds payable	560,000	645,000
Liability on cost shared infrastructure	4,021,171	5,420,516
Total noncurrent liabilities	<u>10,018,568</u>	<u>7,126,864</u>
Total liabilities	<u>11,251,034</u>	<u>8,432,749</u>
Deferred inflows of resources		
Deferred inflows - members	<u>3,947,045</u>	<u>-</u>
Net position		
Net investment in capital assets	10,213,358	10,373,222
Restricted reserves for debt service	149,597	206,136
Unrestricted	4,541,289	3,662,771
Total net position	<u>\$14,904,244</u>	<u>\$14,242,129</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**WILLIAMS RURAL WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating income		
Revenue from continuing operations		
Water sales	\$ 3,847,476	\$ 3,599,351
Membership	8,150	13,450
Hookups	395,650	620,500
Other	60,076	293,518
Total operating revenues	<u>4,311,352</u>	<u>4,526,819</u>
Expenses from continuing operations		
Purchase of water	1,031,119	975,400
Maintenance	309,301	313,996
Administrative and general	1,350,631	1,574,632
Communications and utilities	119,535	136,010
Transportation	44,931	52,650
Depreciation	625,622	468,462
Amortization	212,481	294,244
Other expenses	4,625	35,029
Total operating expenses	<u>3,698,245</u>	<u>3,850,423</u>
Total operating income	<u>613,107</u>	<u>676,396</u>
Nonoperating revenues (expenses)		
Interest income	14,833	7,120
Interest expense	(101,930)	(179,709)
Gain (loss) on sale of assets	-	(17,530)
Amortization of member deferred inflows	136,105	-
Total nonoperating revenues (expenses)	<u>49,008</u>	<u>(190,119)</u>
Change in net position	<u>\$ 662,115</u>	<u>\$ 486,277</u>
Net position - January 1	\$ 14,242,129	\$ 13,755,852
Change in net position	<u>662,115</u>	<u>486,277</u>
Net position - December 31	<u>\$ 14,904,244</u>	<u>\$ 14,242,129</u>

SEE NOTES TO THE FINANCIAL STATEMENTS



**WILLIAMS RURAL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from customers	\$ 4,093,319	\$ 4,504,347
Cash payments to suppliers	(2,293,765)	(2,332,963)
Cash payments to employees	(696,505)	(859,272)
Net cash provided by operating activities	<u>1,103,049</u>	<u>1,312,112</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(4,750,000)	(485,351)
Proceeds from issuing long-term debt	4,750,000	-
Proceeds from sale of fixed assets	-	38,026
Payments on cost shared infrastructure financing	(50,641)	-
Prepayments on cost shared infrastructure	(178,440)	-
Reimbursement from Members for bond payments	127,468	-
Payments on Member debt	(111,384)	-
Payments on long-term debt	(329,137)	(520,107)
Interest paid on long-term debt	(79,307)	(185,498)
Net cash used by capital and related financing activities	<u>(621,441)</u>	<u>(1,152,930)</u>
Cash flows from investing activities		
Interest income	14,833	7,120
Cash patronage retirements received	4,118	6,146
Release in reserve for debt service	100,829	-
Funding in reserve for debt service	(44,290)	-
Net cash provided by investing activities	<u>75,490</u>	<u>13,266</u>
Net change in cash and cash equivalents	557,098	172,448
Cash and cash equivalents - January 1	<u>3,824,902</u>	<u>3,652,454</u>
Cash and cash equivalents - December 31	<u>\$ 4,382,000</u>	<u>\$ 3,824,902</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**WILLIAMS RURAL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 613,107	\$ 676,396
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	625,622	468,462
Amortization	212,481	294,244
Allocated cooperative capital credits	(15,417)	(16,630)
Effects on operating cash flows due to changes in:		
Accounts receivable	106,552	280,299
Inventory	(72,007)	19,955
Accounts payable	(31,318)	(96,342)
Accrued liabilities	(11,386)	(28,131)
Expansion deposits	(321,200)	(275,500)
Unearned revenue	(3,385)	(10,641)
Net cash provided by operating activities	\$ 1,103,049	\$ 1,312,112
Supplemental schedule of noncash investing and financing activities:		
Cost shared infrastructure acquired with debt	\$ 250,000	\$ -
Amortization of deferred inflow	136,105	-
Increase in deferred inflow due to issuance of receivable	4,083,150	-

SEE NOTES TO THE FINANCIAL STATEMENTS

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Williams Rural Water District is presented to assist in understanding the District's financial statements.

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. The District complies with all applicable pronouncements of the Governmental Accounting Standards Board.

**Nature of operations and history**

Williams Rural Water District provides a water system and water supply to the rural area surrounding Williston, North Dakota. Effective January 1, 2005, the association was reorganized as a water district under North Dakota Century Code 61-35. 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 or operated in a manner similar to the private sector, where the intent is that cost of providing services to the general public on a continuous 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 Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or import specific financial burdens on the District. Component units may also include organizations that are fiscally dependent on the District.

Based on the above criteria, the District has one blended component unit included in its report. The blended component unit converted from a not for profit entity operating under 501(c)4 of the Internal Revenue Code to a governmental district exempt from income tax under section 501(c)1 of the Internal Revenue Code, effective October 1, 2017. The blended component unit underwent a corresponding name change, from Northwest Rural Water Association, to Northwest Rural Water District effective as of the same date. This component unit will be referred to as Northwest Rural Water District, consistent with its structure at year end. Williams Rural Water District's governing board members are also Northwest Rural Water District's governing board. Williams Rural Water District has the authority to approve or modify the Northwest Rural Water District's operational and capital budgets. See Note 17 for information related to component unit subsequent activity.

The District is not includable as a component unit within another reporting entity based upon the above criteria.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Basis of accounting**

The District's basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

The District reports as a business-type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those normally financed in whole or in part by fees and charges for services to external parties.

The District's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets, liabilities, net position, revenues and expenses are accounted for through a single business-type activity. 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. Equity is classified as net position.

Business-type activities distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses are those that generally result from providing service and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Revenue from water sales, hookups, memberships, penalties and sales of supplies are reported as operating revenue. Interest income is reported as nonoperating revenue. All expenses related to operating the District are reported as operating expenses. Interest expense and financing cost are reported as nonoperating.

**Cash and cash equivalents**

For purpose of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, except for certificates of deposits which are considered cash equivalents regardless of their term since there is no loss of principal for early withdrawal, and reserve funds which are considered noncash equivalents regardless of the maturity terms.

