



Financial Statements
December 31, 2019

North Prairie Rural Water District

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Prairie Rural 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.

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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 13 to the financial statements, certain errors resulting in the improper treatment of previously stated grant receivables, grant revenues, and cooperative patronage credits were discovered during the year. Accordingly, an adjustment has been made to the 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.



Bismarck, North Dakota
March 17, 2021

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,336,289
Accounts receivable (less allowance for doubtful accounts of \$4,878)	302,917
Grants receivable	58,673
Prepaid expenses	28,339
Total current assets	<u>1,726,218</u>
CAPITAL ASSETS	
Land	124,270
Construction in progress	7,833,718
Water plant in service	24,769,653
Less accumulated depreciation	<u>(11,290,541)</u>
Net capital assets	<u>21,437,100</u>
OTHER ASSETS	
Cash reserved for debt service	1,456,370
Investments - certificates of deposit	150,000
Total other assets	<u>1,606,370</u>
TOTAL ASSETS	<u><u>24,769,688</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	370,795
Accrued liabilities	75,648
Interest and fee payable	90,225
Current portion of long-term debt	632,023
Total current liabilities	<u>1,168,691</u>
LONG-TERM LIABILITIES	
Long-term debt	11,230,429
Water cents program	214,935
Total long-term liabilities	<u>11,445,364</u>
TOTAL LIABILITIES	<u>12,614,055</u>
NET POSITION	
Net investment in capital assets	11,031,018
Restricted reserve for debt service	1,456,370
Unrestricted	<u>(331,755)</u>
TOTAL NET POSITION	<u><u>\$ 12,155,633</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUE	
Water sales	\$ 4,062,171
Other	87,407
Total operating revenue	<u>4,149,578</u>
OPERATING EXPENSES	
Operations and maintenance	
Cost of water	1,122,966
Labor and benefits	798,475
Utilities	243,321
Chemical and supplies	170,409
Repairs and maintenance	191,838
Miscellaneous	2,041
Transportation expense	83,173
Administration and general expenses	
Billing and software support	18,844
Office repairs and maintenance	32,990
Postage and delivery	19,812
Dues, fees and subscriptions	18,908
Utilities	26,138
Training	8,137
Miscellaneous	6,994
Insurance	34,422
Board and meeting expense	25,647
Marketing and advertising	8,669
Legal and professional	66,672
Depreciation expense	902,998
Total operating expenses	<u>3,782,454</u>
OPERATING INCOME	<u>367,124</u>
NON-OPERATING REVENUE (EXPENSES)	
Impact source fees	15,200
Interest and dividend income	24,594
Interest and fee expense	(335,365)
Gain/(loss) on sale of fixed assets	6,190
Total non-operating revenue (expenses)	<u>(289,381)</u>
NET INCOME BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	77,743
CAPITAL GRANTS	644,433
CAPITAL CONTRIBUTIONS	<u>100,732</u>
CHANGE IN NET POSITION	822,908
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>11,332,725</u>
NET POSITION, END OF YEAR	<u>\$ 12,155,633</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating cash receipts from customers	\$ 4,146,518
Cash payments to suppliers	(2,121,673)
Cash payments to employees	(750,574)
Net cash provided by operating activities	<u>1,274,271</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of property and equipment	(4,330,319)
Proceeds from the sale of equipment	12,135
Proceeds from long-term borrowings	2,784,858
Payments of principal on long-term borrowings	(596,586)
Capital grants and charges	784,678
Capital contributions	100,732
Interest paid on long-term debt	(332,488)
Capital grants and charges	15,200
Net cash used by capital and related financing activities	<u>(1,561,790)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividend income on investments	24,594
Purchases of certificates of deposit	(150,000)
Net cash provided by investing activities	<u>(125,406)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(412,925)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,148,915</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR*	<u><u>\$ 2,735,990</u></u>
 *CONSISTS OF:	
Cash and cash equivalents	\$ 1,336,289
Cash reserved for debt service	1,456,370
Total cash and cash equivalents	<u><u>\$ 2,792,659</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 367,124
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	902,998
Effects on operating cash flows due to changes in:	
Accounts receivable - net	(33,887)
Prepaid expense	5,400
Accounts payable	281,902
Accrued liabilities	28,927
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,552,464</u>

NONCASH INVESTING, CAPITAL, AND FINANCE ACTIVITIES:

Construction of capital assets with accounts and retainage payable	<u>\$ 278,193</u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background Information

North Prairie Rural Water District is organized as a municipal water system under North Dakota Century Code 61-35. Its purpose is to pump and distribute water to its users. It is exempt from Federal income tax under Section 501(c)1 of the Internal Revenue Code. The District is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Reporting Entity

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

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

Basis of Accounting

The 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) and deferred outflows and deferred inflows associated with their activities are reported. Proprietary fund equity is classified as net position.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Revenue and Expense Recognition

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

Cash and Cash Equivalents and Investments

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

Accounts receivable 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. Once an accounts receivable is deemed uncollectible it is written off and recoveries of accounts receivables previously written off are recorded when received.

