

South Central Regional Water District

Audit Report

December 31, 2021 and 2020

South Central Regional Water District
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December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Central Regional Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Central Regional Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Central Regional Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Central Regional Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2022, 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 17, 2022

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2021

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

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

Financial Highlights – Business-type Activities

- For the year ended December 31, 2021, the net position increased \$1,731,399.
- For the year ended December 31, 2020, the net position increased \$2,079,669.
- Total operating revenues increased to \$9,198,369 during 2021, a \$854,679 or 10.24% increase from 2020. Total operating revenues increased to \$8,343,690 during 2020, a \$1,255,718 or 17.72% increase from 2019.
- In 2021, grant revenue decreased by \$531,392. In 2020, grant revenue increased by \$716,872.
- Total operating expenses during 2021 were \$6,893,303; 7.90% more than 2020's expenses.
- Total operating expenses during 2020 were \$6,388,887; 14.8% more than 2019's expenses.
- Total water plant assets, less accumulated depreciation, plus construction in progress were \$110,153,847 in 2021 compared to \$111,620,865 in 2020.
- Outstanding long-term debt at December 31, 2021 decreased to \$26,299,942 from \$27,955,965 at December 31, 2020.

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, 2021	December 31, 2020
Assets		
Current Assets	\$ 8,950,495	\$ 7,514,444
Investments	2,363,786	2,279,606
Capital Assets	110,153,847	111,620,865
Other Assets	1,274,547	1,294,871
Total Assets	122,742,675	122,709,786
Liabilities		
Current Liabilities	2,080,313	2,020,611
Long-term Debt, Less Current Maturities	26,176,454	27,934,666
Total Liabilities	28,256,767	29,955,277
Net Position		
Net Investment in Capital Assets	83,853,905	83,664,900
Restricted, Nonexpendable for Debt Service	2,275,634	2,192,283
Unrestricted	8,356,369	6,897,326
Total Net Position	\$ 94,485,908	\$ 92,754,509

The net position and liabilities of South Central Regional Water District increased to \$122,742,675 in 2021, a \$32,889 increase over 2020. There is a restricted asset of \$2,275,634 for debt service reserve.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2021

	December 31, 2020	December 31, 2019
Assets		
Current Assets	\$ 7,514,444	\$ 8,766,665
Investments	2,279,606	2,195,369
Capital Assets	111,620,865	110,044,125
Other Assets	1,294,871	1,298,336
Total Assets	122,709,786	122,304,495
Liabilities		
Current Liabilities	2,020,611	1,968,935
Long-term Debt, Less Current Maturities	27,934,666	29,660,720
Total Liabilities	29,955,277	31,629,655
Net Position		
Net Investment in Capital Assets	83,664,900	80,462,694
Restricted, Nonexpendable for Debt Service	2,192,283	2,108,999
Unrestricted	6,897,326	8,103,147
Total Net Position	\$ 92,754,509	\$ 90,674,840

The net position and liabilities of South Central Regional Water District increased to \$122,709,786 in 2020, a \$405,291 increase from 2019. There is a restricted asset of \$2,192,283 for debt service reserve.

Review of Revenues and Expenses

In 2021, operating revenues increased \$854,679 from 2020 due to increased water sales. The non-operating revenue decreased by \$648,112 due to less grant funds received.

The District's operating expenses increased by \$504,416 or 7.90% from 2020 to 2021.

Depreciation expense was \$2,009,649 in 2021 and \$1,942,482 in 2020.

The net income before non-operating activities is \$2,305,066 and \$1,954,803 for 2021 and 2020, respectively. Grant revenues of \$287,044 in 2021 and \$818,436 in 2020 were received from the State MR&I Grant Program.

In 2020 operating revenues increased \$1,255,718 from 2019 due to increased water sales. The non-operating revenue increased by \$676,975 due to more grant funds received from the State Water Commission.

The District's operating expenses increased by \$821,603 or 14.76% from 2019 to 2020.

Depreciation expense was \$1,972,482 in 2020 and \$1,913,868 in 2019.

