



Financial Statements  
December 31, 2019

# North Central Regional Water District

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of North Central Regional Water District (the District), as of and for the year ended December 31, 2019, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2019, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Correction of Error**

As discussed in Note 11 to the financial statements, certain errors resulting in the improper treatment of previously stated grant receivables and grant revenues were discovered during the current year. Accordingly, an adjustment has been made to beginning net position as of January 1, 2019 to correct the errors. Our opinion is not modified with respect to this matter.

**Other Matter**

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 Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated March 17, 2021 on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of District's 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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota  
March 17, 2021

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 1,107,922
Accounts receivable	167,246
Prepaid expenses	5,468
Total current assets	<u>1,280,637</u>

Other Assets

Cash reserved for debt service	1,344,766
Cash reserved for construction	874,591
Other asset	11,569
Total Other Assets	<u>2,230,926</u>

Capital Assets:

Construction in progress	11,367,096
Water system	33,975,662
Less: Accumulated depreciation	(6,653,412)
Net Capital Assets	<u>38,689,346</u>

<b>TOTAL ASSETS</b>	<u><b>42,200,909</b></u>
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**LIABILITIES**

Current liabilities:

Accounts payable	79,327
Accrued interest	203,087
Other accrued liabilities	19,180
Unearned revenue	265,878
Loans and bonds payable	315,639
Total current liabilities	<u>883,111</u>

Noncurrent liabilities:

Loans and bonds payable	17,234,475
Total noncurrent liabilities	<u>17,234,475</u>

<b>TOTAL LIABILITIES</b>	<u><b>18,117,586</b></u>
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**NET POSITION**

Net investment in capital assets	22,483,998
Restricted for debt service	1,344,767
Restricted for construction	874,591
Unrestricted	(620,033)

<b>TOTAL NET POSITION</b>	<u><u><b>\$ 24,083,323</b></u></u>
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**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Operating revenues:	
Water sales	\$ 2,078,654
User agreement income	16,800
Penalty Fee income	19,800
Transfer Fee income	2,900
Other income	31,903
Total operating revenues	<u>2,150,057</u>
Operating expenses:	
Cost of water	494,213
Contract management	34,596
Repairs and maintenance	115,034
Supplies	61,104
Insurance	11,005
Utilities	20,498
Professional services	50,324
Administration	34,579
Depreciation expense	849,693
Other operating expenses	3,100
Total operating expenses	<u>1,674,146</u>
Operating income	<u>475,911</u>
Non-operating revenues (expenses):	
Interest and dividend income	21,052
Interest expense	(645,468)
Total non-operating revenues (expenses)	<u>(624,416)</u>
Net loss before capital contributions	(148,505)
Capital grants	<u>372,513</u>
Change in net position	224,008
Net position - January 1, as restated	<u>23,859,315</u>
Net position - December 31	<u>\$ 24,083,323</u>

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**DECEMBER 31, 2019**

Cash flows from operating activities:	
Receipts from customers	\$ 2,048,733
Proceeds from user agreement and feasibility fees	43,275
Payments to suppliers	(781,406)
Other receipts	32,347
Net cash provided by operating activities	<u>1,342,949</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	3,445,064
Capital contributions	830,364
Purchase of capital assets	(1,380,625)
Purchase of investments	(2,944)
Principal payments on long-term debt	(3,182,762)
Interest paid on capital debt	(641,458)
Net cash used for financing activities	<u>(932,361)</u>
Cash flows from investing activities:	
Interest and dividends	21,052
Net cash provided by investing activities	<u>21,052</u>
Net increase in cash and cash equivalents	431,640
Cash and cash equivalents - January 1, 2019	<u>2,895,639</u>
Cash and cash equivalents - December 31, 2019*	<u><u>\$ 3,327,279</u></u>
*CONSISTS OF:	
Cash and cash equivalents	\$ 1,107,922
Cash reserved for construction payments	874,591
Cash reserved for debt service	1,344,766
Total cash and cash equivalents	<u><u>\$ 3,327,279</u></u>
Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ 475,911
Adjustments to reconcile net income	
to net cash provided by operating activities:	
Depreciation	849,693
Increase in receivables	(29,921)
Decrease in prepaids	865
Increase in accounts payable	42,182
Increase in accrued payables	444
Increase in unearned revenue	3,775
Net cash provided by operating activities	<u><u>\$ 1,342,949</u></u>

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

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

**Reporting Entity**

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

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

**Basis of Accounting**

The District 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 of America for governmental entities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net position (cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) are reported. Proprietary fund equity is classified as net position.