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

Capital Assets

Capital assets, with a capitalization threshold of \$500, are stated at cost less accumulated depreciation. A portion of the cost of plant and equipment is charged against earnings each year as depreciation expense. Depreciation is computed on an equal charge, annually, over the estimated useful life of the asset. 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. The district has established the following useful lives:

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

Cash Reserved for Debt Service

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

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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.

Investments

Investments consist of certificates of deposit which have a term to maturity at the date of acquisition exceeding three months. These certificates of deposit are reported at amortized cost plus accrued interest.

Long-Term Debt

All long-term debt arising from cash transactions to be 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.

Water Cents Program Liability

The Water Cents Program liability consists of deposits from customers of the District to be awarded in the form of scholarships to area high school or college students who receive water service, or whose parents have service with the District or to students who are enrolled in the Bismarck State College Water & Wastewater technology course that are receiving water service from the District. Each year, at the North Prairie Rural Water District annual meeting, individual scholarships are awarded to applicants.

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.”

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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.

Use of Estimates

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

Employee Benefit Plan

The District established a Simple IRA plan as of March 1, 2010. The Plan is a defined contribution plan covering all employees of the company who are age twenty-one or older. The District matches 100% of employee elective deferrals up to 3% of the employee's gross salary. Employees are allowed to contribute up to the IRS limits. District contributions to the plan totaled \$15,007 for the year ended December 31, 2019.

Compensated Absences

The District employees accumulate vacation hours for subsequent use or for payment upon termination or retirement. Vacation expenses to be paid in future periods are accrued when incurred. The District accrues 8–10 hours monthly for employees based on their years of employment, with a carryover limit at year-end of 240 hours. A liability for these amounts is reported in the statement of net position.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

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 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.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE 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. As of December 31, 2019, the District's bank balances were approximately \$2,900,000. Of the bank balance, \$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.

Interest Rate Risk

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

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 are shown net after an allowance for doubtful accounts as follows at December 31, 2019.

Water billing receivable	\$	262,625
Projects accounts receivable		43,782
NC Water Cents receivable		1,388
		307,795
Less allowance		(4,878)
		\$ 302,917

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is as follows:

	Balance 01/01/19	Additions	Disposals	Balance 12/31/19
Capital assets, not being depreciated				
Land	\$ 124,270	\$ -	\$ -	\$ 124,270
Construction in progress	3,543,623	4,290,095	-	7,833,718
Total capital assets, not being depreciated	<u>3,667,893</u>	<u>4,290,095</u>	<u>-</u>	<u>7,957,988</u>
Capital assets being depreciated				
Treatment plant and system	22,748,828	202,276	-	22,951,104
Office and storage buildings	467,875	5,561	-	473,436
Equipment	1,342,052	53,911	50,850	1,345,113
Total capital assets being depreciated	<u>24,558,755</u>	<u>261,748</u>	<u>50,850</u>	<u>24,769,653</u>
Less accumulated depreciation				
Treatment plants	9,313,462	828,566	-	10,142,028
Office and storage buildings	177,320	18,071	-	195,391
Equipment	941,666	56,361	44,905	953,122
Total accumulated depreciation	<u>10,432,448</u>	<u>902,998</u>	<u>44,905</u>	<u>11,290,541</u>
Total capital assets being depreciated, net	<u>14,126,307</u>	<u>(641,250)</u>	<u>5,945</u>	<u>13,479,112</u>
Net capital assets	<u>\$ 17,794,200</u>	<u>\$ 3,648,845</u>	<u>\$ 5,945</u>	<u>\$ 21,437,100</u>

Depreciation expense was \$902,998 for the year ended December 31, 2019.

NOTE 5 LONG-TERM DEBT

Long-term debt consists of the following:

	Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019	Due within one year
Notes payable					
S. Transmission	\$ 218,648	\$ -	\$ 10,678	\$ 207,970	\$ 11,386
Bonds					
2007 revenue bonds	2,890,000	-	325,000	2,565,000	335,000
2009 revenue bonds	2,540,167	-	41,908	2,498,259	43,637
2014 revenue bonds - series A	3,100,000	-	-	3,100,000	115,000
2014 revenue bonds - series B	95,000	-	95,000	-	-
2016 revenue bonds	625,114	197,049	25,000	797,163	30,000
2018 revenue bonds - WRB	205,251	114,818	12,000	308,069	12,000
2019 revenue bonds - WRB	-	2,472,991	87,000	2,385,991	85,000
Total	<u>\$ 9,674,180</u>	<u>\$ 2,784,858</u>	<u>\$ 596,586</u>	<u>\$ 11,862,452</u>	<u>\$ 632,023</u>

Notes Payable

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

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Revenue Bonds

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

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

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

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

In 2016, the District issued \$1,126,000 of revenue bonds. As of December 31, 2019, there was a balance on the line of credit of \$797,163. The District is still drawing on the bond. Principal payments of \$25,000 to \$50,000, plus interest, are due each year until 2046.

