

*South Central Regional Water District*

Audit Report

December 31, 2019 and 2018

**South Central Regional Water District**  
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December 31, 2019

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of South Central Regional Water District, Bismarck, North Dakota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## INDEPENDENT AUDITOR'S REPORT

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Central Regional Water District, Bismarck, North Dakota as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2020, on our consideration of South Central Regional Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Regional Water District's internal control over financial reporting and compliance.

*Haga Kommer, Ltd.*

Haga Kommer, Ltd.  
Mandan, North Dakota  
May 13, 2020

South Central Regional Water District  
Management's Discussion and Analysis  
December 31, 2019

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

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Independent Auditor's Report (Pages 1-2) and the District's basic financial statements (Pages 8-10).

**Financial Highlights – Business-type Activities**

- For the year ended December 31, 2019, the net position increased \$926,340.
- For the year ended December 31, 2018, the net position increased \$2,101,808.
- Total operating revenues decreased to \$7,087,972 during 2019, a \$345,804 or 4.65% decrease from 2018. Total operating revenues increased to \$7,433,776 during 2018, a \$32,888 or 0.4% increase from 2017.
- In 2019, grant revenue decreased by \$936,010. In 2018, grant revenue decreased by \$5,291,213.
- Total operating expenses during 2019 were \$5,567,284; 0.7% more than 2018's expenses.
- Total operating expenses during 2018 were \$5,528,753; 0.2% less than 2017's expenses.
- Total water plant assets, less accumulated depreciation, plus construction in progress were \$110,044,125 in 2019 compared to \$110,884,174 in 2018.
- Outstanding long-term debt at December 31, 2019 decreased to \$29,581,431 from \$31,170,965 at December 31, 2018.

**Using this Annual Report**

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

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

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

**Statements of Net Position**

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Current Assets	\$ 8,766,665	\$ 8,733,726
Investments	2,195,369	2,110,932
Capital Assets	110,044,125	110,884,174
Other Assets	1,298,336	1,294,850
Total Assets	122,304,495	123,023,682
<b>Liabilities</b>		
Current Liabilities	1,968,935	1,934,588
Long-term Debt, Less Current Maturities	29,660,720	31,340,594
Total Liabilities	31,629,655	33,275,182
<b>Net Position</b>		
Net Investment in Capital Assets	80,462,694	79,713,209
Restricted, Nonexpendable for Debt Service	2,108,999	2,025,502
Unrestricted	8,103,147	8,009,789
Total Net Position	\$ 90,674,840	\$ 89,748,500

The net position and liabilities of South Central Regional Water District decreased to \$122,304,495 in 2019, a \$719,187 decrease from 2018. There is a restricted asset of \$2,108,999 for debt service reserve.

South Central Regional Water District  
Management's Discussion and Analysis  
December 31, 2019

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

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

**Review of Revenues and Expenses**

In 2019, operating revenues decreased \$345,804 from 2018 due to decreased water sales. The non-operating revenue decreased by \$827,375 due to less MR&I grant funding received.

The District's operating expenses increased by \$38,531 or 0.7% from 2018 to 2019.

Depreciation expense was \$1,913,868 in 2019 and \$1,934,405 in 2018.

The net income before non-operating activities is \$1,520,688 and \$1,905,023 for 2019 and 2018, respectively. Grant revenues of \$101,564 in 2019 and \$1,037,574 in 2018 were received from the Federal/State MR&I Grant Program.

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

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

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

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

South Central Regional Water District  
Management's Discussion and Analysis  
December 31, 2019

