

South Central Regional Water District

Audit Report

December 31, 2018 and 2017

South Central Regional Water District
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December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Central Regional Water District
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Central Regional Water District, Bismarck, North Dakota, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Central Regional Water District, Bismarck, North Dakota as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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 management's discussion and analysis on pages 4 through 8 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Central Regional Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019, on our consideration of South Central Regional Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Regional Water District's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 22, 2019

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2018

This discussion and analysis is designed to provide an analysis of South Central Regional Water District's (SCRWD) financial condition and operating results and inform the reader on the District's financial issues and activities.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Independent Auditor's Report (Pages 1-3) and the District's basic financial statements (Pages 9-11).

Financial Highlights – Business-type Activities

- For the year ended December 31, 2018, the net position increased \$2,101,808.
- For the year ended December 31, 2017, the net position increased \$7,311,896.
- Total operating revenues increased to \$7,433,776 during 2018, a \$32,888 or 0.4% increase from 2017. Total operating revenues increased to \$7,400,888 during 2017, a \$436,985 or 6.3% increase from 2016.
- In 2018, grant revenue decreased by \$5,291,213. In 2017, grant revenue increased by \$3,410,107.
- Total operating expenses during 2018 were \$5,528,753; 0.2% less than 2017's expenses.
- Total operating expenses during 2017 were \$5,539,206; 6.8% more than 2016's expenses.
- Total water plant assets, less accumulated depreciation, plus construction in progress were \$110,884,174 in 2018 compared to \$110,807,877 in 2017.
- Outstanding long-term debt at December 31, 2018 decreased to \$31,170,965 from \$32,541,232 at December 31, 2017.

Using this Annual Report

The financial statements included in this annual report are those of a special purpose government engaged only in business-type activities. The District's financial statements include:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Fund Net Position
- Statements of Cash Flows

Notes to financial statements explain the accounting policies and provide more detailed data.

Statements of Net Position

	December 31, 2018	December 31, 2017
Assets		
Current Assets	\$ 8,733,726	\$ 8,210,847
Investments	2,110,932	2,026,669
Capital Assets	110,884,174	110,807,877
Other Assets	1,294,850	1,316,171
Total Assets	123,023,682	122,361,564
Liabilities		
Current Liabilities	1,934,588	1,919,251
Long-term Debt, Less Current Maturities	31,340,594	32,795,621
Total Liabilities	33,275,182	34,714,872
Net Position		
Net Investment in Capital Assets	79,713,209	78,266,645
Restricted, Nonexpendable for Debt Service	2,025,502	1,942,087
Unrestricted	8,009,789	7,437,960
Total Net Position	\$ 89,748,500	\$ 87,646,692

The net position and liabilities of South Central Regional Water District increased to \$123,023,682 in 2018, a \$662,118 increase over 2017. There is a restricted asset of \$2,025,502 for debt service reserve.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2018

	December 31, 2017	December 31, 2016
Assets		
Current Assets	\$ 8,210,847	\$ 7,111,908
Investments	2,026,669	1,943,296
Capital Assets	110,807,877	104,117,573
Other Assets	1,316,171	1,337,396
Total Assets	122,361,564	114,510,173
Liabilities		
Current Liabilities	1,919,251	1,875,765
Long-term Debt, Less Current Maturities	32,795,621	32,299,612
Total Liabilities	34,714,872	34,175,377
Net Position		
Net Investment in Capital Assets	78,266,645	72,163,442
Restricted, Nonexpendable for Debt Service	1,942,087	1,858,714
Unrestricted	7,437,960	6,312,640
Total Net Position	\$ 87,646,692	\$ 80,334,796

The net position and liabilities of South Central Regional Water District increased to \$122,361,564 in 2017, a \$7,851,391 increase over 2016. There is a restricted asset of \$1,942,087 for debt service reserve.

Review of Revenues and Expenses

In 2018, operating revenues increased \$32,888 from 2017 due to additional water sales. The non-operating revenue decreased by \$5,251,422 due to less MR&I grant funding received.

The District's operating expenses decreased by \$10,453 or 0.2% from 2017 to 2018.

Depreciation expense was \$1,934,405 in 2018 and \$1,954,851 in 2017.

The net income before non-operating activities is \$1,905,023 and \$1,861,682 for 2018 and 2017, respectively. Grant revenues of \$1,037,574 in 2018 and \$6,328,787 in 2017 were received from the Federal/State MR&I Grant Program.

In 2017 operating revenues increased \$436,985 from 2016 due to additional water sales and the Emmons County plant adding more users to their system. The non-operating revenue increased by \$3,420,931 due to more MR&I grant funding received.

The District's operating expenses increased by \$350,266 or 6.8% from 2016 to 2017, primarily due to increased purchased water, power and depreciation.

Depreciation expense was \$1,954,851 in 2017 and \$1,926,374 in 2016.