**Reserve for debt service**

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

**Investment policy**

The District has no formal investment policy. State statues 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.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Cooperative credits**

Cooperative credits are recorded at cost plus the face value of equities received as patronage refunds. The face values of equities redeemed by the cooperatives are deducted from the cooperative credit balance. The cooperative credits are not transferable. No cash is received until such time as the cooperative credits are redeemed at the discretion of the cooperatives. Patronage refunds are recorded in the year they are received.

**Accounts receivable**

Accounts receivables are carried at original invoice amount less an allowance for uncollectible accounts. Management determines the allowance for uncollectible accounts based on an analysis of individuals' accounts. Accounts receivable are written off when determined to be uncollectible. Recoveries of receivables previously written off are recorded when received.

Late fees are charged on receivables that are outstanding for more than 15 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.

**Receivable from Members**

The District transacts under a service concession arrangement with the member entities of Western Area Water Supply Authority. Under this arrangement, the members are required to reimburse the Williams Rural Water District for their outstanding principal payments on their debt. This receivable represents the present value of the principal payment reimbursements required by the members.

**Inventories**

Inventories are valued at the lower of cost or market. Inventories are accounted for using the first-in, first-out method.

**Capital assets**

Capital assets are recorded at historical cost less accumulated depreciation. A portion of the cost of the capital assets is charged against earnings each year as depreciation expense. Depreciation is computed on the straight-line basis, over the estimated useful life of the asset. The District established a capitalization threshold of five thousand dollars. 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:

Structures and improvements	20 - 50 years
Electric pumping equipment	20 years
Distribution reservoirs	50 years
Water mains	75 years
Meters	20 years
Office furniture and equipment	5 years
Tools and shop equipment	5 years
Vehicles	5 - 10 years

**WILLIAMS RURAL WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2017 AND 2016

**Cost shared infrastructure**

Cost shared infrastructure is capitalized at contract cost. A portion of the cost is charged against earnings each year as amortization expense, calculated on the straight line basis and will be fully amortized after 30 years.

**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 and is presented within accrued liabilities.

**Expansion Deposits**

Expansion deposits consist of deposits held by the District for potential users of the system, prepaid water deposits, and fees paid by developers for future infrastructure work.

**Due to other governments**

Due to other governments contains amounts due to R & T Water Supply Commerce Authority for customer expansion deposits received from future customers in the R & T Water Supply Commerce Authority's service area and an amount due to Western Area Water Supply Authority (WAWSA) to reimburse WAWSA for costs incurred. See Note 14.

**Net position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**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.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to 2017 presentation. Such reclassifications had no effect on the change in net position as previously reported.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. The 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 resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. Deferred Outflows of Resources – cost shared infrastructure represents payments on the cost shared infrastructure in excess of the required balance due. The District will recognize the reduction of the cost shared infrastructure liability in future periods.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred Inflows of Resources – Members represents the portion of the note payable taken out in the District's name for cost shared infrastructure that will be reimbursed by the member entities (81.663%). The District transacts under a service concession arrangement with the member entities. This deferred inflow of resources, under GASB 60 – Service Concession Arrangements guidance, is to be amortized over the life of the agreement with the member entities, which is 30 years.

**NOTE 2 CASH AND CASH EQUIVALENTS**

A summary of cash and cash equivalents is as follows:

	2017	2016
Cash on hand	\$ 200	\$ 200
Operating account	1,252,719	807,807
Savings	3,249	3,247
Certificate of deposits	100,829	-
CDAR accounts	3,025,003	3,013,648
Total	\$4,382,000	\$3,824,902

**Credit risk**

The District has historically limited its investments in certificates of deposit fully insured by the Federal Deposit Insurance Corporation. These have been classified as cash and cash equivalents in accordance with District policy.

**Interest rate risk**

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

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Concentration of credit risk**

The District places no limit on the amount the District may invest in any one issuer.

**Custodial credit risk**

This is the risk that, in the event a financial institution fails, the District is unable to recover the value of its deposits, investment or collateral securities in the possession of the institution. As of December 31, 2017, approximately \$3,518,135 of the District's bank balance was covered by federal depository insurance. As of December 31, 2017, the fair value of securities pledged to the district was inadequate to cover potential losses. Total potential losses not covered by pledged securities were \$1,207,385 at December 31, 2017.

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable are shown net of the allowance for doubtful accounts of \$10,135 and \$16,500 at December 31, 2017 and 2016, respectively.

An aging of the accounts receivable at December 31, 2017 and 2016 is shown as follows:

	<u>2017</u>	<u>Percent</u>	<u>2016</u>	<u>Percent</u>
Current	\$ 280,456	88.3%	\$ 368,103	85.5%
30 days	20,643	6.5%	16,266	3.8%
60 days	10,997	3.5%	12,408	2.9%
90 days	3,370	1.1%	12,702	3.0%
120+ days	2,041	0.6%	20,945	4.9%
	<u>317,507</u>	<u>100.0%</u>	<u>430,424</u>	<u>100.0%</u>
Less allowance	<u>(10,135)</u>		<u>(16,500)</u>	
	<u>\$ 307,372</u>		<u>\$ 413,924</u>	

**NOTE 4 COOPERATIVE CREDITS**

Cooperative credits are carried at cost and are held by the following cooperative:

	<u>2017</u>	<u>2016</u>
Mountrail-Williams Electric Cooperative	\$ 87,695	\$ 76,645
North Central Data Cooperative	632	433
Horizon Resources	<u>12,795</u>	<u>12,745</u>
	<u>\$101,122</u>	<u>\$ 89,823</u>



**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 81,820	\$ -	\$ -	\$ 81,820
Organizational fees	4,951	-	-	4,951
Total	<u>86,771</u>	<u>-</u>	<u>-</u>	<u>86,771</u>
Capital assets, being depreciated:				
Buildings	3,994,704	-	-	3,994,704
Transmission system	11,172,989	-	-	11,172,989
Vehicles	414,233	-	-	414,233
Tools and equipment	28,358	-	-	28,358
Office equipment	38,597	-	-	38,597
Total	<u>15,648,881</u>	<u>-</u>	<u>-</u>	<u>15,648,881</u>
Less accumulated depreciation:				
Buildings	245,538	101,602	-	347,140
Transmission system	2,778,435	298,276	-	3,076,711
Vehicles	296,405	52,484	-	348,889
Tools and equipment	26,139	2,219	-	28,358
Office equipment	28,633	5,902	-	34,535
Total	<u>3,375,150</u>	<u>460,483</u>	<u>-</u>	<u>3,835,633</u>
Total capital assets being depreciated, net	<u>12,273,731</u>	<u>(460,483)</u>	<u>-</u>	<u>11,813,248</u>
Capital assets, net	<u>\$ 12,360,502</u>	<u>\$ (460,483)</u>	<u>\$ -</u>	<u>\$ 11,900,019</u>