	December 31, 2019	December 31, 2018
Operating Revenue		
Metered Sales	\$ 6,479,832	\$ 6,846,819
Waste Water Income	60,010	53,463
Connection Fees	172,015	204,715
Connection Fees - Waste Water	32,000	18,000
Advance for Construction	291,032	266,638
Other Service Revenues	53,083	44,141
Total Operating Revenue	<u>7,087,972</u>	<u>7,433,776</u>
Non-Operating Revenues		
Grant Revenue	101,564	1,037,574
Interest Income	169,528	76,893
Gain/(Loss) on Disposition	16,000	-
Total Non-Operating Revenue	<u>287,092</u>	<u>1,114,467</u>
Total Revenues	<u>\$ 7,375,064</u>	<u>\$ 8,548,243</u>
	December 31, 2019	December 31, 2018
Operating Expenses		
Purchased Water	\$ 281,196	\$ 382,461
Depreciation	1,913,868	1,934,405
Plant Operations and Maintenance	1,584,838	1,510,150
Expansion Promotion	611	8,401
General and Administrative Salaries	286,413	261,327
Accounting and Collection Labor	205,313	195,612
Amortization	56,900	56,900
Leases	17,883	16,969
Employee Benefits	278,314	261,737
Mapping Labor	9,600	20,665
Taxes Other Than Income	95,369	81,861
Transportation	67,645	76,082
Outside Services Employed	26,027	29,248
Purchased Power	493,555	471,804
Membership Functions	26,563	24,149
Miscellaneous General	23,296	20,602
Office Supplies	47,004	34,663
Property and Liability Insurance	38,075	36,135
Building Expense and Maintenance	21,874	18,252
Waste Water	54,400	45,137
Water Testing	30,971	33,550
Miscellaneous Tools Expense	7,569	8,643
Total Operating Expenses	<u>5,567,284</u>	<u>5,528,753</u>
Non-Operating Expenses		
Interest on Long-term Debt	800,386	833,396
Bond Administration Costs	81,054	84,286
Total Non-Operating Expenses	<u>881,440</u>	<u>917,682</u>
Total Expenses	<u>\$ 6,448,724</u>	<u>\$ 6,446,435</u>

South Central Regional Water District  
Management's Discussion and Analysis  
December 31, 2019

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



South Central Regional Water District  
Management's Discussion and Analysis  
December 31, 2019

**Capital Assets**

The District's water plant and system at December 31, 2019 increased to \$131,140,932 from \$130,017,714 at December 31, 2018 due to completion of the Keever Buttes project. The District has construction in progress at December 31, 2019 of \$231,020 and \$318,009 at December 31, 2018.

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

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

**Long-Term Debt**

The District's long-term debt, less current maturities as of December 31, 2019 is \$27,955,965 compared to \$29,851,431 in 2018. The District is in the process of making improvements within the system for additional treated water availability and distribution pipeline to keep pace with growth within the system and is expanding into Logan and Kidder Counties. The debt change during 2019 was due to payments made on the bond from 2018.

**Economic and Other Factors**

The growth in the rural Bismarck area has been steady for the last 16 years and it appears that the growth will continue into the future. New home construction was averaging over 200 new homes a year up to 2008 and from 2008-2011 there was a slight decrease with an average of 107 new homes in rural Burleigh County. From 2013-2015, we had once again witnessed an increase in new homes in rural Burleigh County with 160 new homes per year being added to the system, however, from 2016 through 2019 that number has dropped as predicted to 80 new customers in each year. We expect that trend to continue. With the drop in oil prices affecting growth in western North Dakota, we anticipate the same effect in central North Dakota. We are aware of 2 new rural subdivisions planned near Bismarck, which is fewer than in years past.

**Financial Contact**

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

SOUTH CENTRAL REGIONAL WATER DISTRICT

Statements of Net Position  
December 31, 2019 and 2018

ASSETS	2019	2018
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 8,273,093	\$ 8,242,826
Accounts Receivable, Net	336,399	314,571
Accounts Receivable - Other	83,770	93,556
Inventory	33,726	43,565
Prepaid Expenses	34,048	35,860
Interest Receivable	5,629	3,348
Total Current Assets	8,766,665	8,733,726
<b>INVESTMENTS</b>		
Certificates of Deposit	86,370	85,430
Reserved for Debt Service	2,108,999	2,025,502
Total Investments	2,195,369	2,110,932
<b>CAPITAL ASSETS</b>		
Construction in Progress	231,020	318,009
Water Treatment Plant & System	131,140,932	130,017,714
Less: Accumulated Depreciation	(21,327,827)	(19,451,549)
Net Capital Assets	110,044,125	110,884,174
<b>OTHER ASSETS</b>		
Deferred Debits		
Water Supply Agreement, Net	975,152	1,032,052
Patronage Capital Credits	323,184	262,798
Total Other Assets	1,298,336	1,294,850
<b>TOTAL ASSETS</b>	122,304,495	123,023,682
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	1,650	1,650
Accrued Interest	203,418	212,485
Accrued Vacation and Benefits Payable	64,794	57,312
Advances for Expansion	19,200	19,200
Loans and Bonds Payable, Current Portion	1,625,466	1,589,534
Unearned Revenue - Base Fees, Current Portion	54,407	54,407
Total Current Liabilities	1,968,935	1,934,588
<b>NONCURRENT LIABILITIES</b>		
Loans and Bonds Payable, Noncurrent Portion	27,955,965	29,581,431
Unearned Revenue - Base Fees, Noncurrent Portion	1,704,755	1,759,163
Total Noncurrent Liabilities	29,660,720	31,340,594
<b>TOTAL LIABILITIES</b>	31,629,655	33,275,182
<b>NET POSITION</b>		
Net Investment in Capital Assets	80,462,694	79,713,209
Restricted, Nonexpendable for Debt Service	2,108,999	2,025,502
Unrestricted	8,103,147	8,009,789
<b>TOTAL NET POSITION</b>	\$ 90,674,840	\$ 89,748,500