The net income before non-operating activities is \$1,861,682 and \$1,774,963 for 2017 and 2016, respectively. Grant revenues of \$6,328,787 in 2017 and \$2,918,680 in 2016 were received from the Federal/State MR&I Grant Program.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2018

	December 31, 2018	December 31, 2017
Operating Revenue		
Metered Sales	\$ 6,846,819	\$ 6,733,739
Waste Water Income	53,463	25,502
Connection Fees	204,715	334,775
Connection Fees - Waste Water	18,000	20,000
Advance for Construction	266,638	243,278
Other Service Revenues	44,141	43,594
Total Operating Revenue	7,433,776	7,400,888
Non-Operating Revenues		
Grant Revenue	1,037,574	6,328,787
Interest Income	76,893	37,102
Total Non-Operating Revenue	1,114,467	6,365,889
Total Revenues	\$ 8,548,243	\$ 13,766,777
	December 31, 2018	December 31, 2017
Operating Expenses		
Purchased Water	\$ 382,461	\$ 434,095
Depreciation	1,934,405	1,954,851
Plant Operations and Maintenance	1,510,150	1,445,457
Expansion Promotion	8,401	61,652
General and Administrative Salaries	261,327	249,521
Accounting and Collection Labor	195,612	185,386
Amortization	56,900	56,899
Leases	16,969	15,680
Employee Benefits	261,737	235,359
Mapping Labor	20,665	8,048
Taxes Other Than Income	81,861	77,897
Transportation	76,082	88,669
Outside Services Employed	29,248	38,323
Purchased Power	471,804	477,818
Membership Functions	24,149	24,501
Miscellaneous General	20,602	20,801
Office Supplies	34,663	27,578
Property and Liability Insurance	36,135	33,877
Building Expense and Maintenance	18,252	22,569
Waste Water	45,137	26,852
Water Testing	33,550	45,830
Miscellaneous Tools Expense	8,643	7,543
Total Operating Expenses	5,528,753	5,539,206
Non-Operating Expenses		
Interest on Long-term Debt	833,396	836,590
Bond Administration Costs	84,286	79,085
Total Non-Operating Expenses	917,682	915,675
Total Expenses	\$ 6,446,435	\$ 6,454,881

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2018

	December 31, 2017	December 31, 2016
Operating Revenue		
Metered Sales	\$ 6,733,739	\$ 6,315,356
Waste Water Income	25,502	10,432
Connection Fees	334,775	307,550
Connection Fees - Waste Water	20,000	12,000
Advance for Construction	243,278	276,579
Other Service Revenues	43,594	41,986
Total Operating Revenue	<u>7,400,888</u>	<u>6,963,903</u>
Non-Operating Revenues		
Grant Revenue	6,328,787	2,918,680
Interest Income	37,102	26,278
Total Non-Operating Revenue	<u>6,365,889</u>	<u>2,944,958</u>
Total Revenues	<u>\$ 13,766,777</u>	<u>\$ 9,908,861</u>
	December 31, 2017	December 31, 2016
Operating Expenses		
Purchased Water	\$ 434,095	\$ 309,617
Depreciation	1,954,851	1,926,374
Plant Operations and Maintenance	1,445,457	1,371,308
Expansion Promotion	61,652	66,692
General and Administrative Salaries	249,521	228,860
Accounting and Collection Labor	185,386	183,083
Amortization	56,899	56,900
Leases	15,680	16,612
Employee Benefits	235,359	224,864
Mapping Labor	8,048	9,669
Taxes Other Than Income	77,897	73,250
Transportation	88,669	73,081
Outside Services Employed	38,323	23,006
Purchased Power	477,818	452,580
Membership Functions	24,501	25,122
Miscellaneous General	20,801	19,040
Office Supplies	27,578	32,296
Property and Liability Insurance	33,877	32,729
Building Expense and Maintenance	22,569	21,868
Waste Water	26,852	8,292
Water Testing	45,830	23,327
Miscellaneous Tools Expense	7,543	10,370
Total Operating Expenses	<u>5,539,206</u>	<u>5,188,940</u>
Non-Operating Expenses		
Interest on Long-term Debt	836,590	845,585
Bond Administration Costs	79,085	73,263
Total Non-Operating Expenses	<u>915,675</u>	<u>918,848</u>
Total Expenses	<u>\$ 6,454,881</u>	<u>\$ 6,107,788</u>

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2018

Capital Assets

The District's water plant and system at December 31, 2018 increased to \$130,017,714 from \$125,452,984 at December 31, 2017 due to progress on Phase V Expansion project in Emmons County. The District has construction in progress at December 31, 2018 of \$318,009 and \$2,887,979 at December 31, 2017.

The District's water plant and system at December 31, 2017 increased to \$125,452,984 from \$119,753,473 at December 31, 2016 due to progress on the Phase III and IV Expansion project in Emmons County.

These projects have been funded with a State Revolving Fund Loan and interim financing through the ND Rural Water Finance Corporation. See Note 5 to the financial statements for additional information.

Long-Term Debt

The District's long-term debt, less current maturities as of December 31, 2018 is \$29,581,431 compared to \$30,982,051 in 2017. The District is in the process of making improvements within the system for additional treated water availability and distribution pipeline to keep pace with growth within the system and is expanding into Logan and Kidder Counties. The debt change during 2018 was due to payments made on the bond from 2017.

