

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Northwest Rural Water District as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements which collectively comprise Northwest Rural Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Rural Water District as of December 31, 2019 and 2018, and the changes in financial position and cash flow, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely 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 the 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.



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

March 13, 2020

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,618,807	\$ 5,706,610
Accounts receivable, net	355,490	370,725
Inventory	393,520	243,478
Current portion of receivable from members	97,996	97,996
Total current assets	<u>5,465,813</u>	<u>6,418,809</u>
Noncurrent assets:		
Reserve for debt service	229,095	187,480
Cooperative credits	119,427	104,397
Cost shared infrastructure, net	11,117,594	10,298,625
Capital assets, net	12,060,800	11,499,020
Receivable from members, net	2,876,365	2,972,410
Total noncurrent assets	<u>26,403,281</u>	<u>25,061,932</u>
Total assets	<u>31,869,094</u>	<u>31,480,741</u>
Liabilities		
Current liabilities:		
Accounts payable	120,551	112,467
Due to other governments	70,500	70,500
Interest payable	32,738	35,019
Accrued liabilities	52,054	50,643
Prepayments on account	20,388	18,426
Expansion deposits	416,750	253,000
Current portion of long-term debt	210,000	334,088
Current portion of liability on cost shared infrastructure	240,959	206,584
Total current liabilities	<u>1,163,940</u>	<u>1,080,727</u>
Noncurrent liabilities:		
Notes payable	4,150,000	5,087,656
Bonds payable	380,000	470,000
Liability on cost shared infrastructure	5,957,222	4,977,857
Total noncurrent liabilities	<u>10,487,222</u>	<u>10,535,513</u>
Total liabilities	<u>11,651,162</u>	<u>11,616,240</u>
Deferred inflows of resources		
Deferred inflows - members	<u>3,674,835</u>	<u>3,810,940</u>
Net position		
Net investment in capital assets	11,539,739	9,980,926
Restricted reserves for debt service	229,095	187,480
Unrestricted	4,774,263	5,885,155
Total net position	<u>\$ 16,543,097</u>	<u>\$ 16,053,561</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating income		
Revenue from continuing operations		
Water sales	\$ 4,332,397	\$ 4,965,935
Membership	6,150	4,050
Hookups	443,400	247,450
Other	109,264	156,218
Total operating revenues	<u>4,891,211</u>	<u>5,373,653</u>
Expenses from continuing operations		
Purchase of water	1,228,998	1,459,442
Maintenance	428,494	519,263
Administrative and general	1,317,538	1,265,037
Communications and utilities	94,772	120,806
Transportation	52,814	47,018
Depreciation	599,697	609,833
Amortization	301,328	212,481
Other expenses	8,825	5,966
Total operating expenses	<u>4,032,466</u>	<u>4,239,846</u>
Total operating income	<u>858,745</u>	<u>1,133,807</u>
Nonoperating revenues (expenses)		
Interest income	17,356	16,754
Interest expense	(131,669)	(150,128)
Gain (loss) on sale of assets	-	12,779
Impairment loss	(391,001)	-
Amortization of member deferred inflows	136,105	136,105
Total nonoperating revenues (expenses)	<u>(369,209)</u>	<u>15,510</u>
Change in net position	<u>\$ 489,536</u>	<u>\$ 1,149,317</u>
Net position - January 1	\$ 16,053,561	\$ 14,904,244
Change in net position	<u>489,536</u>	<u>1,149,317</u>
Net position - December 31	<u>\$ 16,543,097</u>	<u>\$ 16,053,561</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from customers	\$ 5,072,158	\$ 5,311,644
Cash payments to suppliers	(2,629,967)	(2,768,092)
Cash payments to employees	(664,766)	(619,931)
Net cash provided by operating activities	<u>1,777,425</u>	<u>1,923,621</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,387,339)	(48,666)
Acquisition and construction of cost shared infrastructure	-	(250,000)
Release in reserve for debt service	-	1,057
Funding in reserve for debt service	(41,615)	(38,940)
Proceeds from issuing long-term debt	-	250,000
Proceeds from sale of fixed assets	-	17,750
Payments on cost shared infrastructure financing	(308,578)	(207,623)
Reimbursement from Members for bond payments	204,627	562,701
Payments on Member debt	(71,700)	(75,004)
Payments on long-term debt	(1,151,744)	(690,156)
Interest paid on long-term debt	(133,950)	(144,293)
Net cash used by capital and related financing activities	<u>(2,890,299)</u>	<u>(623,174)</u>
Cash flows from investing activities		
Interest income	17,356	16,754
Cash patronage retirements received	7,715	7,409
Net cash provided (used) by investing activities	<u>25,071</u>	<u>24,163</u>
Net change in cash and cash equivalents	(1,087,803)	1,324,610
Cash and cash equivalents - January 1	<u>5,706,610</u>	<u>4,382,000</u>
Cash and cash equivalents - December 31	<u>\$ 4,618,807</u>	<u>\$ 5,706,610</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 858,745	\$ 1,133,807
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	599,697	609,833
Amortization	301,328	212,481
Allocated cooperative capital credits	(22,745)	(10,684)
Bad debt expense (recovery)	(2,459)	6,119
Effects on operating cash flows due to changes in:		
Accounts receivable	17,694	(69,472)
Inventory	(150,042)	17,483
Accounts payable	8,084	14,332
Accrued liabilities	1,411	8,378
Expansion deposits	163,750	(2,000)
Unearned revenue	1,962	3,344
Net cash provided by operating activities	<u>\$ 1,777,425</u>	<u>\$ 1,923,621</u>
Supplemental schedule of noncash investing and financing activities:		
Cost shared infrastructure acquired with debt	\$ 1,285,436	\$ 1,379,959
Amortization of deferred inflow	136,105	136,105