SOUTH CENTRAL REGIONAL WATER DISTRICT  
Statements of Revenues, Expenses, and Changes in Fund Net Position  
For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING REVENUE</b>		
Metered Sales	\$ 6,479,832	\$ 6,846,819
Waste Water Income	60,010	53,463
Forfeited Discounts	36,691	27,580
Connection Fees	172,015	204,715
Connection Fees - Waste Water	32,000	18,000
Advance for Construction	291,032	266,638
Miscellaneous Service Revenues	16,392	16,561
Total Operating Revenue	7,087,972	7,433,776
<b>OPERATING EXPENSES</b>		
Purchased Water	281,196	382,461
Depreciation	1,913,868	1,934,405
Plant Operations and Maintenance	1,584,838	1,510,150
Expansion Promotion	611	8,401
General and Administrative Salaries	286,413	261,327
Accounting and Collection Labor	205,313	195,612
Amortization	56,900	56,900
Leases	17,883	16,969
Employee Benefits	278,314	261,737
Mapping Labor and Supply	9,600	20,665
Taxes Other Than Income	95,369	81,861
Transportation	67,645	76,082
Outside Services Employed	26,027	29,248
Purchased Power	493,555	471,804
Membership Functions	26,563	24,149
Miscellaneous General	23,296	20,602
Office Supplies	47,004	34,663
Property and Liability Insurance	38,075	36,135
Building Expense and Maintenance	21,874	18,252
Waste Water	54,400	45,137
Water Testing	30,971	33,550
Miscellaneous Tools Expense	7,569	8,643
Total Operating Expenses	5,567,284	5,528,753
<b>OPERATING INCOME (LOSS)</b>	<b>1,520,688</b>	<b>1,905,023</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Grant Revenue	101,564	1,037,574
Interest Income	169,528	76,893
Gain/(Loss) on Disposition	16,000	-
Bond Administration Costs	(81,054)	(84,286)
Interest on Long-term Debt	(800,386)	(833,396)
Total Non-Operating Revenues (Expenses)	(594,348)	196,785
<b>CHANGE IN NET POSITION</b>	<b>926,340</b>	<b>2,101,808</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>89,748,500</b>	<b>87,646,692</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 90,674,840</b>	<b>\$ 89,748,500</b>

SOUTH CENTRAL REGIONAL WATER DISTRICT  
Statements of Cash Flows  
For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING ACTIVITIES</b>		
Operating cash receipts from customers	\$ 6,817,507	\$ 7,210,304
Proceeds from connection fees	204,015	222,715
Cash payments to suppliers for goods and services	(2,398,734)	(2,408,775)
Cash payments to employees for services	(1,178,649)	(1,118,615)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,444,139</b>	<b>3,905,629</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	(144,823)	(119,842)
Interest received	167,247	75,671
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>22,424</b>	<b>(44,171)</b>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to plant	(1,057,819)	(2,010,702)
Interest payment on debt	(809,453)	(839,986)
Principal payments on long-term debt	(1,589,534)	(1,559,181)
Proceeds from advances on long-term debt	-	188,914
Bond administration costs	(81,054)	(84,286)
Grant proceeds	101,564	1,037,574
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(3,436,296)</b>	<b>(3,267,667)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>30,267</b>	<b>593,791</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>8,242,826</b>	<b>7,649,035</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 8,273,093</b>	<b>\$ 8,242,826</b>
<b>OPERATING ACTIVITIES RECONCILIATION</b>		
Operating income (loss)	\$ 1,520,688	\$ 1,905,023
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	1,970,768	1,991,305
Changes in assets and liabilities		
(Increase) decrease in receivables	(12,042)	66,725
(Increase) decrease in inventory	9,839	(11,709)
(Increase) decrease in prepaid expenses	1,812	17,118
Increase (decrease) in advances for expansion	-	(13,075)
Increase (decrease) in unearned revenue - base fees	(54,408)	(54,407)
Increase (decrease) in accrued expenses	7,482	4,649
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 3,444,139</b>	<b>\$ 3,905,629</b>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Reporting Entity* - The accompanying financial statements present the activities of South Central Regional Water District. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of South Central Regional Water District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on South Central Regional Water District.