Economic and Other Factors

The growth in the rural Bismarck area has been steady for the last 16 years and it appears that the growth will continue into the future. New home construction was averaging over 200 new homes a year up to 2008 and from 2008-2011 there was a slight decrease with an average of 107 new homes in rural Burleigh County. From 2013-2015, we had once again witnessed an increase in new homes in rural Burleigh County with 160 new homes per year being added to the system, however, in 2016 and 2017 that number had dropped as predicted to 85 new customers in each year. We expect that trend to continue. With the drop in oil prices affecting growth in western North Dakota, we anticipate the same effect in central North Dakota. We are aware of 2 new rural subdivisions planned near Bismarck, which is fewer than in years past.

Financial Contact

The District's financial statements are a general overview of the District's finances and are to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please contact the Executive Director: Larry Kassian, at South Central Regional Water District, P.O. Box 4182, Bismarck, ND 58502-4182. Or contact him by telephone at 701-258-8710 or e-mail to Larrykscwd@bektel.com.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Statements of Net Position
December 31, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,242,826	\$ 7,649,035
Accounts Receivable, Net	314,571	385,479
Accounts Receivable - Other	93,556	89,373
Inventory	43,565	31,856
Prepaid Expenses	35,860	52,978
Interest Receivable	3,348	2,126
Total Current Assets	8,733,726	8,210,847
INVESTMENTS		
Certificates of Deposit	85,430	84,582
Reserved for Debt Service	2,025,502	1,942,087
Total Investments	2,110,932	2,026,669
CAPITAL ASSETS		
Construction in Progress	318,009	2,887,979
Water Treatment Plant & System	130,017,714	125,452,984
Less: Accumulated Depreciation	(19,451,549)	(17,533,086)
Net Capital Assets	110,884,174	110,807,877
OTHER ASSETS		
Deferred Debits		
Water Supply Agreement, Net	1,032,052	1,088,952
Patronage Capital Credits	262,798	227,219
Total Other Assets	1,294,850	1,316,171
TOTAL ASSETS	123,023,682	122,361,564
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	1,650	1,650
Accrued Interest	212,485	219,075
Accrued Vacation and Benefits Payable	57,312	52,663
Advances for Expansion	19,200	32,275
Loans and Bonds Payable, Current Portion	1,589,534	1,559,181
Unearned Revenue - Base Fees, Current Portion	54,407	54,407
Total Current Liabilities	1,934,588	1,919,251
NONCURRENT LIABILITIES		
Loans and Bonds Payable, Noncurrent Portion	29,581,431	30,982,051
Unearned Revenue - Base Fees, Noncurrent Portion	1,759,163	1,813,570
Total Noncurrent Liabilities	31,340,594	32,795,621
TOTAL LIABILITIES	33,275,182	34,714,872
NET POSITION		
Net Investment in Capital Assets	79,713,209	78,266,645
Restricted, Nonexpendable for Debt Service	2,025,502	1,942,087
Unrestricted	8,009,789	7,437,960
TOTAL NET POSITION	\$ 89,748,500	\$ 87,646,692

SOUTH CENTRAL REGIONAL WATER DISTRICT
 Statements of Revenues, Expenses, and Changes in Fund Net Position
 For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUE		
Metered Sales	\$ 6,846,819	\$ 6,733,739
Waste Water Income	53,463	25,502
Forfeited Discounts	27,580	28,336
Connection Fees	204,715	334,775
Connection Fees - Waste Water	18,000	20,000
Advance for Construction	266,638	243,278
Miscellaneous Service Revenues	16,561	15,258
Total Operating Revenue	7,433,776	7,400,888
OPERATING EXPENSES		
Purchased Water	382,461	434,095
Depreciation	1,934,405	1,954,851
Plant Operations and Maintenance	1,510,150	1,445,457
Expansion Promotion	8,401	61,652
General and Administrative Salaries	261,327	249,521
Accounting and Collection Labor	195,612	185,386
Amortization	56,900	56,899
Leases	16,969	15,680
Employee Benefits	261,737	235,359
Mapping Labor and Supply	20,665	8,048
Taxes Other Than Income	81,861	77,897
Transportation	76,082	88,669
Outside Services Employed	29,248	38,323
Purchased Power	471,804	477,818
Membership Functions	24,149	24,501
Miscellaneous General	20,602	20,801
Office Supplies	34,663	27,578
Property and Liability Insurance	36,135	33,877
Building Expense and Maintenance	18,252	22,569
Waste Water	45,137	26,852
Water Testing	33,550	45,830
Miscellaneous Tools Expense	8,643	7,543
Total Operating Expenses	5,528,753	5,539,206
OPERATING INCOME (LOSS)	1,905,023	1,861,682
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenue	1,037,574	6,328,787
Interest Income	76,893	37,102
Bond Administration Costs	(84,286)	(79,085)
Interest on Long-term Debt	(833,396)	(836,590)
Total Non-Operating Revenues (Expenses)	196,785	5,450,214
CHANGE IN NET POSITION	2,101,808	7,311,896
NET POSITION - BEGINNING OF YEAR	87,646,692	80,334,796
NET POSITION - END OF YEAR	\$ 89,748,500	\$ 87,646,692