The net income before non-operating activities is \$1,954,803 and \$1,520,688 for 2020 and 2019, respectively. Grant revenues of \$818,436 in 2020 and \$101,564 in 2019 were received from the Federal/State MR&I Grant Program.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2021

	December 31, 2021	December 31, 2020
Operating Revenue		
Metered Sales	\$ 8,241,278	\$ 7,540,120
Waste Water Income	78,913	71,798
Connection Fees	365,250	230,304
Connection Fees - Waste Water	16,000	16,000
Advance for Construction	452,666	437,930
Other Service Revenues	44,262	47,538
Total Operating Revenue	<u>9,198,369</u>	<u>8,343,690</u>
Non-Operating Revenues		
Grant Revenue	287,044	818,436
Interest Income	28,911	127,631
Gain/(Loss) on Disposition	-	18,000
Total Non-Operating Revenue	<u>315,955</u>	<u>964,067</u>
Total Revenues	<u>\$ 9,514,324</u>	<u>\$ 9,307,757</u>
	December 31, 2021	December 31, 2020
Operating Expenses		
Purchased Water	\$ 845,100	\$ 659,606
Depreciation	2,009,649	1,942,482
Plant Operations and Maintenance	2,012,386	1,943,269
Expansion Promotion	-	530
General and Administrative Salaries	364,641	307,723
Accounting and Collection Labor	224,986	218,170
Amortization	56,900	56,900
Leases	18,405	18,116
Employee Benefits	317,857	300,630
Mapping Labor	7,589	8,320
Taxes Other Than Income	94,590	87,830
Transportation	67,557	53,032
Outside Services Employed	57,755	33,389
Purchased Power	559,510	520,856
Membership Functions	22,253	23,109
Miscellaneous General	23,563	24,447
Office Supplies	39,374	39,827
Property and Liability Insurance	44,070	40,258
Building Expense and Maintenance	28,067	24,914
Waste Water	61,309	50,640
Water Testing	32,710	29,839
Miscellaneous Tools Expense	5,032	5,000
Total Operating Expenses	<u>6,893,303</u>	<u>6,388,887</u>
Non-Operating Expenses		
Returned Excess EMC Insurance Proceeds	94,923	-
Interest on Long-term Debt	722,672	762,569
Bond Administration Costs	72,027	76,632
Total Non-Operating Expenses	<u>889,622</u>	<u>839,201</u>
Total Expenses	<u>\$ 7,782,925</u>	<u>\$ 7,228,088</u>

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2021

	December 31, 2020	December 31, 2019
Operating Revenue		
Metered Sales	\$ 7,540,120	\$ 6,479,832
Waste Water Income	71,798	60,010
Connection Fees	230,304	172,015
Connection Fees - Waste Water	16,000	32,000
Advance for Construction	437,930	291,032
Other Service Revenues	47,538	53,083
Total Operating Revenue	<u>8,343,690</u>	<u>7,087,972</u>
Non-Operating Revenues		
Grant Revenue	818,436	101,564
Interest Income	127,631	169,528
Gain/(Loss) on Disposition	18,000	16,000
Total Non-Operating Revenue	<u>964,067</u>	<u>287,092</u>
Total Revenues	<u>\$ 9,307,757</u>	<u>\$ 7,375,064</u>
	December 31, 2020	December 31, 2019
Operating Expenses		
Purchased Water	\$ 659,606	\$ 281,196
Depreciation	1,942,482	1,913,868
Plant Operations and Maintenance	1,943,269	1,584,838
Expansion Promotion	530	611
General and Administrative Salaries	307,723	286,413
Accounting and Collection Labor	218,170	205,313
Amortization	56,900	56,900
Leases	18,116	17,883
Employee Benefits	300,630	278,314
Mapping Labor	8,320	9,600
Taxes Other Than Income	87,830	95,369
Transportation	53,032	67,645
Outside Services Employed	33,389	26,027
Purchased Power	520,856	493,555
Membership Functions	23,109	26,563
Miscellaneous General	24,447	23,296
Office Supplies	39,827	47,004
Property and Liability Insurance	40,258	38,075
Building Expense and Maintenance	24,914	21,874
Waste Water	50,640	54,400
Water Testing	29,839	30,971
Miscellaneous Tools Expense	5,000	7,569
Total Operating Expenses	<u>6,388,887</u>	<u>5,567,284</u>
Non-Operating Expenses		
Interest on Long-term Debt	762,569	800,386
Bond Administration Costs	76,632	81,054
Total Non-Operating Expenses	<u>839,201</u>	<u>881,440</u>
Total Expenses	<u>\$ 7,228,088</u>	<u>\$ 6,448,724</u>