**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**Revenue and Expense Recognition**

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

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

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

**Cash and Cash Equivalents**

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 cost and the District is authorized by the board to invest in short-term and long-term certificates of deposit.

**Accounts Receivable**

Trade receivables are carried at original invoice amount less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Payments of trade receivables are applied to the earliest unpaid invoices. Management has determined that as of December 31, 2019, an allowance for doubtful accounts is not necessary. Management's estimate is based on past history of write-offs and the balance of receivables over ninety days past due. Once a trade receivable is deemed uncollectible it is written off and recoveries of trade receivables previously written off are recorded when received.

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

**Capital Assets**

Capital assets, with a capitalization threshold of \$500, are stated at cost less accumulated depreciation. The cost of additions to water system includes contracted work, direct labor and materials, and allocable overhead. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated provision for depreciation. Donated capital assets are recorded at estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**Depreciation**

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

Water System	40 – 100 years
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**Cash Reserved for Debt Service**

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

**Prepaid Items**

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense at the time of consumption.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Unearned Revenue**

The District charges a hook up fee to all potential customers. These fees are refundable until the project bid is accepted and approved by USDA Rural Development. Once the project is approved, these fees are recognized as revenues.

**Long-Term Debt**

All long-term debt arising from cash transactions to repaid from operations is reported as a liability in the financial statements. The long-term debt consists primarily of bonds payable. Bond premiums and discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds are reported as debt service expenditures.

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**Net Position**

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

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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

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

**Restricted and Unrestricted Resources**

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.

**NOTE 2      CASH AND CASH EQUIVALENTS**

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.

North Dakota laws require all public deposits to be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

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

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**Custodial Credit Risk**

Custodial credit risk is the risk that an entity will not be able to recover the full value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. At December 31, 2019, the District's bank balances were approximately \$3,407,000. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the District's name.

**Credit Risk**

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

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of a type listed above.
- c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- d) Obligations of the state.

**Concentration of Credit Risk**

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

**NOTE 3      ACCOUNTS RECEIVABLE**

Accounts receivable is made up of trade receivables from the billing of water supplied to customers, construction fees, and other amounts billed but not received as of December 31, 2019.

	<u>2019</u>
Water billings	\$ 159,277
Other Receivable	<u>7,969</u>
Total accounts receivable	<u><u>\$ 167,246</u></u>

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

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 4 CAPITAL ASSETS**

Following is a summary of capital assets activity for the year ended December 31, 2019:

	Balance 01/01/19	Additions	Deletions	Balance 12/31/19
Capital assets not being depreciated				
Construction in progress	\$ 9,987,373	\$ 1,379,723	\$ -	\$ 11,367,096
Capital assets being depreciated				
Water System	33,974,760	902	-	33,975,662
Less accumulated depreciation				
Water System	(5,803,719)	(849,693)	-	(6,653,412)
Net capital assets being depreciated				
Water System	28,171,041	(848,791)	-	27,322,250
Net capital assets	<u>\$ 38,158,414</u>	<u>\$ 530,932</u>	<u>\$ -</u>	<u>\$ 38,689,346</u>

Depreciation expense was \$849,693 for the year ended December 31, 2019.