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

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

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

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

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

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

SOUTH CENTRAL REGIONAL WATER DISTRICT  
Notes to Financial Statements  
December 31, 2019 and 2018

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Cash, Cash Equivalents and Investments*

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

State statutes authorize the District to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress; b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of a type listed above; c) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; d) Obligations of the state. Investments are stated at fair value for debt securities as required by GASB 31 and cost for certificates of deposit. All investments are reported at current fair market value.

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

*Accounts Receivable* - Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Trade receivables are stated at the amount billed to the customer. Customer account balances with invoices dated over 60 days old are considered delinquent. Payments of trade receivables are applied to the earliest unpaid invoices. The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management's estimate is based on past history of write-offs and the balance of uncollectible accounts greater than ninety days past due. The estimated allowance at December 31, 2019 and 2018 was \$500.

*Inventory* - Inventories are stated at cost.

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

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

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

*Subsequent Events* – The District has evaluated subsequent events through May 13, 2020, the date which the financial statements were available to be issued.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 2 - DEPOSITS**

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

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

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

As of December 31, 2019, the District's carrying balances were \$10,468,462. The bank balance of these deposits as of December 31, 2019 was \$10,770,072. Of the bank balances, \$2,358,997 was covered by Federal Depository Insurance or guaranteed by the state of North Dakota and \$8,411,075 was collateralized with securities held by the District's agent but not in the District's name.

**NOTE 3 - INVESTMENTS**

At December 31, 2019, the District's investments were held in certificates of deposit. These investments are reported at fair market value. The interest rates earned on the certificates range from 0.90 percent to 1.10 percent with terms from one to two years.

**NOTE 4 – ACCOUNTS RECEIVABLE**

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

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 5 – WATER PLANT**

**As of December 31, 2019:**

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/19</u>
<b>Water Plant Cost</b>				
<u>Source of Supply</u>				
Wells and Springs	\$ 3,114,659	\$ -	\$ -	\$ 3,114,659
Wells and Springs - Emmons	2,775,713	-	-	2,775,713
Supply Mains	414,334	-	-	414,334
	<u>6,304,706</u>	<u>-</u>	<u>-</u>	<u>6,304,706</u>
<u>Pumping Plant</u>				
Structure and Improvements	111,916	-	-	111,916
Structure and Improvements - Emmons	212,906	-	-	212,906
Electric Pumping Equipment	253,153	-	-	253,153
	<u>577,975</u>	<u>-</u>	<u>-</u>	<u>577,975</u>
<u>Water Treatment</u>				
Structure and Improvements	6,390,713	-	-	6,390,713
Structure and Improvements - Emmons	7,969,046	-	-	7,969,046
Water Treatment Equipment	6,606,365	-	-	6,606,365
Water Treatment Equipment - Emmons	4,676,763	-	-	4,676,763
	<u>25,642,887</u>	<u>-</u>	<u>-</u>	<u>25,642,887</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,017,625	752,900	-	4,770,525
Distribution Reservoirs - Emmons	3,056,492	-	-	3,056,492
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	51,262,849	-	-	51,262,849
Service	2,548,204	-	-	2,548,204
Meter Units	2,605,105	279,911	-	2,885,016
	<u>95,381,419</u>	<u>1,032,811</u>	<u>-</u>	<u>96,414,230</u>
<u>General Plant</u>				
Furniture and Equipment	264,170	-	-	264,170
Transportation Equipment	143,868	88,247	37,590	194,525
Transportation Equipment - Emmons	52,012	-	-	52,012
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	549,733	-	-	549,733
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	54,888	39,750	-	94,638
Miscellaneous Equipment - Emmons	6,950	-	-	6,950
Building	909,361	-	-	909,361
	<u>2,022,769</u>	<u>127,997</u>	<u>37,590</u>	<u>2,113,176</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	318,009	231,020	318,009	231,020
	<u>405,967</u>	<u>231,020</u>	<u>318,009</u>	<u>318,978</u>
 Total Water Plant in Service Cost	 <u>130,335,723</u>	 <u>1,391,828</u>	 <u>355,599</u>	 <u>131,371,952</u>



SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 5 – WATER PLANT CONTINUED**

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/19</u>
<b>Less Accumulated Depreciation</b>				
<u>Source of Supply</u>				
Wells and Springs	412,029	40,847	-	452,876
Wells and Springs - Emmons	222,060	37,010	-	259,070
Supply Mains	79,531	5,924	-	85,455
	<u>713,620</u>	<u>83,781</u>	<u>-</u>	<u>797,401</u>
<u>Pumping Plant</u>				
Structure and Improvements	49,769	1,492	-	51,261
Structure and Improvements - Emmons	9,474	2,839	-	12,313
Electric Pumping Equipment	248,459	587	-	249,046
	<u>307,702</u>	<u>4,918</u>	<u>-</u>	<u>312,620</u>
<u>Water Treatment</u>				
Structure and Improvements	1,014,738	89,925	-	1,104,663
Structure and Improvements - Emmons	636,302	106,254	-	742,556
Water Treatment Equipment	2,634,432	72,502	-	2,706,934
Water Treatment Equipment - Emmons	374,142	62,357	-	436,499
	<u>4,659,614</u>	<u>331,038</u>	<u>-</u>	<u>4,990,652</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	211,962	6,289	-	218,251
Distribution Reservoirs	722,579	53,428	-	776,007
Distribution Reservoirs - Emmons	199,420	35,033	-	234,453
Transmission and Distribution	6,825,612	448,185	-	7,273,797
Transmission and Distribution - Emmons	2,654,909	683,505	-	3,338,414
Service	823,067	36,403	-	859,470
Meter Units	1,541,041	135,894	-	1,676,935
	<u>12,978,590</u>	<u>1,398,737</u>	<u>-</u>	<u>14,377,327</u>
<u>General Plant</u>				
Furniture and Equipment	254,908	3,355	-	258,263
Transportation Equipment	88,531	40,575	37,590	91,516
Transportation Equipment - Emmons	31,924	14,005	-	45,929
Shop Tools and Equipment	35,741	246	-	35,987
Communication Equipment	59,696	7,102	-	66,798
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	36,475	5,948	-	42,423
Miscellaneous Equipment - Emmons	3,475	695	-	4,170
Building	275,473	23,468	-	298,941
	<u>792,023</u>	<u>95,394</u>	<u>37,590</u>	<u>849,827</u>
 Total Accumulated Depreciation	 <u>19,451,549</u>	 <u>1,913,868</u>	 <u>37,590</u>	 <u>21,327,827</u>
 Water Plant in Service, Net	 <u>\$ 110,884,174</u>	 <u>\$ (522,040)</u>	 <u>\$ 318,009</u>	 <u>\$ 110,044,125</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 5 – WATER PLANT CONTINUED**

**As of December 31, 2018:**

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

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 5 – WATER PLANT CONTINUED**

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

SOUTH CENTRAL REGIONAL WATER DISTRICT  
Notes to Financial Statements  
December 31, 2019 and 2018

**NOTE 6 – LONG-TERM DEBT**

As of December 31, 2019:

	Interest Rates	Maturity Date	Balance 1/1/19	Additions	Reductions	Balance 12/31/19	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 4,087,000	\$ -	\$ 410,000	\$ 3,677,000	\$ 421,000
2008 Series A Bonds	2.50%	09/01/28	2,280,001	-	200,000	2,080,001	205,000
2010 Series A Bonds	2.50%	10/01/30	3,065,000	-	215,000	2,850,000	220,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	6,620,000	-	475,000	6,145,000	485,000
2013 Series A Bonds	2.50%	10/01/52	3,980,189	-	75,696	3,904,493	77,321
2013 Series B Bonds	2.50%	10/01/52	2,735,680	-	52,028	2,683,652	53,145
2015 Series A Bonds	2.75%	06/15/55	1,483,026	-	23,604	1,459,422	24,143
2015 Series B Bonds	3.00%	04/01/55	1,466,707	-	22,561	1,444,146	23,243
2016 Series A Bonds	2.00%	10/01/46	2,964,375	-	75,000	2,889,375	75,000
2016 Series B Bonds	1.88%	04/01/56	1,240,874	-	22,685	1,218,189	23,111
2016 Series C Bonds	3.00%	10/01/56	1,248,113	-	17,960	1,230,153	18,503
			<u>\$ 31,170,965</u>	<u>\$ -</u>	<u>\$ 1,589,534</u>	29,581,431	<u>\$ 1,625,466</u>
Less Current Maturities						(1,625,466)	
						<u>\$ 27,955,965</u>	

As of December 31, 2018:

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

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

**NOTE 6 – LONG-TERM DEBT - CONTINUED**

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

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

<u>Year Ending 12/31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,625,466	\$ 773,208	\$ 2,398,674
2021	1,671,647	733,221	2,404,868
2022	1,719,429	691,690	2,411,119
2023	1,760,359	648,195	2,408,554
2024	1,806,929	603,390	2,410,319
2025-29	9,193,648	2,280,632	11,474,280
2030-34	2,311,363	1,337,393	3,648,756
2035-39	2,273,500	1,073,355	3,346,855
2040-44	2,583,253	782,602	3,365,855
2045-49	2,459,599	461,069	2,920,668
2050-54	1,884,433	162,444	2,046,877
2055-57	291,805	8,773	300,578
	<u>\$ 29,581,431</u>	<u>\$ 9,555,972</u>	<u>\$ 39,137,403</u>

**NOTE 7 – LINE OF CREDIT**

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

**NOTE 8 – DEFERRED DEBITS**

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

**NOTE 9 – ADVANCES FOR EXPANSION**

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

SOUTH CENTRAL REGIONAL WATER DISTRICT  
Notes to Financial Statements  
December 31, 2019 and 2018

**NOTE 10 – UNEARNED REVENUE – BASE FEES**

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

**NOTE 11 – PENSION PLAN**

The District has a pension plan covering all full-time employees who have met certain service requirements. The District's cost for the years ended December 31, 2019, 2018, and 2017, was \$41,542, \$37,954, and \$35,110. The District must contribute an amount equal to 2% of participant's base compensation to the plan each year. The District will match the employee's contribution up to 4%.

**NOTE 12 – RISK MANAGEMENT**

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

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

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

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

**NOTE 13 – COMMITMENTS**

The District has entered into agreements relating to the construction of the Logan-Kidder County Rural Distribution phase in the amount of \$12,995,000. Of this amount, \$9,870,000 is a grant through the Federal MR&I program and the remaining is a loan through the North Dakota Department of Health State Revolving Fund Program. As of December 31, 2019, \$12,908,330 has been expended, leaving a remaining commitment of \$86,670.

**NOTE 14 – SUBSEQUENT EVENT**

The District evaluated its December 31, 2019 financial statements for subsequent events through May 13, 2020. As a result of the spread of the COVID 19 coronavirus, the District has forecasted potential declines in revenues and corresponding reductions in expenses, if needed. Management and the board are staying up to date with their status and will take steps necessary to ensure sustainability.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

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

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

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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**Compliance and Other Matters**

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

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

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

**Purpose of this Report**

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

*Haga Kommer, Ltd.*

Haga Kommer, Ltd.  
Mandan, North Dakota  
May 13, 2020



SOUTH CENTRAL REGIONAL WATER DISTRICT  
Schedule of Findings  
For the Year Ended December 31, 2019

**Finding 2019-001: Segregation of Duties**

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

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

Cause – There are limited individuals to perform tasks due to the small size of the organization and it is not economically feasible to further segregate duties.

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

Recommendation – This is not unusual in organizations of your size and under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations. Board members should periodically review documentation supporting individual transactions.

Management Response – The District is aware of the condition and will add controls where feasible.