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2021

Capital Assets

The District's water plant and system at December 31, 2021 increased to \$135,357,634 from \$134,845,021 at December 31, 2020 due to completion of the North Burleigh WTP project, the completion of the Logan and Kidder County Phase 5 project, and the North Burleigh Pre-Treatment project. The District has construction in progress at December 31, 2021 of \$30,017 and \$0 at December 31, 2020.

The District's water plant and system at December 31, 2020 increased to \$134,845,021 from \$131,140,932 at December 31, 2019 due to completion of the North Burleigh WTP project. The District has construction in progress at December 31, 2020 of \$0 and \$231,020 at December 31, 2019.

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, 2021 is \$24,580,513 compared to \$26,284,318 in 2020. 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 2021 was due to payments made on the bond from 2020.

Economic and Other Factors

The growth in the rural Bismarck area has been steady for the last 17 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. In 2021 and 2020, 100 new customers and 95 new customers, respectively, were added in Burleigh County. We expect that trend to continue. We are aware of 1 new rural subdivision 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.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Statements of Net Position
December 31, 2021 and 2020

ASSETS	2021	2020
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,365,647	\$ 7,051,412
Accounts Receivable, Net	336,584	307,942
Accounts Receivable - Other	104,203	92,567
Inventory	90,129	28,265
Prepaid Expenses	52,270	31,809
Interest Receivable	1,662	2,449
Total Current Assets	8,950,495	7,514,444
INVESTMENTS		
Certificates of Deposit	88,152	87,323
Reserved for Debt Service	2,275,634	2,192,283
Total Investments	2,363,786	2,279,606
CAPITAL ASSETS		
Construction in Progress	30,017	-
Water Treatment Plant & System	135,357,634	134,845,021
Less: Accumulated Depreciation	(25,233,804)	(23,224,156)
Net Capital Assets	110,153,847	111,620,865
OTHER ASSETS		
Deferred Debits		
Water Supply Agreement, Net	861,353	918,253
Patronage Capital Credits	413,194	376,618
Total Other Assets	1,274,547	1,294,871
TOTAL ASSETS	122,742,675	122,709,786
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	1,600	1,650
Accrued Interest	182,791	193,343
Accrued Vacation and Benefits Payable	104,086	80,364
Advances for Expansion	18,000	19,200
Loans and Bonds Payable, Current Portion	1,719,429	1,671,647
Unearned Revenue - Base Fees, Current Portion	54,407	54,407
Total Current Liabilities	2,080,313	2,020,611
NONCURRENT LIABILITIES		
Loans and Bonds Payable, Noncurrent Portion	24,580,513	26,284,318
Unearned Revenue - Base Fees, Noncurrent Portion	1,595,941	1,650,348
Total Noncurrent Liabilities	26,176,454	27,934,666
TOTAL LIABILITIES	28,256,767	29,955,277
NET POSITION		
Net Investment in Capital Assets	83,853,905	83,664,900
Restricted, Nonexpendable for Debt Service	2,275,634	2,192,283
Unrestricted	8,356,369	6,897,326
TOTAL NET POSITION	\$ 94,485,908	\$ 92,754,509