**NOTE 5 LONG-TERM DEBT**

Long-term debt consists of the following:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Current Portion
Rural Development - Riverdale #1	\$ 1,222,720	\$ -	\$ 25,514	\$ 1,197,206	\$ 27,078
Rural Development - Brooks & Rambling #1	679,873	-	13,470	666,403	14,221
Rural Development - Riverdale #2	231,442	-	4,819	226,623	5,115
Rural Development - Granville	395,843	-	7,686	388,157	8,159
Rural Development - Brooks & Rambling #2	99,762	-	1,861	97,901	1,972
2008 Series A Water Revenue					
Bonds - Des Lacs	1,058,184	-	17,361	1,040,823	18,142
Rural Development - Radar Hill	2,781,478	-	40,091	2,741,387	41,795
Bank of North Dakota Water Revenue					
Bonds - Des Lacs (Series B)	105,010	-	2,150	102,860	2,265
Bank of North Dakota Supplemental Loan	557,746	-	9,233	548,513	9,511
Rural Development - Ward McLean	4,523,010	-	78,555	4,444,455	80,714
CoBank - Plaza	298,875	-	13,205	285,670	13,905
Rural Development - Berthold Carpio	1,212,013	-	16,503	1,195,510	17,081
Bank of North Dakota - Berthold Carpio	1,198,865	-	18,212	1,180,653	18,659
CoBank - Berthold Carpio Phase II	590,344	206,856	797,200	-	-
CoBank - GSD	1,988,131	129,240	2,117,371	-	-
Bank of North Dakota, 2017A - Berthold Carpio	205,708	-	9,433	196,275	9,575
Bank of North Dakota, 2017B - GSD	132,992	-	6,098	126,894	6,190
Bank of North Dakota - Anamoose WTR TWR	5,815	-	4,000	1,815	-
USDA - Berthold Carpio Phase II	-	797,200	-	797,200	10,579
USDA - GSD	-	2,311,769	-	2,311,769	30,678
	<u>\$ 17,287,811</u>	<u>\$ 3,445,064</u>	<u>\$ 3,182,762</u>	<u>\$ 17,550,114</u>	<u>\$ 315,639</u>

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**Notes Payable**

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

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

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

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

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

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

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

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

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

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

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

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

USDA – Granville Surrey Deering: In 2019, the District entered into a loan agreement with USDA for \$2,311,769. The loan carries an interest rate of 3.0%. Annual principal and interest payments of \$100,031 begin in 2020.

USDA – Berthold Carpio Phase II: In 2019, the District entered into a loan agreement with USDA for \$797,200. The loan carries an interest rate of 3.0%. Annual principal and interest payments of \$34,495 begin in 2020.

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.

**Revenue Bonds**

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

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

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

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

Bank of North Dakota – Anamoose WTR: In 2018, the District issued \$175,000 in Series 2017 bonds. The bonds carry an interest rate of 1.50% and mature September 2046. Bi-annual principal and interest payments of between \$6,460 to \$8,180 begin in 2020.

The District pledged future water revenues to meet the annual and future debt service requirements of the revenue bonds. The total principal and interest remaining to be paid on the bonds is \$2,410,618. Principal and interest for the current year was \$90,871 for the revenue bonds. In 2019, the District's water sales were \$2,078,654.

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

The annual future principal payments are as follows:

Year Ended December 31:	Principal		Interest		Total
	Revenue Bonds	Notes Payable	Revenue Bonds	Notes Payable	
2020	\$ 36,172	\$ 279,467	\$ 54,697	\$ 547,491	\$ 917,826
2021	39,108	289,376	53,767	537,582	919,833
2022	38,457	299,609	52,411	527,349	917,826
2023	39,665	310,223	51,203	516,735	917,826
2024	40,919	321,198	49,949	505,760	917,826
2025-2029	225,154	1,786,250	229,186	2,348,540	4,589,130
2030-2035	264,614	2,100,545	189,726	2,004,934	4,559,818
2035-2039	270,878	2,367,724	142,355	1,620,507	4,401,464
2040-2044	261,074	2,812,322	90,499	1,175,909	4,339,805
2045-2049	252,628	2,612,640	28,157	704,786	3,598,211
2050-2054	-	2,178,447	-	287,344	2,465,792
2055-2059	-	723,645	-	59,737	783,382
	<u>\$ 1,468,667</u>	<u>\$ 16,081,447</u>	<u>\$ 941,951</u>	<u>\$ 10,836,675</u>	<u>\$ 29,328,740</u>

**NOTE 6 COMMITMENTS**

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

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

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

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



**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

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

Project	Total Cost of Project	Remaining Commitment
GSD	\$ 8,609,000	\$ 811,522
Carpio-Berthold Phase II	4,087,000	648,690
Anamoose Water	175,000	167,115
Mountrail Phase II & III	8,931,000	8,808,000
	<u>\$21,802,000</u>	<u>\$ 10,435,327</u>
Total	<u>\$21,802,000</u>	<u>\$ 10,435,327</u>