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 81,820	\$ -	\$ -	\$ 81,820
Organizational fees	4,951	-	-	4,951
Total	<u>86,771</u>	<u>-</u>	<u>-</u>	<u>86,771</u>
Capital assets, being depreciated:				
Buildings	3,994,704	-	-	3,994,704
Transmission system	10,771,364	485,351	83,726	11,172,989
Vehicles	480,067	-	65,834	414,233
Tools and equipment	28,358	-	-	28,358
Office equipment	38,597	-	-	38,597
Total	<u>15,313,090</u>	<u>485,351</u>	<u>149,560</u>	<u>15,648,881</u>
Less accumulated depreciation:				
Buildings	143,936	101,602	-	245,538
Transmission system	2,520,644	285,961	28,170	2,778,435
Vehicles	294,139	68,100	65,834	296,405
Tools and equipment	20,812	5,327	-	26,139
Office equipment	21,161	7,472	-	28,633
Total	<u>3,000,692</u>	<u>468,462</u>	<u>94,004</u>	<u>3,375,150</u>
Total capital assets being depreciated, net	<u>12,312,398</u>	<u>16,889</u>	<u>55,556</u>	<u>12,273,731</u>
Capital assets, net	<u>\$ 12,399,169</u>	<u>\$ 16,889</u>	<u>\$ 55,556</u>	<u>\$ 12,360,502</u>

Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$625,622 and \$468,462 respectively, which includes \$460,483 and \$468,462 from capital assets for the years ended December 31, 2017 and 2016, respectively and \$165,139 and \$0 from cost shared infrastructure for the years ended December 31, 2017 and 2016, respectively. See Note 14 for details on cost shared infrastructure.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 6 LONG-TERM NOTES PAYABLE**

The following is a summary of long-term debt transactions of the District for the years ended December 31, 2017 and 2016:

	Berkadia Note Payable	Revenue Bonds	First International Bank & Trust Note Payable	Drinking Water Note Payable	Total
Balance 1/1/16	\$ 97,113	\$ 810,000	\$ 1,306,030	\$ -	\$ 2,213,143
Additions	-	-	-	-	-
Reductions	(97,113)	(80,000)	(124,993)	-	(302,106)
Balance 12/31/16	-	730,000	1,181,037	-	1,911,037
Additions	-	-	-	4,750,000	4,750,000
Reductions	-	(85,000)	(119,137)	(125,000)	(329,137)
Balance 12/31/17	<u>\$ -</u>	<u>\$ 645,000</u>	<u>\$ 1,061,900</u>	<u>\$ 4,625,000</u>	<u>\$ 6,331,900</u>
Due within one year	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 124,503</u>	<u>\$ 125,000</u>	<u>\$ 334,503</u>

**Berkadia note payable**

5% note to Berkadia Commercial Mortgage was paid off in 2016 and had been secured by substantially all assets and assignment of income. The District had pledged income derived from the enterprise operations to pay the note. The note was issued to finance the water system.

**Revenue bonds**

\$1,500,000 authorized for Water Revenue Bonds of 2005 (payable in yearly payments ranging from \$65,000 to \$100,000 through September 1, 2024). Bonds carry a fixed rate of 2.5%. The District has pledged income derived from the enterprise operations to pay the bonds. The bonds were issued to finance the expansion of the water system. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve was funded over 5 years, and became fully funded in 2010. The total amount restricted totaled \$105,307 as of December 31, 2017.

**First International Bank and Trust note payable**

American State Bank and Trust financed the construction of the District's office building through a loan secured by the office building. During June of 2015, the District refinanced the commercial loan, obtaining a real estate mortgage loan from First International Bank and Trust which is secured by the building. This note payable to First International Bank and Trust has a 3.95% variable rate and matures on June 25, 2025. The interest rate will remain fixed at 3.95% until June 23, 2018, after which time it will be adjusted every third year. The loan is payable in monthly installments of \$13,677, including interest, until June 23, 2018, after which it will be adjusted every third year as necessary due to changes in the interest rate.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Drinking water note payable**

North Dakota Public Finance Authority's Drinking Water State Revolving Fund Program financed the water system expansion through a note secured by revenues from the acquired or constructed assets. The note carries a fixed 1.50% interest rate and a 0.50% administration fee. The note requires semi annual interest and administration fee payments and annual principal payments commencing September 1, 2017. The note matures on September 1, 2046. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve is to be funded \$44,290 annually over 5 years. The total amount restricted was \$44,290 as of December 31, 2017.

**Loan covenants and collateral**

Substantially all of the District's assets are pledged as collateral. The District complied with or received waivers on all covenants on their loans as of December 31, 2017 and 2016.

The future expected requirements to amortize long-term debt including interest are as follows:

Year ending December 31,	Notes Payable		
	Principal	Interest	Total
2018	\$ 249,503	\$ 108,995	\$ 358,498
2019	259,511	102,112	361,623
2020	264,720	94,953	359,673
2021	275,139	87,584	362,723
2022	280,776	79,922	360,698
2023-2027	1,107,251	296,221	1,403,472
2028-2032	800,000	220,200	1,020,200
2033-2037	885,000	157,725	1,042,725
2038-2042	970,000	88,875	1,058,875
2043-2046	595,000	17,475	612,475
	<u>\$ 5,686,900</u>	<u>\$ 1,254,062</u>	<u>\$ 6,940,962</u>

Year ending December 31,	Bond Payable		
	Principal	Interest	Total
2018	\$ 85,000	\$ 16,125	\$ 101,125
2019	90,000	14,000	104,000
2020	90,000	11,750	101,750
2021	90,000	9,500	99,500
2022	95,000	7,250	102,250
2022-2025	195,000	7,375	202,375
	<u>\$ 645,000</u>	<u>\$ 66,000</u>	<u>\$ 711,000</u>

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 7 PENSION PLAN**

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA) is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (EIN 530116145; PN 333). Copies of the RS Plan's annual financial statements are also available to cooperative representatives by calling NRECA's Member Contact Center at 866-673-2299.