SOUTH CENTRAL REGIONAL WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUE		
Metered Sales	\$ 8,241,278	\$ 7,540,120
Waste Water Income	78,913	71,798
Forfeited Discounts	31,397	33,668
Connection Fees	365,250	230,304
Connection Fees - Waste Water	16,000	16,000
Advance for Construction	452,666	437,930
Miscellaneous Service Revenues	12,865	13,870
Total Operating Revenue	9,198,369	8,343,690
OPERATING EXPENSES		
Purchased Water	845,100	659,606
Depreciation	2,009,649	1,942,482
Plant Operations and Maintenance	2,012,386	1,943,269
Expansion Promotion	-	530
General and Administrative Salaries	364,641	307,723
Accounting and Collection Labor	224,986	218,170
Amortization	56,900	56,900
Leases	18,405	18,116
Employee Benefits	317,857	300,630
Mapping Labor and Supply	7,589	8,320
Taxes Other Than Income	94,590	87,830
Transportation	67,557	53,032
Outside Services Employed	57,755	33,389
Purchased Power	559,510	520,856
Membership Functions	22,253	23,109
Miscellaneous General	23,563	24,447
Office Supplies	39,374	39,827
Property and Liability Insurance	44,070	40,258
Building Expense and Maintenance	28,067	24,914
Waste Water	61,309	50,640
Water Testing	32,710	29,839
Miscellaneous Tools Expense	5,032	5,000
Total Operating Expenses	6,893,303	6,388,887
OPERATING INCOME (LOSS)	2,305,066	1,954,803
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenue	287,044	818,436
Returned Excess EMC Insurance Proceeds	(94,923)	-
Interest Income	28,911	127,631
Gain/(Loss) on Disposition	-	18,000
Bond Administration Costs	(72,027)	(76,632)
Interest on Long-term Debt	(722,672)	(762,569)
Total Non-Operating Revenues (Expenses)	(573,667)	124,866
CHANGE IN NET POSITION	1,731,399	2,079,669
NET POSITION - BEGINNING OF YEAR	92,754,509	90,674,840
NET POSITION - END OF YEAR	\$ 94,485,908	\$ 92,754,509

SOUTH CENTRAL REGIONAL WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING ACTIVITIES		
Operating cash receipts from customers	\$ 8,721,234	\$ 8,062,639
Proceeds from connection fees	381,250	246,304
Cash payments to suppliers for goods and services	(3,686,088)	(3,141,481)
Cash payments to employees for services	(1,199,319)	(1,224,754)
NET CASH FROM OPERATING ACTIVITIES	4,217,077	3,942,708
INVESTING ACTIVITIES		
Proceeds from sale of investments	(120,756)	(137,671)
Interest received	29,698	130,811
NET CASH FROM INVESTING ACTIVITIES	(91,058)	(6,860)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(542,631)	(3,501,223)
Interest payment on debt	(733,224)	(772,644)
Principal payments on long-term debt	(1,671,648)	(1,625,466)
Proceeds from advances on long-term debt	15,625	-
Bond administration costs	(72,027)	(76,632)
Grant proceeds	287,044	818,436
Returned Excess EMC Insurance Proceeds	(94,923)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,811,784)	(5,157,529)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,314,235	(1,221,681)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,051,412	8,273,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 8,365,647	\$ 7,051,412
OPERATING ACTIVITIES RECONCILIATION		
Operating income (loss)	\$ 2,305,066	\$ 1,954,803
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,066,549	1,999,382
Changes in assets and liabilities		
(Increase) decrease in receivables	(40,278)	19,660
(Increase) decrease in inventory	(61,864)	5,461
(Increase) decrease in prepaid expenses	(20,461)	2,239
Increase (decrease) in advances for expansion	(1,200)	-
Increase (decrease) in accounts payable	(50)	-
Increase (decrease) in unearned revenue - base fees	(54,407)	(54,407)
Increase (decrease) in accrued expenses	23,722	15,570
NET CASH FROM OPERATING ACTIVITIES	\$ 4,217,077	\$ 3,942,708

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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 \$5,000.

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, 2021 and 2020

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, 2021 and 2020 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 17, 2022, the date which the financial statements were available to be issued.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021, the District's carrying balances were \$10,729,433. The bank balance of these deposits as of December 31, 2021 was \$10,986,536. Of the bank balances, \$2,525,636 was covered by Federal Depository Insurance or guaranteed by the state of North Dakota and \$8,460,900 was collateralized with securities held by the District's agent but not in the District's name.