**NOTE 7 RELATED PARTIES**

The District was created by two water districts to provide a more feasible and efficient water supply to rural users in the districts. The joint power agreement creating the District states it shall have authorization to construct and service new water systems within the area of each district. Each district shall be financially responsible for the repayment of any loans incurred for construction of such property situated within their district. Upon approval of USDA Rural Development, the District shall turn over to the districts the systems and facilities constructed pursuant to the terms of this joint power agreement. The District board consists of board members from each water district. The District at times will use the services of the districts to help with the operation of the District. The districts will bill the District at fair market value for these services. During the year ended December 31, 2019, the District paid North Prairie Rural Water District \$456,030 for water purchases, \$56,559 for supplies, legal services, and maintenance, and \$24,000 for management services.

A member of the board of the District is an insurance agent and the District has purchased general liability in the amount of \$6,625 for the year ended December 31, 2019.

**NOTE 8 STATE GRANTS**

The District receives grant funds from various state 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.

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 9        NEW PRONOUNCEMENTS**

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. The effective date has been deferred due to GASB-95.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The effective date has been deferred due to GASB-95.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements --often characterized as leases --that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The effective date has been deferred due to GASB-95.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement, except for paragraph 11b, are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, Statement No. 91, Conduit Debt Obligations, Statement No. 92, Omnibus 2020, Statement No. 93, Replacement of Interbank Offered Rates. The effective dates of the following pronouncements are postponed by 18 months: Statement No. 87, Leases.

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

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 9        CONCENTRATIONS**

**Credit Risk** – The majority of the District's business is with customers in north central North Dakota. The amount of accounting loss is equivalent to accounts receivable totaling \$159,277 as of December 31, 2019, respectively, if parties to the transaction fail to perform.

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

**NOTE 10       RISK MANAGEMENT**

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

In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (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 insurance.

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

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

**NOTE 11       CORRECTION OF ERROR**

During 2019, the District identified misstatements to the 2018 financial statements related to grant receivables and grant revenues that were not reflective of amounts from certain transactions. The District restated net position at January 1, 2019 to reflect the misstatements of the balances reported in the prior financial statements.

The effect of the restatement is as follows:

Net Position - January 1, as previously reported	\$ 23,401,464
Understatement of grant receivables	<u>457,851</u>
Net Position - January 1, as restated	<u><u>\$ 23,859,315</u></u>

**NORTH CENTRAL REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 12      SUBSEQUENT EVENTS**

North Central Regional Water District and North Prairie Rural Water District, two legally separate government entities, entered into a government combination arrangement creating a new political subdivision known as North Prairie Regional Water District effective May 1, 2020. The government combination and new political subdivision were authorized by the North Dakota State Engineer. The reason for the government combination was for the legally separate government entities to align and better serve the water users in their respective districts. All financial statement activity and financial statement balances of the two legally separate government entities, were transferred into the newly created political subdivision, North Prairie Regional Water District effective May 1, 2020.



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North Central Regional Water District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 17, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

**North Central Regional Water District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompany schedule of findings. The 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 District'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.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Bismarck, North Dakota  
March 17, 2021

**2019-001      Material Restatement Audit Adjustment, Passed Audit Adjustments, and Preparation of Financial Statements**  
**Material Weakness**

Criteria: A proper system of internal accounting control should provide for the proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances. This also includes accounting for transactions in accordance with generally accepted accounting principles. Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: We identified misstatements in the District's prior audited financial statements causing us to propose a material restatement audit adjustment. We identified passed audit adjustments as a result of our audit procedures that were determined to be immaterial both qualitatively and quantitatively to the financial statements as a whole. The financial statements and accompanying notes to the financial statements were not materially correct without the audit adjustment.

Cause: The District's internal control system did not identify errors in the reconciliation of accounts which caused a material restatement audit adjustment and passed audit adjustments for the financial statements to not be materially correct.

Effect: Misstatements in the financial statements could result from inadequate controls over recording of transactions and it affects the District's ability to detect misstatements to the financial statements.

Recommendations: The District should enhance their system of internal controls over the reconciliation of accounts to reduce the risk of a material misstatement in the financial statements.

Views of responsible officials: There is no disagreement with the findings.