At December 31, 2017, William's Rural Water District had ten employees covered by the RS Plan. Benefits provided under the plan include a graduated retirement benefit based on the participant's salary and years of service. Plan participants become eligible to receive pension benefits upon reaching a normal retirement date, which is the first day of the month following a participant's attainment of age 62. The plan also provides a subsidized early retirement option upon completing not less than 30 years of benefit service. Participants may obtain complete plan benefit details by contacting Williams Rural Water District at 701-774-8915.

The District may amend certain terms of the plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual employers (such provisions require approval by the NRECA board of directors). Each employer elects to participate in the plan. The District can choose to withdraw from the RS Plan, subject to plan provisions that require the District to fully fund its share of RS Plan liabilities before withdrawing.

The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). The employer must contribute annually in accordance with the terms of the RS Plan. The employer may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

Williams Rural Water District's contributions represented less than 5 percent of the total contributions made to the plan by all participating employers.

Williams Rural Water District made contributions to the plan of \$206,808 in 2017, and \$224,474 in 2016. There were no outstanding payables for required pension contributions at December 31, 2017 and 2016.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2017 and January 1, 2016 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

**NOTE 8 CONCENTRATIONS OF CREDIT RISK**

Williams Rural Water District, located in Williston, North Dakota, provides a water system and water supply to the rural areas surrounding Williston. The District grants credit to customers located within this service area. The amount of accounting loss could be equivalent to the accounts receivable balance at year end.

The District has a water purchase contract with the Western Area Water Supply Authority (WAWSA), whereby the District purchases water at rates established by the contract, subject to a monthly minimum requirement. The rates paid by the District under the contract are subject to review by WAWSA at such intervals as it deems appropriate. The contract remains in effect until all the debt of WAWSA is repaid.

**NOTE 9 RISK MANAGEMENT**

The District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general liability, auto and public assets insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence.

The District also participates in the North Dakota Fire and Tornado Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimated replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,633,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 10 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 11 JOINTLY GOVERNED ORGANIZATIONS**

During 2011, the District became a member of the Western Area Water Supply Authority (WAWSA). WAWSA was formed to own, finance, construct and operate the Western Area Water Supply Project. The project is a comprehensive water supply project largely utilizing Missouri River water treated at the Williston Regional Water Treatment Plant and distributed to meet the municipal, rural and industrial water needs for all or parts of McKenzie, Williams, Divide, Burke and Mountrail counties. The project is financed by a series of loans issued by the State of North Dakota. The District holds two of eleven seats on the board of WAWSA.

During 2012, the District entered into an Infrastructure Operating Agreement with WAWSA. Under this agreement, the District will be responsible for all repairs and maintenance of infrastructure owned by WAWSA as identified in the agreement. The District may also make approved capital expenditures with respect to the WAWSA infrastructure in accordance with an approved budget. The District will have the authority and responsibility for the general management and operation of the identified infrastructure, establishing and implementing purchasing and administrative policies, ensuring compliance with applicable legal requirements, budgeting and accounting procedures, programs and other operational matters. Under the agreement, the District is entitled to reimbursement for costs identified in the agreement and in accordance with an approved budget. WAWSA will bear the risk of loss to the infrastructure. The agreement is in effect until the earlier of: i) repayment of all WAWSA debt or ii) 99 years after the effective date of the agreement.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 12 CONDENSED COMBINING FINANCIAL INFORMATION**

As noted in Note 1, the District has a blended component unit, Northwest Rural Water District. The following condensed combining financial information relates to this component unit as of and for the years ended December 31, 2017 and 2016.

**Condensed combining statement of net position**

	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$1,033,021	\$ 879,370
Accounts receivable	10,763	11,906
Total assets	<u>1,043,784</u>	<u>891,276</u>
Current liabilities		
Prepayments on account	1,115	1,617
Expansion deposits	174,500	315,000
Total liabilities	<u>175,615</u>	<u>316,617</u>
Net position		
Unrestricted	<u>\$ 868,169</u>	<u>\$ 574,659</u>

**Condensed combining statement of revenues, expenses, and changes in net position**

	<u>2017</u>	<u>2016</u>
Operating income		
Revenue from continuing operations		
Water sales	\$ 152,615	\$ 96,515
Membership	2,550	4,600
Hookups	158,900	201,550
Other	176	-
Total operating revenues	<u>314,241</u>	<u>302,665</u>
Expenses from continuing operations		
Purchase of water	19,578	10,536
Administrative and general	1,153	-
Total expenses from continuing operations	<u>20,731</u>	<u>10,536</u>
Total operating income	<u>293,510</u>	<u>292,129</u>
Change in net position	<u>293,510</u>	<u>292,129</u>
Net position - January 1	<u>574,659</u>	<u>282,530</u>
Net position - December 31	<u>\$ 868,169</u>	<u>\$ 574,659</u>



**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**Condensed combining statement of cash flow**

	2017	2016
Cash flows from operating activities		
Operating income	\$ 293,510	\$ 292,129
Effects on operating cash flows due to changes in:		
Expansion deposits	(140,500)	(212,000)
Accounts receivable	1,143	(6,876)
Prepayments on account	(502)	1,617
	153,651	74,870
Net cash provided by operating activities	153,651	74,870
Net change in cash and cash equivalents	153,651	74,870
Cash and cash equivalents - January 1	879,370	804,500
Cash and cash equivalents - December 31	\$ 1,033,021	\$ 879,370

**NOTE 13 JOINT POWERS AGREEMENT**

During the year ended December 31, 2015, the District entered into a Joint Powers agreement with BDW Water System Association (BDW). The Joint Powers agreement assigns the District the authority to operate, maintain, and manage the BDW System and any additions to the BDW System. The District shall be responsible for any and all duties and tasks required in operating a rural water system, which include, but are not limited to, monitoring the system, identifying issues of water loss, maintaining and repairing facilities, transmission lines, service lines, pump hoses, hook-ups, responding to concerns of the users, setting rates for hook-ups and water use, invoicing customers, receiving and keeping revenues, procuring, maintaining, and paying for the applicable insurance coverages, and employing enough individuals to carry out the work in accordance with all applicable federal, state, and other statutes, rules and regulations.