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District reports as a business type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The District complies with all applicable pronouncements of the Governmental Accounting Standards Board.

Nature of operations and history

Northwest Rural Water District provides a water system and water supply to the rural area surrounding Williston, North Dakota. Effective January 1, 2005, the association was reorganized as a water district under North Dakota Century Code 61-35. It is exempt from federal income tax under section 501(c) 1 of the Internal Revenue Code. The District is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed or operated in a manner similar to the private sector, where the intent is that cost of providing services to the general public on a continuous basis be financed or recovered primarily through user charges.

Reporting entity

The accompanying financial statements present the activities of Northwest Rural Water District. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. The basis, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria there were no component units in the current year.

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Basis of accounting

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

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

The District's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets, liabilities, net position, revenues and expenses are accounted for through a single business-type activity. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets. Equity is classified as net position.

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

Cash and cash equivalents

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

Reserve for debt service

Reserve for debt service consists of cash and cash equivalents set aside for debt retirement in accordance with debt agreements.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Investment policy

The District has no formal investment policy. State statutes authorize local governments to invest in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase are of the type listed above, c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation or the state, d) obligations of the state.

Cooperative credits

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

Accounts receivable

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

Late fees are charged on receivables that are outstanding for more than 15 days and are recognized as they are charged. Late fees are charged until such time as the balance is determined to be uncollectible by management.

Receivable from Members

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

Inventories

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Capital assets

Capital assets are recorded at historical cost less accumulated depreciation. A portion of the cost of the capital assets is charged against earnings each year as depreciation expense. Depreciation is computed on the straight-line basis over the estimated useful life of the asset. The District established a capitalization threshold of five thousand dollars. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. The District has established the following useful lives:

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

Cost shared infrastructure

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

Compensated absences

District employees accumulate vacation hours for subsequent use or for payment upon termination or retirement. Vacation expenses to be paid in future periods are accrued when incurred. A liability for these amounts is reported in the statement of net position and is presented within accrued liabilities.

Expansion deposits

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

Due to other governments

Due to other governments contains amounts due to R & T Water Supply Commerce Authority for customer expansion deposits received from future customers in the R & T Water Supply Commerce Authority's service area.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Net position

Net position is shown in three primary categories:

Net Investment in capital assets – Consists of capital assets, cost shared infrastructure, including receivables from members to offset the related debt, net of accumulated depreciation and amortization 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 – Restrictions of net position shown in the statement of net position are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation

Unrestricted – All other assets that do not meet the definition of "restricted" or "net investment in capital assets."

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to 2019 presentation. Such reclassifications had no effect on the change in net position as previously reported.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Deferred inflows of resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred Inflows of Resources – Members represents the portion of the note payable taken out in the District's name for cost shared infrastructure that will be reimbursed by the member entities (81.663%).