SOUTH CENTRAL REGIONAL WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Operating cash receipts from customers	\$ 7,210,304	\$ 6,942,952
Proceeds from connection fees	222,715	354,775
Cash payments to suppliers for goods and services	(2,408,775)	(2,469,235)
Cash payments to employees for services	(1,118,615)	(1,072,151)
NET CASH FROM OPERATING ACTIVITIES	3,905,629	3,756,341
INVESTING ACTIVITIES		
Proceeds from sale of investments	(119,842)	(119,048)
Interest received	75,671	36,336
NET CASH FROM INVESTING ACTIVITIES	(44,171)	(82,712)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(2,010,702)	(8,645,154)
Interest payment on debt	(839,986)	(833,148)
Principal payments on long-term debt	(1,559,181)	(1,522,495)
Proceeds from advances on long-term debt	188,914	2,109,596
Bond administration costs	(84,286)	(79,085)
Grant proceeds	1,037,574	6,328,787
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,267,667)	(2,641,499)
NET CHANGE IN CASH AND CASH EQUIVALENTS	593,791	1,032,130
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,649,035	6,616,905
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 8,242,826	\$ 7,649,035
OPERATING ACTIVITIES RECONCILIATION		
Operating income (loss)	\$ 1,905,023	\$ 1,861,682
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	1,991,305	2,011,750
Changes in assets and liabilities		
(Increase) decrease in receivables	66,725	(43,804)
(Increase) decrease in inventory	(11,709)	(2,507)
(Increase) decrease in prepaid expenses	17,118	(19,732)
Increase (decrease) in advances for expansion	(13,075)	(4,950)
Increase (decrease) in accounts payable	-	100
Increase (decrease) in unearned revenue - base fees	(54,407)	(54,407)
Increase (decrease) in accrued expenses	4,649	8,209
NET CASH FROM OPERATING ACTIVITIES	\$ 3,905,629	\$ 3,756,341

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The District was organized and formally incorporated as of November 15, 1972, for the express purpose of providing water service in the state of North Dakota for the use and benefit of its members on a cooperative basis. Effective February 1, 2003, the organization reorganized as a water district under the authority of the North Dakota Century Code.

Reporting Entity - The accompanying financial statements present the activities of South Central Regional Water District. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental 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 South Central Regional Water District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on South Central Regional Water District.

Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation - Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the full scope of the District's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements. Business-type activities use the accrual basis of accounting and the measurement focus is the flow of economic resources. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Board follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities.

Revenue and Expense Recognition - The District presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the District. Operating revenues include all charges to customers. Revenues from interest income and other fees are considered non-operating since these are investing or financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or non-capital financing activities.

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

Water Plant - Water plant is stated at cost. The cost of additions to water plant includes contracted work, direct labor and materials, and allocable overhead. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated provision for depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense. The capitalization policy for additions is set at \$1,000.

Depreciation - The District depreciates the components of water plant in service on a straight-line basis over 4-75 years.

SOUTH CENTRAL REGIONAL WATER DISTRICT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash, Cash Equivalents and Investments

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

State statutes authorize the District 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 written by a financial institution in which the underlying securities for the agreement to repurchase are of a type listed above; c) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; d) Obligations of the state. Investments are stated at fair value for debt securities as required by GASB 31 and cost for certificates of deposit. All investments are reported at current fair market value.

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

Accounts Receivable - Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Trade receivables are stated at the amount billed to the customer. Customer account balances with invoices dated over 60 days old are considered delinquent. Payments of trade receivables are applied to the earliest unpaid invoices. The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management's estimate is based on past history of write-offs and the balance of uncollectible accounts greater than ninety days past due. The estimated allowance at December 31, 2018 and 2017 was \$500.

Inventory - Inventories are stated at cost.

Compensated Absences - Employees accrue vacation hours yearly based on years of service which is granted on their anniversary date. Unused vacation may be carried over upon the anniversary date up to a maximum of 240 hours. Upon separation of employment, eligible employees will receive payment for accrued hours at their current pay rate.

Retirement Plan - The policy is to contribute monthly to the defined contribution plan.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on the assets use either through the enabling legislation adopted by the water district board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Subsequent Events – The District has evaluated subsequent events through February 22, 2019, the date which the financial statements were available to be issued.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 2 - DEPOSITS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

As of December 31, 2018, the District's carrying balances were \$10,353,758. The bank balance of these deposits as of December 31, 2018 was \$10,717,480. Of the bank balances, \$2,275,503 was covered by Federal Depository Insurance or guaranteed by the state of North Dakota and \$8,441,977 was collateralized with securities held by the District's agent but not in the District's name.