NOTE 3 - INVESTMENTS

At December 31, 2021, 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 0.20 percent to 0.95 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, 2021 and 2020

NOTE 5 – WATER PLANT

As of December 31, 2021:

	<u>Balance 1/1/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/21</u>
Water Plant Cost				
<u>Source of Supply</u>				
Wells and Springs	\$ 3,114,659	\$ -	\$ -	\$ 3,114,659
Wells and Springs - Emmons	2,775,713	-	-	2,775,713
Supply Mains	414,334	-	-	414,334
	<u>6,304,706</u>	<u>-</u>	<u>-</u>	<u>6,304,706</u>
<u>Pumping Plant</u>				
Structure and Improvements	111,916	-	-	111,916
Structure and Improvements - Emmons	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	9,665,543	164,958	-	9,830,501
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>28,917,717</u>	<u>164,958</u>	<u>-</u>	<u>29,082,675</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,780,705	-	-	4,780,705
Distribution Reservoirs - Emmons	3,091,132	-	-	3,091,132
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	51,272,629	118,945	-	51,391,574
Service	2,548,204	-	-	2,548,204
Meter Units	3,204,775	188,710	-	3,393,485
	<u>96,788,589</u>	<u>307,655</u>	<u>-</u>	<u>97,096,244</u>
<u>General Plant</u>				
Furniture and Equipment	264,170	-	-	264,170
Transportation Equipment	210,830	40,000	-	250,830
Transportation Equipment - Emmons	90,607	-	-	90,607
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	549,733	-	-	549,733
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	94,638	-	-	94,638
Miscellaneous Equipment - Emmons	6,950	-	-	6,950
Building	909,361	-	-	909,361
	<u>2,168,076</u>	<u>40,000</u>	<u>-</u>	<u>2,208,076</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	-	30,017	-	30,017
	<u>87,958</u>	<u>30,017</u>	<u>-</u>	<u>117,975</u>
 Total Water Plant in Service Cost	 <u>134,845,021</u>	 <u>542,630</u>	 <u>-</u>	 <u>135,387,651</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 5 – WATER PLANT CONTINUED

	<u>Balance 1/1/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/21</u>
Less Accumulated Depreciation				
<u>Source of Supply</u>				
Wells and Springs	493,723	40,847	-	534,570
Wells and Springs - Emmons	296,080	37,010	-	333,090
Supply Mains	91,379	5,924	-	97,303
	<u>881,182</u>	<u>83,781</u>	<u>-</u>	<u>964,963</u>
<u>Pumping Plant</u>				
Structure and Improvements	52,753	1,492	-	54,245
Structure and Improvements - Emmons	15,152	2,839	-	17,991
Electric Pumping Equipment	249,633	587	-	250,220
	<u>317,538</u>	<u>4,918</u>	<u>-</u>	<u>322,456</u>
<u>Water Treatment</u>				
Structure and Improvements	1,194,588	133,589	-	1,328,177
Structure and Improvements - Emmons	848,810	106,254	-	955,064
Water Treatment Equipment	2,777,539	70,605	-	2,848,144
Water Treatment Equipment - Emmons	498,856	62,357	-	561,213
	<u>5,319,793</u>	<u>372,805</u>	<u>-</u>	<u>5,692,598</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	224,540	6,289	-	230,829
Distribution Reservoirs	839,516	63,976	-	903,492
Distribution Reservoirs - Emmons	269,630	36,765	-	306,395
Transmission and Distribution	7,721,982	448,185	-	8,170,167
Transmission and Distribution - Emmons	4,021,919	683,635	-	4,705,554
Service	895,873	36,403	-	932,276
Meter Units	1,821,959	157,786	-	1,979,745
	<u>15,795,419</u>	<u>1,433,039</u>	<u>-</u>	<u>17,228,458</u>
<u>General Plant</u>				
Furniture and Equipment	261,218	2,952	-	264,170
Transportation Equipment	121,546	51,584	-	173,130
Transportation Equipment - Emmons	34,141	21,369	-	55,510
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	73,900	7,102	-	81,002
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	50,358	7,935	-	58,293
Miscellaneous Equipment - Emmons	4,865	695	-	5,560
Building	322,409	23,468	-	345,877
	<u>910,224</u>	<u>115,105</u>	<u>-</u>	<u>1,025,329</u>
 Total Accumulated Depreciation	 <u>23,224,156</u>	 <u>2,009,648</u>	 <u>-</u>	 <u>25,233,804</u>
 Water Plant in Service, Net	 <u>\$ 111,620,865</u>	 <u>\$ (1,467,018)</u>	 <u>\$ -</u>	 <u>\$ 110,153,847</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 5 – WATER PLANT CONTINUED