**NOTE 14 COST SHARED INFRASTRUCTURE**

During the year ended December 31, 2016, the District entered into an agreement with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 29.425% of the capital invested. In exchange, the District has the right to use the infrastructure installed over the period of the loans. As a result, upon entering into the agreement, the District recognized an intangible right of use asset and an offsetting liability on cost shared infrastructure for the assets and loans that are not in the District's name.

In order to facilitate the financing of the infrastructure, loans were taken out by participating members to the agreement from the North Dakota Public Finance Authority's Drinking Water State Revolving Fund Program. One of those loans is in Williams Rural Water District's name. According to the agreement, the assets purchased with the \$5,000,000 loan in Williams Rural Water District's name are owned by the District until the loan is paid off.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

The District recorded a capital asset and offsetting note payable for the loan that was taken out in their name (see Note 6, drinking water note payable). WAWSA incurred costs of \$5,000,000 to construct these assets. The District has repaid \$4,750,000 of these amounts with loan proceeds and has recorded a payable to WAWSA for the remaining \$250,000. The District has also recorded a deferred inflow of resources which represents the portion (81.663%) of the capital assets for which the members will reimburse the District.

Details on the cost shared infrastructure asset are as follows for the years ended December 31, 2017 and 2016:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Cost shared infrastructure being depreciated	\$ 916,731	\$4,083,269	\$ -	\$5,000,000
Less accumulated depreciation	45,839	165,139	-	210,978
Total cost shared infrastructure being depreciated, net	870,892	3,918,130	-	4,789,022
Cost shared infrastructure being amortized	4,968,150	-	-	4,968,150
Less accumulated amortization	248,405	212,481	-	460,886
Total cost shared infrastructure being amortized, net	4,719,745	(212,481)	-	4,507,264
Net cost shared infrastructure	<u>\$5,590,637</u>	<u>\$3,705,649</u>	<u>\$ -</u>	<u>\$9,296,286</u>
	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Cost shared infrastructure being depreciated	\$ -	\$ 916,731	\$ -	\$ 916,731
Less accumulated depreciation	-	45,839	-	45,839
Total cost shared infrastructure being depreciated, net	-	870,892	-	870,892
Cost shared infrastructure being amortized	-	4,968,150	-	4,968,150
Less accumulated amortization	-	248,405	-	248,405
Total cost shared infrastructure being amortized, net	-	4,719,745	-	4,719,745
Net cost shared infrastructure	<u>\$ -</u>	<u>\$5,590,637</u>	<u>\$ -</u>	<u>\$5,590,637</u>

Depreciation and amortization on cost shared infrastructure for the year ended December 31, 2017 was \$165,139 and \$212,481, respectively. Depreciation and amortization on cost shared infrastructure for the year ended December 31, 2016 was \$45,839 and \$248,405, respectively.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

Amounts owed on cost shared infrastructure totaled \$4,158,968 and 5,666,880 as of December 31, 2017 and 2016, respectively, and will be repaid over 30 years at an interest rate of 1.5%. The liability requires monthly payments and will mature during 2046. Expected future payments are as follows:

Year ending <u>December 31,</u>	
2018	\$ 137,797
2019	173,984
2020	176,033
2021	179,586
2022	181,699
2023-2027	954,554
2028-2032	1,035,901
2033-2037	785,349
2038-2042	285,423
2043-2046	248,642
	<u>\$ 4,158,968</u>

The deferred inflow of resources represents the portion of the owned infrastructure from the loan taken out in the District's name and will be amortized into income over the life of the loan, which is 30 years. The total amortized into income for the years ended December 31, 2017 and 2016 was \$136,105 and \$0, respectively.

**NOTE 15 COMMITMENTS**

On November 1, 2016, the District entered into an agreement to borrow five million dollars on behalf of Western Area Water Supply Authority for use in developing water distribution infrastructure within the District's boundaries. The loan had \$250,000 left to be drawn as of December 31, 2017. The loan had a balance outstanding at December 31, 2017 of \$4,625,000. See Note 14 for additional information.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 16 NEW ACCOUNTING PRONOUNCEMENTS**

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. 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.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Company's Financial Statements.

**NOTE 17 SUBSEQUENT EVENTS**

Effective January 1, 2018, Williams Rural Water District merged with its blended component unit, Northwest Rural Water District. Williams Rural Water District dissolved as a result of the merger. The merged entity will continue to operate as Northwest Rural Water District from January 1, 2018 forward.

No significant events other than those referred to above subsequent to the District's year end. Subsequent events have been evaluated through October 3, 2018, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF EMPLOYER'S REQUIRED CONTRIBUTIONS AND**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

Williams Rural Water District made required contributions to the RS pension plan in the following amounts for the year ended December 31,

2017	\$ 206,808
2016	224,474
2015	174,995
2014	147,871
2013	133,577
2012	99,038
2011	84,959
2010	57,812
2009	42,036
2008	26,581

For additional information related to this plan, see footnote 7 to the financial statements.

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF EMPLOYER'S REQUIRED CONTRIBUTIONS AND**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED**  
**DECEMBER 31, 2017**

The following factors impacted the above contribution rates. Remaining increases in required pension contributions are attributable to increasing salaries and increased number of employees participating in the plan.

Year	Proportional increase compared with prior year	Primary reason for significant increase
2008	2%	See note (a) below.
2009	11%	Actual 2007 investment return was lower than the assumed 8.5% expected annual return.
2010	35%	Actual 2008 investment return was significantly lower than the assumed 8.5% expected annual return.
2011	0%	No proportional increase.
2012	0%	No proportional increase.
2013	8%	Actual 2011 investment return was significantly lower than the assumed 8.5% expected annual return.
2014	0%	No proportional increase.
2015	0%	No proportional increase.
2016	3%	Actual 2014 investment return was lower than the assumed 8.0% expected annual return.
2017	3%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.

(a) Base billing rates were lower than current rates because the plan was overfunded. Increases during this period were primarily the result of a gradual reduction in the plan's surplus. Over time, as surplus assets available to pay contributions diminished, employer contributions were raised.