NOTE 2 CASH AND CASH EQUIVALENTS

A summary of cash and cash equivalents is as follows:

	2019	2018
Cash on hand	\$ 200	\$ 200
Operating account	1,465,506	2,566,974
Certificate of deposits	100,829	100,829
CDAR accounts	3,052,272	3,038,607
Total	<u>\$4,618,807</u>	<u>\$5,706,610</u>

Credit risk

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

Interest rate risk

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

Concentration of credit risk

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

Custodial credit risk

This is the risk that, in the event a financial institution fails, the District is unable to recover the value of its deposits, investment or collateral securities in the possession of the institution. In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the Board. The depository is a member of the Federal Reserve System. North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2019, all of the District's cash balances were either covered by FDIC insurance or collateral held in the District's name.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable are shown net of the allowance for doubtful accounts of \$13,795 and \$16,254 at December 31, 2019 and 2018, respectively.

An aging of the accounts receivable at December 31, 2019 and 2018 is shown as follows:

	2019	Percent	2018	Percent
Current	\$ 324,311	87.8%	\$ 324,390	83.8%
30 days	34,787	9.4%	42,247	10.9%
60 days	7,321	2.0%	13,502	3.5%
90 days	976	0.3%	2,298	0.6%
120+ days	1,890	0.5%	4,542	1.2%
	<u>369,285</u>	<u>100.0%</u>	<u>386,979</u>	<u>100.0%</u>
Less allowance	<u>(13,795)</u>		<u>(16,254)</u>	
	<u>\$ 355,490</u>		<u>\$ 370,725</u>	

NOTE 4 COOPERATIVE CREDITS

Cooperative credits are carried at cost plus the face value of equity received and are held by the following cooperatives:

	2019	2018
Mountrail-Williams Electric Cooperative	\$104,758	\$ 90,441
Burke Divide Electric Cooperative	1,894	1,181
Horizon Resources	12,775	12,775
	<u>\$119,427</u>	<u>\$104,397</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows:

	Balance 1/1/2019	Additions	Impairment	Balance 12/31/2019
Capital assets, not being depreciated:				
Land	\$ 80,465	\$ -	\$ -	\$ 80,465
Organizational fees	4,951	-	-	4,951
Total	85,416	-	-	85,416
Capital assets, being depreciated:				
Buildings	3,994,704	-	-	3,994,704
Transmission system	11,166,102	1,366,072	483,705	12,048,469
Vehicles	450,104	14,437	-	464,541
Tools and equipment	41,153	-	-	41,153
Office equipment	38,597	6,830	-	45,427
Total	15,690,660	1,387,339	483,705	16,594,294
Less accumulated depreciation:				
Buildings	448,742	101,602	-	550,344
Transmission system	3,370,534	298,043	92,704	3,575,873
Vehicles	391,711	30,053	-	421,764
Tools and equipment	29,319	2,559	-	31,878
Office equipment	36,750	2,301	-	39,051
Total	4,277,056	434,558	92,704	4,618,910
Total capital assets				
being depreciated, net	11,413,604	952,781	391,001	11,975,384
Capital assets, net	<u>\$ 11,499,020</u>	<u>\$ 952,781</u>	<u>\$ 391,001</u>	<u>\$ 12,060,800</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
Capital assets, not being depreciated:				
Land	\$ 81,820	\$ -	\$ 1,355	\$ 80,465
Organizational fees	4,951	-	-	4,951
Total	86,771	-	1,355	85,416
Capital assets, being depreciated:				
Buildings	3,994,704	-	-	3,994,704
Transmission system	11,172,989	-	6,887	11,166,102
Vehicles	414,233	35,871	-	450,104
Tools and equipment	28,358	12,795	-	41,153
Office equipment	38,597	-	-	38,597
Total	15,648,881	48,666	6,887	15,690,660
Less accumulated depreciation:				
Buildings	347,140	101,602	-	448,742
Transmission system	3,076,711	297,094	3,271	3,370,534
Vehicles	348,889	42,822	-	391,711
Tools and equipment	28,358	961	-	29,319
Office equipment	34,535	2,215	-	36,750
Total	3,835,633	444,694	3,271	4,277,056
Total capital assets being depreciated, net	11,813,248	(396,028)	3,616	11,413,604
Capital assets, net	<u>\$ 11,900,019</u>	<u>\$ (396,028)</u>	<u>\$ 4,971</u>	<u>\$ 11,499,020</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$599,697 and \$609,833 respectively, which includes \$434,558 and \$444,694 from capital assets for the years ended December 31, 2019 and 2018, respectively and \$165,139 from cost shared infrastructure for each of the years ended December 31, 2019 and 2018. See Note 15 for details on cost shared infrastructure.