NOTE 3 - INVESTMENTS

At December 31, 2018, the District's investments were held in certificates of deposit. These investments are reported at fair market value. The interest rates earned on the certificates range from 0.55 percent to 1.10 percent with terms from one to two years.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable is comprised of trade receivables from the billing of water supplied to customers and construction fees billed but not received as of year-end.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 5 – WATER PLANT

As of December 31, 2018:

	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/18</u>
Water Plant Cost				
<u>Source of Supply</u>				
Wells and Springs	\$ 3,114,659	\$ -	\$ -	\$ 3,114,659
Wells and Springs - Emmons	2,775,713	-	-	2,775,713
Supply Mains	414,334	-	-	414,334
	<u>6,304,706</u>	<u>-</u>	<u>-</u>	<u>6,304,706</u>
<u>Pumping Plant</u>				
Structure and Improvements	111,916	-	-	111,916
Structure and Improvements - Emmons	118,406	94,500	-	212,906
Electric Pumping Equipment	253,153	-	-	253,153
	<u>483,475</u>	<u>94,500</u>	<u>-</u>	<u>577,975</u>
<u>Water Treatment</u>				
Structure and Improvements	6,390,713	-	-	6,390,713
Structure and Improvements - Emmons	7,969,046	-	-	7,969,046
Water Treatment Equipment	6,606,365	-	-	6,606,365
Water Treatment Equipment - Emmons	4,676,763	-	-	4,676,763
	<u>25,642,887</u>	<u>-</u>	<u>-</u>	<u>25,642,887</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,017,625	-	-	4,017,625
Distribution Reservoirs - Emmons	3,056,492	-	-	3,056,492
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	47,024,061	4,238,788	-	51,262,849
Service	2,548,204	-	-	2,548,204
Meter Units	2,390,369	214,736	-	2,605,105
	<u>90,927,895</u>	<u>4,453,524</u>	<u>-</u>	<u>95,381,419</u>
<u>General Plant</u>				
Furniture and Equipment	255,306	8,864	-	264,170
Transportation Equipment	136,026	25,342	17,500	143,868
Transportation Equipment - Emmons	52,012	-	-	52,012
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	549,733	-	-	549,733
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	54,888	-	-	54,888
Miscellaneous Equipment - Emmons	6,950	-	-	6,950
Building	909,361	-	-	909,361
	<u>2,006,063</u>	<u>34,206</u>	<u>17,500</u>	<u>2,022,769</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	2,887,979	318,009	2,887,979	318,009
	<u>2,975,937</u>	<u>318,009</u>	<u>2,887,979</u>	<u>405,967</u>
 Total Water Plant in Service Cost	 <u>128,340,963</u>	 <u>4,900,239</u>	 <u>2,905,479</u>	 <u>130,335,723</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 5 – WATER PLANT CONTINUED

	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/18</u>
Less Accumulated Depreciation				
<u>Source of Supply</u>				
Wells and Springs	371,182	40,847	-	412,029
Wells and Springs - Emmons	185,050	37,010	-	222,060
Supply Mains	<u>73,607</u>	<u>5,924</u>	-	<u>79,531</u>
	<u>629,839</u>	<u>83,781</u>	-	<u>713,620</u>
<u>Pumping Plant</u>				
Structure and Improvements	48,277	1,492	-	49,769
Structure and Improvements - Emmons	7,895	1,579	-	9,474
Electric Pumping Equipment	<u>247,872</u>	<u>587</u>	-	<u>248,459</u>
	<u>304,044</u>	<u>3,658</u>	-	<u>307,702</u>
<u>Water Treatment</u>				
Structure and Improvements	924,730	90,008	-	1,014,738
Structure and Improvements - Emmons	530,048	106,254	-	636,302
Water Treatment Equipment	2,464,883	169,549	-	2,634,432
Water Treatment Equipment - Emmons	<u>311,785</u>	<u>62,357</u>	-	<u>374,142</u>
	<u>4,231,446</u>	<u>428,168</u>	-	<u>4,659,614</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	205,673	6,289	-	211,962
Distribution Reservoirs	669,151	53,428	-	722,579
Distribution Reservoirs - Emmons	164,387	35,033	-	199,420
Transmission and Distribution	6,377,427	448,185	-	6,825,612
Transmission and Distribution - Emmons	2,027,922	626,987	-	2,654,909
Service	786,664	36,403	-	823,067
Meter Units	<u>1,414,477</u>	<u>126,564</u>	-	<u>1,541,041</u>
	<u>11,645,701</u>	<u>1,332,889</u>	-	<u>12,978,590</u>
<u>General Plant</u>				
Furniture and Equipment	254,508	400	-	254,908
Transportation Equipment	69,165	35,309	15,943	88,531
Transportation Equipment - Emmons	17,919	14,005	-	31,924
Shop Tools and Equipment	35,494	247	-	35,741
Communication Equipment	51,870	7,826	-	59,696
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	32,515	3,960	-	36,475
Miscellaneous Equipment - Emmons	2,780	695	-	3,475
Building	<u>252,005</u>	<u>23,468</u>	-	<u>275,473</u>
	<u>722,056</u>	<u>85,910</u>	<u>15,943</u>	<u>792,023</u>
Total Accumulated Depreciation	<u>17,533,086</u>	<u>1,934,406</u>	<u>15,943</u>	<u>19,451,549</u>
Water Plant in Service, Net	<u>\$ 110,807,877</u>	<u>\$ 2,965,833</u>	<u>\$ 2,889,536</u>	<u>\$ 110,884,174</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 5 – WATER PLANT CONTINUED