SUPPLEMENTARY INFORMATION

**WILLIAMS RURAL WATER DISTRICT**  
**COMBINED STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

	Williams Rural Water District	BDW Joint Powers Agreement	Northwest Rural Water District	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,661,977	\$ 687,002	1,033,021	\$ 4,382,000
Accounts receivable	242,326	54,283	10,763	307,372
Inventory	260,961	-	-	260,961
Current portion of receivable from members	102,079	-	-	102,079
Total current assets	<u>3,267,343</u>	<u>741,285</u>	<u>1,043,784</u>	<u>5,052,412</u>
Noncurrent assets:				
Reserve for debt service	149,597	-	-	149,597
Cooperative credits	101,122	-	-	101,122
Cost shared infrastructure, net	7,281,330	2,014,956	-	9,296,286
Capital assets, net	11,900,019	-	-	11,900,019
Receivable from members, net	3,424,447	-	-	3,424,447
Total noncurrent assets	<u>22,856,515</u>	<u>2,014,956</u>	<u>-</u>	<u>24,871,471</u>
<b>Total assets</b>	<u>26,123,858</u>	<u>2,756,241</u>	<u>1,043,784</u>	<u>29,923,883</u>
<b>Deferred outflows of resources</b>				
Deferred outflows - cost shared infrastructure	<u>80,762</u>	<u>97,678</u>	<u>-</u>	<u>178,440</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	74,048	24,087	-	98,135
Due to other governments	327,000	-	-	327,000
Interest payable	29,184	-	-	29,184
Accrued liabilities	42,265	-	-	42,265
Prepayments on account	12,556	1,411	1,115	15,082
Expansion deposits and customer prepayments	-	74,000	174,500	248,500
Current portion of long-term debt	334,503	-	-	334,503
Current portion of liability on cost shared infrastructure	85,875	51,922	-	137,797
Total current liabilities	<u>905,431</u>	<u>151,420</u>	<u>175,615</u>	<u>1,232,466</u>
Noncurrent liabilities:				
Notes payable	5,437,397	-	-	5,437,397
Bonds payable	560,000	-	-	560,000
Liability on cost shared infrastructure	2,505,904	1,515,267	-	4,021,171
Total noncurrent liabilities	<u>8,503,301</u>	<u>1,515,267</u>	<u>-</u>	<u>10,018,568</u>
<b>Total liabilities</b>	<u>9,408,732</u>	<u>1,666,687</u>	<u>175,615</u>	<u>11,251,034</u>
<b>Deferred inflows of resources</b>				
Deferred inflows - members	<u>3,947,045</u>	<u>-</u>	<u>-</u>	<u>3,947,045</u>
<b>Net position</b>				
Net investment in capital assets	9,667,913	545,445	-	10,213,358
Restricted reserves for debt service	149,597	-	-	149,597
Unrestricted	3,031,333	641,787	868,169	4,541,289
Total net position	<u>\$ 12,848,843</u>	<u>\$ 1,187,232</u>	<u>\$ 868,169</u>	<u>\$ 14,904,244</u>

**WILLIAMS RURAL WATER DISTRICT**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Williams Rural Water District	BDW Joint Powers Agreement	Northwest Rural Water District	Total
Operating income				
Revenue from continuing operations				
Water sales	\$ 2,874,813	\$ 820,048	\$ 152,615	\$ 3,847,476
Membership	2,650	2,950	2,550	8,150
Hookups	71,750	165,000	158,900	395,650
Other	58,674	1,226	176	60,076
Total operating revenues	<u>3,007,887</u>	<u>989,224</u>	<u>314,241</u>	<u>4,311,352</u>
Expenses from continuing operations				
Purchase of water	654,084	357,457	19,578	1,031,119
Maintenance	291,713	17,588	-	309,301
Administrative and general	1,310,778	38,700	1,153	1,350,631
Communications and utilities	112,816	6,719	-	119,535
Transportation	43,018	1,913	-	44,931
Depreciation	625,622	-	-	625,622
Amortization	120,719	91,762	-	212,481
Other expenses	4,370	255	-	4,625
Total operating expenses	<u>3,163,120</u>	<u>514,394</u>	<u>20,731</u>	<u>3,698,245</u>
Total operating income	<u>(155,233)</u>	<u>474,830</u>	<u>293,510</u>	<u>613,107</u>
Nonoperating revenues (expenses)				
Interest income	14,833	-	-	14,833
Interest expense	(92,662)	(9,268)	-	(101,930)
Amortization of member deferred inflows	136,105	-	-	136,105
Total nonoperating revenues (expenses)	<u>58,276</u>	<u>(9,268)</u>	<u>-</u>	<u>49,008</u>
Change in net position	<u>(96,957)</u>	<u>465,562</u>	<u>293,510</u>	<u>662,115</u>
Net position - January 1	<u>12,945,800</u>	<u>721,670</u>	<u>574,659</u>	<u>14,242,129</u>
Net position - December 31	<u>\$ 12,848,843</u>	<u>\$ 1,187,232</u>	<u>\$ 868,169</u>	<u>\$ 14,904,244</u>

**WILLIAMS RURAL WATER DISTRICT**  
**COMBINED STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**

	Williams Rural Water District	BDW Joint Powers Agreement	Northwest Rural Water Association	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,059,776	\$ 885,756	\$ 879,370	\$ 3,824,902
Accounts receivable	343,107	58,911	11,906	413,924
Inventory	188,954	-	-	188,954
Total current assets	<u>2,591,837</u>	<u>944,667</u>	<u>891,276</u>	<u>4,427,780</u>
Noncurrent assets:				
Reserve for debt service	206,136	-	-	206,136
Cooperative credits	89,823	-	-	89,823
Cost shared infrastructure, net	3,483,873	2,106,764	-	5,590,637
Capital assets, net	12,360,502	-	-	12,360,502
Total noncurrent assets	<u>16,140,334</u>	<u>2,106,764</u>	<u>-</u>	<u>18,247,098</u>
Total assets	<u>18,732,171</u>	<u>3,051,431</u>	<u>891,276</u>	<u>22,674,878</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	104,637	24,816	-	129,453
Due to other governments	163,700	-	-	163,700
Interest payable	6,561	-	-	6,561
Accrued liabilities	53,651	-	-	53,651
Prepayments on account	15,400	1,450	1,617	18,467
Expansion deposits	-	168,000	315,000	483,000
Current portion of long-term debt	204,689	-	-	204,689
Current portion of liability on cost shared infrastructure	153,525	92,839	-	246,364
Total current liabilities	<u>702,163</u>	<u>287,105</u>	<u>316,617</u>	<u>1,305,885</u>
Noncurrent liabilities:				
Notes payable	1,061,348	-	-	1,061,348
Bonds payable	645,000	-	-	645,000
Liability on cost shared infrastructure	3,377,860	2,042,656	-	5,420,516
Total noncurrent liabilities	<u>5,084,208</u>	<u>2,042,656</u>	<u>-</u>	<u>7,126,864</u>
Total liabilities	<u>5,786,371</u>	<u>2,329,761</u>	<u>316,617</u>	<u>8,432,749</u>
<b>Net position</b>				
Net investment in capital assets	10,401,953	(28,731)	-	10,373,222
Restricted reserves for debt service	206,136	-	-	206,136
Unrestricted	2,337,711	750,401	574,659	3,662,771
Total net position	<u>\$ 12,945,800</u>	<u>\$ 721,670</u>	<u>\$ 574,659</u>	<u>\$ 14,242,129</u>