During the year ended December 31, 2019 the District became aware of a technological change that impacted the duration of use of certain capital assets. As a result of the decline in service utility, the assets were identified as impaired and were written down to a value that reflects the diminished service utility of the assets. See Note 14.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 6 LONG-TERM NOTES PAYABLE

The following is a summary of long-term debt transactions of the District for the years ended December 31, 2019 and 2018:

	Revenue Bonds	First International Bank & Trust Note Payable	Drinking Water Note Payable	Total
Balance 1/1/18	\$ 645,000	\$ 1,061,900	\$ 4,625,000	\$ 6,331,900
Additions	-	-	250,000	250,000
Reductions	(85,000)	(120,156)	(485,000)	(690,156)
Balance 12/31/18	560,000	941,744	4,390,000	5,891,744
Additions	-	-	-	-
Reductions	(90,000)	(941,744)	(120,000)	(1,151,744)
Balance 12/31/19	<u>\$ 470,000</u>	<u>\$ -</u>	<u>\$ 4,270,000</u>	<u>\$ 4,740,000</u>
Due within one year	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 210,000</u>

Revenue bonds

Revenue bonds consist of \$1,500,000 authorized for Water Revenue Bonds of 2005 (payable in yearly payments ranging from \$65,000 to \$100,000 through September 1, 2024). Bonds carry a fixed rate of 2.5%. The District has pledged income derived from the enterprise operations to pay the bonds. The bonds were issued to finance the expansion of the water system. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve was funded over 5 years, and became fully funded in 2010. The total amount restricted totaled \$104,250 as of December 31, 2019.

First International Bank and Trust note payable

American State Bank and Trust financed the construction of the District's office building through a loan secured by the office building. During June of 2015, the District refinanced the commercial loan, obtaining a real estate mortgage loan from First International Bank and Trust which is secured by the building. This note payable to First International Bank and Trust has a 5.63% variable rate and matures on June 25, 2025. The interest rate was fixed at 3.95% until June 23, 2018 when it increased to 5.63%. The district paid off the remaining balance of this loan in the current year.

Drinking Water note payable

North Dakota Public Finance Authority's Drinking Water State Revolving Fund Program financed the water system expansion through a note secured by revenues from the acquired or constructed assets. The note carries a fixed 1.50% interest rate and a 0.50% administration fee. The note requires semi annual interest and administration fee payments and annual principal payments commencing September 1, 2017. The note matures on September 1, 2046. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve is to be funded \$41,615 annually over 5 years. The total amount restricted was \$124,845 as of December 31, 2019.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Loan covenants and collateral

Substantially all of the District's assets are pledged as collateral. The District complied with or received waivers on all covenants on their loans as of December 31, 2019 and 2018.

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

Year ending December 31,	Notes Payable		
	Principal	Interest	Total
2020	\$ 120,000	\$ 64,050	\$ 184,050
2021	125,000	62,250	187,250
2022	125,000	60,375	185,375
2023	130,000	58,500	188,500
2024	130,000	56,550	186,550
2025-2029	695,000	252,525	947,525
2030-2034	765,000	198,450	963,450
2035-2039	840,000	138,825	978,825
2040-2044	935,000	72,975	1,007,975
2045-2046	405,000	9,150	414,150
	<u>\$ 4,270,000</u>	<u>\$ 973,650</u>	<u>\$ 5,243,650</u>

Year ending December 31,	Bond Payable		
	Principal	Interest	Total
2020	\$ 90,000	\$ 11,750	\$ 101,750
2021	90,000	9,500	99,500
2022	95,000	7,250	102,250
2023	95,000	4,875	99,875
2024	100,000	2,500	102,500
	<u>\$ 470,000</u>	<u>\$ 35,875</u>	<u>\$ 505,875</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 7 PENSION PLAN

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA) is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to www.efast.dol.gov and using the search tool (EIN 53-0116145; PN 333). Copies of the RS Plan's annual financial statements are also available to cooperative representatives by calling NRECA's Member Contact Center at 866-673-2299.