As of December 31, 2017:

	<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/17</u>
Water Plant Cost				
<u>Source of Supply</u>				
Wells and Springs	\$ 3,114,659	\$ -	\$ -	\$ 3,114,659
Wells and Springs - Emmons	2,775,713	-	-	2,775,713
Supply Mains	414,334	-	-	414,334
	<u>6,304,706</u>	<u>-</u>	<u>-</u>	<u>6,304,706</u>
<u>Pumping Plant</u>				
Structure and Improvements	111,916	-	-	111,916
Structure and Improvements - Emmons	118,406	-	-	118,406
Electric Pumping Equipment	253,153	-	-	253,153
	<u>483,475</u>	<u>-</u>	<u>-</u>	<u>483,475</u>
<u>Water Treatment</u>				
Structure and Improvements	6,390,713	-	-	6,390,713
Structure and Improvements - Emmons	7,969,046	-	-	7,969,046
Water Treatment Equipment	6,606,365	-	-	6,606,365
Water Treatment Equipment - Emmons	4,676,763	-	-	4,676,763
	<u>25,642,887</u>	<u>-</u>	<u>-</u>	<u>25,642,887</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,017,625	-	-	4,017,625
Distribution Reservoirs - Emmons	3,056,492	-	-	3,056,492
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	41,463,599	5,560,462	-	47,024,061
Service	2,548,204	-	-	2,548,204
Meter Units	2,280,601	109,768	-	2,390,369
	<u>85,257,665</u>	<u>5,670,230</u>	<u>-</u>	<u>90,927,895</u>
<u>General Plant</u>				
Furniture and Equipment	255,306	-	-	255,306
Transportation Equipment	130,018	49,832	43,824	136,026
Transportation Equipment - Emmons	28,739	42,012	18,739	52,012
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	549,733	-	-	549,733
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	54,888	-	-	54,888
Miscellaneous Equipment - Emmons	6,950	-	-	6,950
Building	909,361	-	-	909,361
	<u>1,976,782</u>	<u>91,844</u>	<u>62,563</u>	<u>2,006,063</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	-	2,887,979	-	2,887,979
	<u>87,958</u>	<u>2,887,979</u>	<u>-</u>	<u>2,975,937</u>
 Total Water Plant in Service Cost	 <u>119,753,473</u>	 <u>8,650,053</u>	 <u>62,563</u>	 <u>128,340,963</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 5 – WATER PLANT CONTINUED

	<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/17</u>
Less Accumulated Depreciation				
<u>Source of Supply</u>				
Wells and Springs	330,335	40,847	-	371,182
Wells and Springs - Emmons	148,040	37,010	-	185,050
Supply Mains	67,683	5,924	-	73,607
	<u>546,058</u>	<u>83,781</u>	<u>-</u>	<u>629,839</u>
<u>Pumping Plant</u>				
Structure and Improvements	46,785	1,492	-	48,277
Structure and Improvements - Emmons	6,316	1,579	-	7,895
Electric Pumping Equipment	247,285	587	-	247,872
	<u>300,386</u>	<u>3,658</u>	<u>-</u>	<u>304,044</u>
<u>Water Treatment</u>				
Structure and Improvements	834,694	90,036	-	924,730
Structure and Improvements - Emmons	423,794	106,254	-	530,048
Water Treatment Equipment	2,196,179	268,704	-	2,464,883
Water Treatment Equipment - Emmons	249,428	62,357	-	311,785
	<u>3,704,095</u>	<u>527,351</u>	<u>-</u>	<u>4,231,446</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	199,384	6,289	-	205,673
Distribution Reservoirs	615,370	53,781	-	669,151
Distribution Reservoirs - Emmons	129,354	35,033	-	164,387
Transmission and Distribution	5,929,242	448,185	-	6,377,427
Transmission and Distribution - Emmons	1,475,074	552,848	-	2,027,922
Service	750,261	36,403	-	786,664
Meter Units	1,286,298	128,179	-	1,414,477
	<u>10,384,983</u>	<u>1,260,718</u>	<u>-</u>	<u>11,645,701</u>
<u>General Plant</u>				
Furniture and Equipment	254,108	400	-	254,508
Transportation Equipment	77,562	30,528	38,925	69,165
Transportation Equipment - Emmons	25,405	11,253	18,739	17,919
Shop Tools and Equipment	35,247	247	-	35,494
Communication Equipment	43,079	8,791	-	51,870
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	28,555	3,960	-	32,515
Miscellaneous Equipment - Emmons	2,085	695	-	2,780
Building	228,537	23,468	-	252,005
	<u>700,378</u>	<u>79,342</u>	<u>57,664</u>	<u>722,056</u>
Total Accumulated Depreciation	<u>15,635,900</u>	<u>1,954,850</u>	<u>57,664</u>	<u>17,533,086</u>
Water Plant in Service, Net	<u>\$ 104,117,573</u>	<u>\$ 6,695,203</u>	<u>\$ 4,899</u>	<u>\$ 110,807,877</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6 – LONG-TERM DEBT