As of December 31, 2020:

	<u>Balance 1/1/20</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/20</u>
Water Plant Cost				
<u>Source of Supply</u>				
Wells and Springs	\$ 3,114,659	\$ -	\$ -	\$ 3,114,659
Wells and Springs - Emmons	2,775,713	-	-	2,775,713
Supply Mains	414,334	-	-	414,334
	<u>6,304,706</u>	<u>-</u>	<u>-</u>	<u>6,304,706</u>
<u>Pumping Plant</u>				
Structure and Improvements	111,916	-	-	111,916
Structure and Improvements - Emmons	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	3,274,830	-	9,665,543
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>3,274,830</u>	<u>-</u>	<u>28,917,717</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,770,525	10,180	-	4,780,705
Distribution Reservoirs - Emmons	3,056,492	34,640	-	3,091,132
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	51,262,849	9,780	-	51,272,629
Service	2,548,204	-	-	2,548,204
Meter Units	2,885,016	319,759	-	3,204,775
	<u>96,414,230</u>	<u>374,359</u>	<u>-</u>	<u>96,788,589</u>
<u>General Plant</u>				
Furniture and Equipment	264,170	-	-	264,170
Transportation Equipment	194,525	36,943	20,638	210,830
Transportation Equipment - Emmons	52,012	64,109	25,514	90,607
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	549,733	-	-	549,733
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	94,638	-	-	94,638
Miscellaneous Equipment - Emmons	6,950	-	-	6,950
Building	909,361	-	-	909,361
	<u>2,113,176</u>	<u>101,052</u>	<u>46,152</u>	<u>2,168,076</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	231,020	-	231,020	-
	<u>318,978</u>	<u>-</u>	<u>231,020</u>	<u>87,958</u>
 Total Water Plant in Service Cost	 <u>131,371,952</u>	 <u>3,750,241</u>	 <u>277,172</u>	 <u>134,845,021</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 5 – WATER PLANT CONTINUED

	<u>Balance 1/1/20</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/20</u>
Less Accumulated Depreciation				
<u>Source of Supply</u>				
Wells and Springs	452,876	40,847	-	493,723
Wells and Springs - Emmons	259,070	37,010	-	296,080
Supply Mains	85,455	5,924	-	91,379
	<u>797,401</u>	<u>83,781</u>	<u>-</u>	<u>881,182</u>
<u>Pumping Plant</u>				
Structure and Improvements	51,261	1,492	-	52,753
Structure and Improvements - Emmons	12,313	2,839	-	15,152
Electric Pumping Equipment	249,046	587	-	249,633
	<u>312,620</u>	<u>4,918</u>	<u>-</u>	<u>317,538</u>
<u>Water Treatment</u>				
Structure and Improvements	1,104,663	89,925	-	1,194,588
Structure and Improvements - Emmons	742,556	106,254	-	848,810
Water Treatment Equipment	2,706,934	70,605	-	2,777,539
Water Treatment Equipment - Emmons	436,499	62,357	-	498,856
	<u>4,990,652</u>	<u>329,141</u>	<u>-</u>	<u>5,319,793</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	218,251	6,289	-	224,540
Distribution Reservoirs	776,007	63,509	-	839,516
Distribution Reservoirs - Emmons	234,453	35,177	-	269,630
Transmission and Distribution	7,273,797	448,185	-	7,721,982
Transmission and Distribution - Emmons	3,338,414	683,505	-	4,021,919
Service	859,470	36,403	-	895,873
Meter Units	1,676,935	145,024	-	1,821,959
	<u>14,377,327</u>	<u>1,418,092</u>	<u>-</u>	<u>15,795,419</u>
<u>General Plant</u>				
Furniture and Equipment	258,263	2,955	-	261,218
Transportation Equipment	91,516	50,669	20,639	121,546
Transportation Equipment - Emmons	45,929	13,726	25,514	34,141
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	66,798	7,102	-	73,900
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	42,423	7,935	-	50,358
Miscellaneous Equipment - Emmons	4,170	695	-	4,865
Building	298,941	23,468	-	322,409
	<u>849,827</u>	<u>106,550</u>	<u>46,153</u>	<u>910,224</u>
 Total Accumulated Depreciation	 <u>21,327,827</u>	 <u>1,942,482</u>	 <u>46,153</u>	 <u>23,224,156</u>
 Water Plant in Service, Net	 <u>\$ 110,044,125</u>	 <u>\$ 1,807,759</u>	 <u>\$ 231,019</u>	 <u>\$ 111,620,865</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 6 – LONG-TERM DEBT