In 2018, the District issued \$450,000 of revenue bonds. As of December 31, 2019, there was a balance on the line of credit of \$308,069. The District is still drawing on the bond. Principal payments of \$12,000 to \$20,000, are due each year until 2048.

In 2019, the District issued \$3,367,000 of revenue bonds. As of December 31, 2019, there was a balance on the line of credit of \$2,385,991. The District is still drawing on the bond. Principal payments of \$87,000 to \$145,000, are due each year until 2048.

Net Revenue Bond Covenants/Collateral

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 \$15,869,302. Principal and interest for the current year was \$799,498 for the revenue bonds. In 2019, the District's water sales were \$4,062,171.

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

The annual future principal and interest payments are as follows:

Year ending December 31,

	Principal		Interest		Total
	Revenue Bonds	Notes Payable	Revenue Bonds	Notes Payable	
2020	\$ 620,637	\$ 11,386	\$ 355,188	\$ 14,173	\$ 1,001,384
2021	632,437	11,473	340,543	14,078	998,531
2022	654,311	11,560	325,574	13,988	1,005,433
2023	671,263	11,648	309,617	13,898	1,006,426
2024	683,295	11,737	277,255	13,811	986,098
2025-2029	2,479,014	60,043	1,025,126	68,208	3,632,391
2030-2034	1,491,829	62,928	778,105	41,125	2,373,987
2035-2039	1,724,478	27,195	493,882	-	2,245,555
2040-2044	706,957	-	224,076	-	931,033
2045-2049	1,990,261	-	85,454	-	2,075,715
	<u>\$ 11,654,482</u>	<u>\$ 207,970</u>	<u>\$ 4,214,820</u>	<u>\$ 179,281</u>	<u>\$ 16,256,552</u>

NOTE 6 OPERATING LEASES

The District entered into a five-year lease agreement for the rental of a skid steer beginning November 25, 2019. The lease requires an advance lease payment of \$764 and monthly payments of \$707.

Rent expense totaled \$6,851 for the year ended December 31, 2019.

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

Year ending December 31, 2020	\$ 8,481
2021	8,481
2022	8,481
2023	8,481
2024	7,774
	<u>\$ 41,698</u>

NOTE 7 COMMITMENTS

Purchase water agreements - The District has a water contract with the City of Minot, North Dakota, whereby the District purchases water at rates established by ordinance until December 31, 2018. The rates paid by the District under the contract are subject to review by the City of Minot at such intervals as it deems appropriate.

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

NORTH PRAIRIE RURAL WATER DISTRICT
NOTES TO THE 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:

<u>Project</u>	<u>Total Cost of Project</u>	<u>Remaining Commitment</u>
NP WTP Addition	\$ 3,367,000	\$ 995,239
Trans Line 9 & Silver Springs	1,114,620	28,210
S. Trans Line & WT	4,789,502	730,807
 Total	 <u>\$ 9,271,122</u>	 <u>\$ 1,754,256</u>

NOTE 8 CONCENTRATION OF CREDIT RISK

The majority of the District's business is with customers in Ward, McLean, and McHenry counties. The amount of potential accounting loss is equivalent to trade accounts receivable totaling \$302,917 as of December 31, 2019 if parties to the transaction fail to perform.

NOTE 9 RISK MANAGEMENT

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

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

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

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

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NOTE 10 JOINT VENTURE

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

Both districts have entered into a joint powers agreement with the District. This agreement states the District shall have authorization to construct and service new water systems within the area of each District. Each District shall be financially responsible for the repayment of any loans incurred for construction of such property situated within their District. The District has outstanding debt of approximately \$17,550,000 as of December 31, 2019. Under the terms of the debt agreements both Water Districts are jointly and severally liable for the District's debt. As of December 31, 2019, the District is accumulating sufficient financial resources to meet its current obligations.

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

In 2019 North Prairie Rural Water District received \$456,030 from the District for the supply of water and other project costs. As of December 31, 2019 the District owed North Prairie Rural Water District approximately \$36,000.

In addition, the two entities share expenses related to office supplies, administration, etc. The District will reimburse North Prairie Rural Water District for these expenses. In 2019, total reimbursed expenses were \$80,559.

NOTE 11 FEDERAL GRANTS

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

NOTE 12 NEW ACCOUNTING 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.

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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.

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.

NORTH PRAIRIE RURAL WATER DISTRICT
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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.

NOTE 13 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 of certain transactions. The District identified misstatements to the 2018 financial statements relating to recognizing cooperative patronage credits as assets that do not meet the definition of an asset in accordance with GASB Concept Statement No. 4. The District restated net position at January 1, 2019 to reflect misstatements of the balances reported in the prior financial statements.

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The effects of the restatements are as follows:

Net Position - January 1, as previously reported	\$ 11,323,862
Improperly recognizing cooperative patronage credits as assets and net position	(190,055)
Understatement of grant receivables	<u>198,918</u>
Net Position - January 1, as restated	<u>\$ 11,332,725</u>

NOTE 14 SUBSEQUENT EVENTS

North Prairie Rural Water District and North Central Regional 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.