As of December 31, 2018:

	Interest Rates	Maturity Date	Balance 1/1/18	Additions	Reductions	Balance 12/31/18	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 4,487,000	\$ -	\$ 400,000	\$ 4,087,000	\$ 410,000
2008 Series A Bonds	2.50%	09/01/28	2,475,001	-	195,000	2,280,001	200,000
2010 Series A Bonds	2.50%	10/01/30	3,275,000	-	210,000	3,065,000	215,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	7,090,000	-	470,000	6,620,000	475,000
2013 Series A Bonds	2.50%	10/01/52	4,054,039	-	73,850	3,980,189	75,696
2013 Series B Bonds	2.50%	10/01/52	2,786,439	-	50,759	2,735,680	52,028
2015 Series A Bonds	2.75%	06/15/55	1,505,998	-	22,972	1,483,026	23,604
2015 Series B Bonds	3.00%	04/01/55	1,488,606	-	21,899	1,466,707	22,561
2016 Series A Bonds	2.00%	10/01/46	2,850,461	188,914	75,000	2,964,375	75,000
2016 Series B Bonds	1.88%	04/01/56	1,263,142	-	22,268	1,240,874	22,685
2016 Series C Bonds	3.00%	10/01/56	1,265,546	-	17,433	1,248,113	17,960
			<u>\$ 32,541,232</u>	<u>\$ 188,914</u>	<u>\$ 1,559,181</u>	31,170,965	<u>\$ 1,589,534</u>
Less Current Maturities						(1,589,534)	
						<u>\$ 29,581,431</u>	

As of December 31, 2017:

	Interest Rates	Maturity Date	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 4,878,000	\$ -	\$ 391,000	\$ 4,487,000	\$ 400,000
2008 Series A Bonds	2.50%	09/01/28	2,665,001	-	190,000	2,475,001	195,000
2010 Series A Bonds	2.50%	10/01/30	3,480,000	-	205,000	3,275,000	210,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	7,550,000	-	460,000	7,090,000	470,000
2013 Series A Bonds	2.50%	10/01/52	4,126,088	-	72,049	4,054,039	73,850
2013 Series B Bonds	2.50%	10/01/52	2,835,960	-	49,521	2,786,439	50,759
2015 Series A Bonds	2.75%	06/15/55	1,528,355	-	22,357	1,505,998	22,972
2015 Series B Bonds	3.00%	04/01/55	1,509,862	-	21,256	1,488,606	21,899
2016 Series A Bonds	2.00%	10/01/46	810,865	2,109,596	70,000	2,850,461	75,000
2016 Series B Bonds	1.88%	04/01/56	1,285,000	-	21,858	1,263,142	22,268
2016 Series C Bonds	3.00%	10/01/56	1,285,000	-	19,454	1,265,546	17,433
			<u>\$ 31,954,131</u>	<u>\$ 2,109,596</u>	<u>\$ 1,522,495</u>	32,541,232	<u>\$ 1,559,181</u>
Less Current Maturities						(1,559,181)	
						<u>\$ 30,982,051</u>	

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 6 – LONG-TERM DEBT - CONTINUED

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

Minimum principal and interest payments required on long-term debt during the next five years and thereafter are as follows:

<u>Year Ending 12/31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,589,534	\$ 809,765	\$ 2,399,299
2020	1,625,466	773,208	2,398,674
2021	1,671,647	733,221	2,404,868
2022	1,719,429	691,690	2,411,119
2023	1,760,359	648,195	2,408,554
2024-28	9,054,271	2,526,966	11,581,237
2029-33	3,833,975	1,451,030	5,285,005
2034-38	2,220,974	1,127,282	3,348,256
2039-43	2,515,077	843,578	3,358,655
2044-48	2,544,329	524,625	3,068,954
2049-53	2,124,768	217,728	2,342,496
2054-57	511,136	21,448	532,584
	<u>\$ 31,170,965</u>	<u>\$ 10,368,736</u>	<u>\$ 41,539,701</u>

NOTE 7 – LINE OF CREDIT

The District has a \$500,000 line of credit with Dakota Community Bank. No funds have been advanced on this line of credit. Interest on the line of credit is two percent over the two-year CD rate.

NOTE 8 – DEFERRED DEBITS

In 1996, the District entered into a 40-year water supply agreement with the City of Bismarck under which the city sells treated water to the South Central Regional Water District. The District paid the city a deposit of \$1,475,989 during 1996 for a connection fee and an additional connection fee of \$800,000 during 1997 for the right to buy up to 2,300,000 gallons of water per day. The District is amortizing the costs on a straight-line basis over the life of the agreement. The District has unamortized debt issuance costs being amortized over the term of the related debt (25 years).