**WILLIAMS RURAL WATER DISTRICT**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Williams Rural Water District	BDW Joint Powers Agreement	Northwest Rural Water Association	Total
Operating income				
Revenue from continuing operations				
Water sales	\$ 2,773,557	\$ 729,279	\$ 96,515	\$ 3,599,351
Membership	2,200	6,650	4,600	13,450
Hookups	208,800	210,150	201,550	620,500
Other	293,518	-	-	293,518
Total operating revenues	<u>3,278,075</u>	<u>946,079</u>	<u>302,665</u>	<u>4,526,819</u>
Expenses from continuing operations				
Purchase of water	611,071	353,793	10,536	975,400
Maintenance	305,573	8,423	-	313,996
Administrative and general	1,574,374	258	-	1,574,632
Communications and utilities	130,496	5,514	-	136,010
Transportation	52,650	-	-	52,650
Depreciation	468,462	-	-	468,462
Amortization	183,362	110,882	-	294,244
Other expenses	34,026	1,003	-	35,029
Total operating expenses	<u>3,360,014</u>	<u>479,873</u>	<u>10,536</u>	<u>3,850,423</u>
Total operating income	<u>(81,939)</u>	<u>466,206</u>	<u>292,129</u>	<u>676,396</u>
Nonoperating revenues (expenses)				
Interest income	7,120	-	-	7,120
Interest expense	(138,374)	(41,335)	-	(179,709)
Gain (loss) on sale of asset	(17,530)	-	-	(17,530)
Total nonoperating revenues (expenses)	<u>(148,784)</u>	<u>(41,335)</u>	<u>-</u>	<u>(190,119)</u>
Change in net position	<u>(230,723)</u>	<u>424,871</u>	<u>292,129</u>	<u>486,277</u>
Net position - January 1	<u>13,176,523</u>	<u>296,799</u>	<u>282,530</u>	<u>13,755,852</u>
Net position - December 31	<u>\$ 12,945,800</u>	<u>\$ 721,670</u>	<u>\$ 574,659</u>	<u>\$ 14,242,129</u>

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Identifying Pass-Through Grant Number</u>	<u>Federal CFDA Number</u>	<u>Amount Expended</u>
<u>Environmental Protection Agency:</u>			
North Dakota Public Finance Authority Drinking Water State Revolving Fund	70	66.468	\$ 5,000,000

SEE NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**WILLIAMS RURAL WATER DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2017**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Williams Rural Water District under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Williams Rural Water District, it is not intended to and does not present the financial position, change in net position, or cash flows of Williams Rural Water District.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Williams Rural Water District has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance.

**NOTE 3 FINANCIAL STATEMENT RECONCILIATION**

The total amount awarded during the year ended December 31, 2017 was re-disbursed, so did not affect the Statement of Revenues, Expenses and Changes in Net Position. See Note 14 to the financial statements for additional information.

**NOTE 4 BALANCES OUTSTANDING UNDER LOAN OR LOAN GUARANTEE PROGRAMS**

The District had \$4,625,000 outstanding at December 31, 2017 under federal loan or loan guarantee programs.

**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  
Williams Rural Water District  
Williston, 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 Williams Rural Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Williams Rural Water District's basic financial statements, and have issued our report thereon dated October 3, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2017-002 to be a material weakness.



A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-003, and 2017-004 to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Williams 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-004.

#### **Entity's Responses to Findings**

Williams Rural Water District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Williams Rural Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **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.



**BRADY, MARTZ & ASSOCIATES, P.C.  
MINOT, NORTH DAKOTA**

October 3, 2018



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Williams Rural Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Williams Rural Water District's major federal programs for the year ended December 31, 2017. Williams Rural Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Williams Rural Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Williams Rural Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Williams Rural Water District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Williams Rural Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

### **Report on Internal Control over Compliance**

Management of Williams Rural Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Williams Rural Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Williams Rural Water District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.  
MINOT, NORTH DAKOTA**

October 3, 2018

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**Section I: Summary of Auditor's Results:**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes        no
- Significant deficiencies identified that are not considered to be material weaknesses?   X   yes        no

Noncompliance material to financial statements noted?   X   yes        no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?        yes   X   no
- Significant deficiencies identified that are not considered to be material weaknesses?        yes   X   no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?        yes   X   no

Identification of major programs:

66.468 Drinking Water State Revolving Funds Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?        yes   X   no

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**DECEMBER 31, 2017**

**Section II: Findings Relating to Financial Statements:**

**2017-001**    *Preparation of Financial Statements – Significant Deficiency*

**Criteria:**                    An appropriate system of internal controls requires that the District must make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the District personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

**Condition/Context:**    The District's auditors prepared the financial statements as of December 31, 2017. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

**Cause:**                      The district has a limited number of staff available to maintain knowledge of current accounting principles and required financial statement disclosures.

**Effect:**                      An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

**Recommendation:**    Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists or the outsourcing of the financial statement preparation or review function.

**Views of responsible officials and corrective actions:**    We agree with this finding. See corrective action plan item 2017-001.

**Indication of repeat finding:**                    This is a repeat finding. See Finding 2016-001.

**2017-002**    *Significant Adjusting Entries – Material Weakness*

**Criteria:**                    The District is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

**Condition:**                    During our audits, adjusting entries to the financial statements were proposed in order to bring the financial statements into compliance with the accrual basis of accounting. The District is required to maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on accrual basis of accounting.

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**DECEMBER 31, 2017**

**2017-002 – (Continued)**

**Context:** Accounts related to accounts receivable, deferred revenue, expansion deposits, property, depreciation, accounts payable and notes payable are adjusted throughout the financial statement preparation process.