At December 31, 2019, Northwest Rural Water District had ten employees covered by the RS Plan. Benefits provided under the plan include a graduated retirement benefit based on the participant's salary and years of service. Plan participants become eligible to receive pension benefits upon reaching a normal retirement date, which is the first day of the month following a participant's attainment of age 62. The plan also provides a subsidized early retirement option upon completing not less than 30 years of benefit service. Participants may obtain complete plan benefit details by contacting Northwest Rural Water District at 701-774-8915.

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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

Northwest Rural Water District made contributions to the plan of \$198,194 in 2019, and \$193,299 in 2018. There were no outstanding payables for required pension contributions at December 31, 2019 and 2018.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2019 and January 1, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

NOTE 8 CONCENTRATIONS OF CREDIT RISK

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

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

NOTE 9 RISK MANAGEMENT

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,813,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 10 FEDERAL GRANTS

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

NOTE 11 COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2019, the District entered into a contract for the Highway 1804 Relocation project. The project at year end was partially completed and the remainder of the project is expected to be completed in 2020. As of December 31, 2019 the balance to finish the project was approximately \$961,000.

NOTE 12 JOINTLY GOVERNED ORGANIZATIONS

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 13 JOINT POWERS AGREEMENT

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

NOTE 14 IMPAIRMENT LOSS ON IDT METERS

In May of 2019 it was determined that the satellite meters purchased and installed in 2015 and 2016 would become obsolete by December 31, 2020. During 2019, an impairment loss of \$391,001 was recognized to reduce the carrying amount of the meters to a value that reflects the diminished service utility of the assets. This loss is included in nonoperating revenue (expenses) in the accompanying statement of revenues, expenses, and changes in net position.

NOTE 15 COST SHARED INFRASTRUCTURE

During the year ended December 31, 2016, the District entered into an agreement with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 29.425% of the capital invested for invested amounts allocated before 2018. For amounts allocated in 2018 and 2019, the District will be responsible for 24.461% of the capital invested. In exchange, the District has the right to use the infrastructure installed over the period of the loans. As a result, upon entering into the agreement, the District recognized an intangible right of use asset and an offsetting liability on cost shared infrastructure for the assets and loans that are not in the District's name.

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Details on the cost shared infrastructure asset are as follows for the years ended December 31, 2019 and 2018:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019
Cost shared infrastructure being depreciated	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Less accumulated depreciation	376,117	165,139	-	541,256
Total cost shared infrastructure being depreciated, net	4,623,883	(165,139)	-	4,458,744
Cost shared infrastructure being amortized	6,348,109	1,285,436	-	7,633,545
Less accumulated amortization	673,367	301,328	-	974,695
Total cost shared infrastructure being amortized, net	5,674,742	984,108	-	6,658,850
Net cost shared infrastructure	<u>\$10,298,625</u>	<u>\$ 818,969</u>	<u>\$ -</u>	<u>\$11,117,594</u>
	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
Cost shared infrastructure being depreciated	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Less accumulated depreciation	210,978	165,139	-	376,117
Total cost shared infrastructure being depreciated, net	4,789,022	(165,139)	-	4,623,883
Cost shared infrastructure being amortized	4,968,150	1,379,959	-	6,348,109
Less accumulated amortization	460,886	212,481	-	673,367
Total cost shared infrastructure being amortized, net	4,507,264	1,167,478	-	5,674,742
Net cost shared infrastructure	<u>\$ 9,296,286</u>	<u>\$1,002,339</u>	<u>\$ -</u>	<u>\$10,298,625</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Depreciation on cost shared infrastructure for the years ended December 31, 2019 and 2018 was \$165,139. Amortization on cost shared infrastructure for years ended December 31, 2019 and 2018 was and \$301,328 and \$212,481, respectively. Amounts owed on cost shared infrastructure totaled \$6,198,181 and \$5,184,441 as of December 31, 2019 and 2018, respectively, and will be repaid over 30 years at an interest rate of 1.5%. The liability requires monthly payments and will mature during 2046. Expected future payments are as follows:

Year ending December 31,	
2020	\$ 240,959
2021	246,132
2022	249,067
2023	254,304
2024	1,035,038
2025-2029	1,423,572
2030-2034	881,037
2035-2039	733,235
2040-2044	688,379
2045-2049	446,458
	<u>\$ 6,198,181</u>

The deferred inflow of resources represents the portion of the owned infrastructure from the loan taken out in the District's name and will be amortized into income over the life of the loan, which is 30 years in accordance with GASB 60. For the years ended December 31, 2019 and 2018 \$136,105 was amortized.

NOTE 16 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.

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.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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.

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.

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

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

NOTE 17 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through March 13, 2020, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF EMPLOYER'S REQUIRED CONTRIBUTIONS AND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

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

2019	\$ 198,194
2018	193,299
2017	207,230
2016	224,474
2015	174,995
2014	147,871
2013	133,577
2012	99,038
2011	84,959
2010	57,812

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

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

Year	Proportional increase compared with prior year	Primary reason for significant increase
2010	35%	Actual 2008 investment return was significantly lower than the assumed 8.5% expected annual return.
2011	0%	No proportional increase.
2012	0%	No proportional increase.
2013	8%	Actual 2011 investment return was significantly lower than the assumed 8.5% expected annual return.
2014	0%	No proportional increase.
2015	0%	No proportional increase.
2016	3%	Actual 2014 investment return was lower than the assumed 8.0% expected annual return.
2017	3%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.
2018	2.5%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.
2019	1%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.

**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
Northwest Rural Water District
Williston, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Northwest Rural Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Northwest Rural Water District's basic financial statements, and have issued our report thereon dated March 13, 2020.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2019-002 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001, 2019-003, and 2019-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Rural Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-004.

Entity's Responses to Findings

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

Purpose of this Report

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



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

March 13, 2020

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019

Findings Relating to Financial Statements:

2019-001 *Preparation of Financial Statements – Significant Deficiency*

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

Condition/Context: The District's auditors prepared the financial statements as of December 31, 2019. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

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

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

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

Views of responsible officials and corrective actions: Due to the small size of the District, it is not cost effective for the District to properly address this significant deficiency.

2019-002 *Significant Adjusting Entries – Material Weakness*

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

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

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2019

2019-002 – (Continued)

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

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

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

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

Views of responsible officials and corrective actions: Due to the small size of the District, it is not cost effective for the District to properly address this significant deficiency.

2019-003 *Segregation of Duties – Significant Deficiency*

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

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

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

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

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

Views of responsible officials and corrective actions: The Board will review the accounting functions and will strive to improve in areas that are economically feasible.

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2019

2019-004 *Bonding Coverage – Significant Deficiency*

Criteria:	The North Dakota Century Code requires that the District obtain proper bonding coverage with North Dakota Insurance Department to ensure the blanket bond is sufficient to cover all assessment, interests, profits on investments, and all other income collected to comply with the requirements of the North Dakota Century Code. An appropriate system of internal controls is required to establish compliance with all applicable laws and regulations.
Condition/Context:	During our audit, it was noted that bonding coverage with North Dakota Insurance Department is under insured by \$187,000. North Dakota Century Code Section 26.1-21-07, requires coverage to be 25% of the total cash and total revenue. Due to the level of revenue earned and assets held by the District, the Century Code requires \$2,000,000 in bonding coverage, the highest coverage. The District only had coverage of \$1,813,000.
Cause:	The District, in the bonding application, listed an amount of revenue that was less than actual revenue and the internal controls of the District did not detect the incorrect amount.
Effect:	The District did not have proper bonding coverage under the North Dakota Century Code as of December 31, 2019.
Recommendation:	We recommend that that District implement a review process, whereby the bonding application is reviewed for proper amounts to ensure the application is appropriately completed for proper bonding coverage under the North Dakota Century Code.
Views of responsible officials and corrective actions:	We agree with this finding and have enacted procedures to ensure that bonding coverage with North Dakota Insurance Department is sufficient to comply with the requirements of the North Dakota Century Code at all times. The District renewed the bonding coverage, effective January 1, 2020, at \$2,000,000.