NOTE 9 – ADVANCES FOR EXPANSION

In 2001, the District started soliciting for future users that would accommodate their plans for water expansion projects into North Burleigh, Emmons County, Kidder County, Logan County, and McIntosh County. The District charges a good intention fee to each potential new user and holds the fee until they become an official user of the District, at which that point the fee is recognized as revenue.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2018 and 2017

NOTE 10 – UNEARNED REVENUE – BASE FEES

The City of Linton paid lump sum amounts to buy down their monthly base fee of their 40 year water contract. The first payment in 2014 was allocated over the remaining months in their 40 year contract resulting in a monthly rate of \$1,524 for 455 months. The second payment in 2015 was also allocated over the remaining term of the original contract resulting in a monthly rate of \$3,010 per month for 443 months. These amounts are recognized as water sales revenue and the unearned account is reduced each month. The current portion is expected to be recognized as revenue in the next year.

NOTE 11 – PENSION PLAN

The District has a pension plan covering all full-time employees who have met certain service requirements. The District's cost for the years ended December 31, 2018, 2017, and 2016, was \$37,954, \$35,110, and \$31,730. The District must contribute an amount equal to 2% of participant's base compensation to the plan each year. The District will match the employee's contribution up to 4%.

NOTE 12 – RISK MANAGEMENT

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

In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general liability, and automobile insurance. The coverage by NDRIF is limited to losses of two million dollars per occurrence.

South Central Regional Water District continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident insurance and employee professional liability insurance.

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

NOTE 13 – COMMITMENTS

The District has entered into agreements relating to the construction of the Logan-Kidder County Rural Distribution phase in the amount of \$12,995,000. Of this amount, \$9,870,000 is a grant through the Federal MR&I program and the remaining is a loan through the North Dakota Department of Health State Revolving Fund Program. As of December 31, 2018, \$12,908,330 has been expended, leaving a remaining commitment of \$86,670.

SUPPLEMENTARY INFORMATION

SOUTH CENTRAL REGIONAL WATER DISTRICT

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2018

Pass Through Number	Federal Domestic Assistance Number	Program Title	Federal Expenditures
Environmental Protection Agency			
Passed through North Dakota Public Finance Authority			
N/A	66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 188,914
U.S. Department of the Interior - Bureau of Reclamation			
Passed through Garrison Diversion Conservancy District			
6-FC-60-00210	15.518	Garrison Diversion Unit Municipal, Rural, and Industrial Water System Project	<u>1,037,574</u>
TOTAL FEDERAL GRANT EXPENDITURES			<u><u>\$ 1,226,488</u></u>

SOUTH CENTRAL REGIONAL WATER DISTRICT
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation: Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. South Central Regional Water District received no nonmonetary federal assistance during the year ended December 31, 2018. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs: The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity: The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting: Federal financial assistance expenditures included in the schedule are reported using the accrual basis of accounting.

E. Elections: The organization has not elected to use the 10 percent de minimis indirect cost rate.

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

Board of Directors
South Central Regional Water District
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of South Central Regional Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise South Central Regional Water District's basic financial statements, and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Regional Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Regional Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Regional Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Regional Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

South Central Regional Water District's Response to Findings

South Central Regional Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. South Central Regional Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 22, 2019

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

Governing Board
South Central Regional Water District
Bismarck, North Dakota

Report on Compliance for Each Major Federal Program

We have audited South Central Regional 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 South Central Regional Water District's major federal programs for the year ended December 31, 2018. South Central Regional 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 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 South Central Regional 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 South Central Regional 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 South Central Regional Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, South Central Regional 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, 2018.

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

Report on Internal Control Over Compliance

Management of South Central Regional 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 South Central Regional 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 South Central Regional 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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 22, 2019

SOUTH CENTRAL REGIONAL WATER DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiency identified?	No
Type of auditor's report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

 15.518 Garrison Diversion Unit - Municipal, Rural, and Industrial Water System Project

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

SOUTH CENTRAL REGIONAL WATER DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section II – Financial Statement Audit

Finding 2018-001: Segregation of Duties

Condition – The District has limited segregation of duties in certain areas due to the size of the staff.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could adversely affect the District’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – This is not unusual in organizations of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Management Response – The District has reviewed their current accounting functions and the board’s monitoring functions and determined that they have segregated duties as much as is economically feasible.

Section III – Major Federal Award Programs Audit

None

SOUTH CENTRAL REGIONAL WATER DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section IV – Prior Year Findings

Finding 2017-001: Segregation of Duties

Condition – The District has limited segregation of duties in certain areas due to the size of the staff.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – This is not unusual in organizations of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Management Response – The District has reviewed their current accounting functions and the board's monitoring functions and determined that they have segregated duties as much as is economically feasible.

Major Federal Award Programs Audit

None