**Cause:** The District has a limited number of staff available to determine the proper balance of each general ledger account prior to the start of the audit.

**Effect:** The District does not maintain internal controls at a level where a determination can be made that the general ledger account are properly reflected on a full accrual basis.

**Recommendation:** In order to comply with this requirement, accounting personnel will need to determine the proper balance of each general ledger account prior to the start of the audit.

**Views of responsible officials and corrective actions:** We agree with this finding. See corrective action plan item 2017-002.

**Indication of repeat finding:** This is a repeat finding. See Finding 2016-002.

**2017-003    *Segregation of Duties – Significant Deficiency***

**Criteria:** Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping, and reconciliation functions.

**Condition/Context:** The billing and collection functions of the District do not provide for an adequate segregation of duties.

**Cause:** The District has a limited number of staff available due to the size of the organization.

**Effect:** Under the current system, one individual has the ability to enter receipts, prepare and post payments, and reconcile the District's bank accounts.

**Recommendation:** While the District does have some monitoring controls in place, we recommend that the District review its current process to determine if the monitoring controls can be expanded and if any segregation controls can be economically implemented.

**Views of responsible officials and corrective actions:** We agree with this finding. See corrective action plan item 2017-003.

**Indication of repeat finding:** This is a repeat finding. See Finding 2016-003.

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**DECEMBER 31, 2017**

**2017-004**    *Pledged Securities – Significant Deficiency*

Criteria:                    An appropriate system of internal controls requires that the District monitor its cash balances with financial institutions to ensure the market value of pledged securities is sufficient to collateralize deposits in excess of FDIC insurance and comply with the requirements of the North Dakota Century Code.

Condition/Context:      During our audit, it was noted that there are amounts on deposit with financial institutions in excess of FDIC insurance that are not sufficiently covered by pledged securities. In accordance with North Dakota Century Code Section 21-04-09, when securities are pledged to the board of any public corporation, the board shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits in excess of FDIC insurance.

Cause:                      The District changed depository institutions and the internal controls of the District did not detect the lack of pledged security coverage from the new depository institution.

Effect:                      The District did not make a determination that all cash balances were covered by pledged securities, and thus failed to detect certain cash balances as of December 31, 2017 were not sufficiently collateralized.

Recommendation:      We recommend that that Authority implement a periodic review process, whereby the total cash balance in excess of FDIC insurance at each financial institution is compared to the market value of pledged securities to ensure these deposits are appropriately collateralized. When deposits are transferred from one depository institution to another, procedures should be enacted to ensure pledged securities are sufficient to cover any deposits in excess of FDIC insurance.

Views of responsible officials and

corrective actions:      We agree with this finding. See corrective action plan item 2017-004.

Indication of repeat finding:

This is a repeat finding. See Finding 2016-004.

**Section III: Findings and Questioned Costs for Federal Awards:**

There are no findings which are required to be reported under this section.

**WILLIAMS RURAL WATER DISTRICT**  
**SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**Schedule of Prior Year Findings and Questioned Costs:**

**2016-001**    *Preparation of Financial Statements – Significant Deficiency*

**Criteria:**                    An appropriate system of internal controls requires that the District must make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the District personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

**Condition/Context:**    The District's auditors prepared the financial statements as of December 31, 2016. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

**Cause:**                      The district has a limited number of staff available to maintain knowledge of current accounting principles and required financial statement disclosures.

**Effect:**                      An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

**Status:**                      This finding will be a repeat for 2017. See finding 2017-001.

**2016-002**    *Significant Adjusting Entries – Material Weakness*

**Criteria:**                      The District is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

**Condition:**                    During our audits, adjusting entries to the financial statements were proposed in order to bring the financial statements into compliance with the accrual basis of accounting. The District is required to maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on accrual basis of accounting.

**Context:**                      Accounts related to accounts receivable, deferred revenue, expansion deposits, property, depreciation, accounts payable and notes payable are adjusted throughout the financial statement preparation process.

**Cause:**                      The District has a limited number of staff available to determine the proper balance of each general ledger account prior to the start of the audit.



**WILLIAMS RURAL WATER DISTRICT**  
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS - CONTINUED  
DECEMBER 31, 2017

**2016-002** – (Continued)

Effect: The District does not maintain internal controls at a level where a determination can be made that the general ledger account are properly reflected on a full accrual basis.

Status: This finding will be a repeat for 2017. See finding 2017-002.

**2016-003** *Segregation of Duties – Significant Deficiency*

Criteria: Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping, and reconciliation functions.

Condition/Context: The billing and collection functions of the District do not provide for an adequate segregation of duties.

Cause: The District has a limited number of staff available due to the size of the organization.

Effect: Under the current system, one individual has the ability to enter receipts, prepare and post payments, and reconcile the District's bank accounts.

Status: This finding will be a repeat for 2017. See finding 2017-003.

**2016-004** *Pledged Securities – Significant Deficiency*

Criteria: An appropriate system of internal controls requires that the District monitor its cash balances with financial institutions to ensure the market value of pledged securities is sufficient to collateralize deposits in excess of FDIC insurance and comply with the requirements of the North Dakota Century Code.

Condition/Context: During our audit, it was noted that there are amounts on deposit with financial institutions in excess of FDIC insurance that are not sufficiently covered by pledged securities. In accordance with North Dakota Century Code Section 21-04-09, when securities are pledged to the board of any public corporation, the board shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits in excess of FDIC insurance.

Cause: The District changed depository institutions and the internal controls of the District did not detect the lack of pledged security coverage from the new depository institution.

Effect: The District did not make a determination that all cash balances were covered by pledged securities, and thus failed to detect certain cash balances as of December 31, 2016 were not sufficiently collateralized.

Status: This finding will be a repeat for 2017. See finding 2017-004.

**WILLIAMS RURAL WATER DISTRICT**  
**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2017**

**Finding 2017-001** *Preparation of Financial Statements*

Due to the small size of the District, it is not cost effective for the District to officials and properly address this significant deficiency

**Finding 2017-002** *Significant Adjusting Entries*

Due to the small size of the District, it is not cost effective for the District to officials and properly address this material weakness.

**Finding 2017-003** *Segregation of Duties*

The Board will review the accounting functions and will strive to improve in areas that are economically feasible.

**Finding 2017-004** *Pledged Securities*

We agree with this finding and will enact procedures to ensure that officials and pledged securities are sufficient to cover amounts on deposit in excess of FDIC insurance at all times.