As of December 31, 2021:

	Interest Rates	Maturity Date	Balance 1/1/21	Additions	Reductions	Balance 12/31/21	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 3,256,000	\$ -	\$ 431,000	\$ 2,825,000	\$ 443,000
2008 Series A Bonds	2.50%	09/01/28	1,875,001	-	210,000	1,665,001	220,000
2010 Series A Bonds	2.50%	10/01/30	2,630,000	-	230,000	2,400,000	235,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	5,660,000	-	495,000	5,165,000	510,000
2013 Series A Bonds	2.50%	10/01/52	3,827,172	-	79,522	3,747,650	81,510
2013 Series B Bonds	2.50%	10/01/52	2,630,507	-	54,657	2,575,850	56,024
2015 Series A Bonds	2.75%	06/15/55	1,435,279	-	24,917	1,410,362	25,602
2015 Series B Bonds	3.00%	04/01/55	1,420,903	-	23,945	1,396,958	24,669
2016 Series A Bonds	2.00%	10/01/46	2,814,375	15,625	80,000	2,750,000	80,000
2016 Series B Bonds	1.88%	04/01/56	1,195,078	-	23,544	1,171,534	23,985
2016 Series C Bonds	3.00%	10/01/56	1,211,650	-	19,063	1,192,587	19,639
			<u>\$ 27,955,965</u>	<u>\$ 15,625</u>	<u>\$ 1,671,648</u>	26,299,942	<u>\$ 1,719,429</u>
Less Current Maturities						(1,719,429)	
						<u>\$ 24,580,513</u>	

As of December 31, 2020:

	Interest Rates	Maturity Date	Balance 1/1/20	Additions	Reductions	Balance 12/31/20	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 3,677,000	\$ -	\$ 421,000	\$ 3,256,000	\$ 431,000
2008 Series A Bonds	2.50%	09/01/28	2,080,001	-	205,000	1,875,001	210,000
2010 Series A Bonds	2.50%	10/01/30	2,850,000	-	220,000	2,630,000	230,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	6,145,000	-	485,000	5,660,000	495,000
2013 Series A Bonds	2.50%	10/01/52	3,904,493	-	77,321	3,827,172	79,522
2013 Series B Bonds	2.50%	10/01/52	2,683,652	-	53,145	2,630,507	54,657
2015 Series A Bonds	2.75%	06/15/55	1,459,422	-	24,143	1,435,279	24,917
2015 Series B Bonds	3.00%	04/01/55	1,444,146	-	23,243	1,420,903	23,945
2016 Series A Bonds	2.00%	10/01/46	2,889,375	-	75,000	2,814,375	80,000
2016 Series B Bonds	1.88%	04/01/56	1,218,189	-	23,111	1,195,078	23,544
2016 Series C Bonds	3.00%	10/01/56	1,230,153	-	18,503	1,211,650	19,062
			<u>\$ 29,581,431</u>	<u>\$ -</u>	<u>\$ 1,625,466</u>	27,955,965	<u>\$ 1,671,647</u>
Less Current Maturities						(1,671,647)	
						<u>\$ 26,284,318</u>	

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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>
2022	\$ 1,719,429	\$ 692,002	\$ 2,411,431
2023	1,760,359	648,507	2,408,866
2024	1,806,929	603,702	2,410,631
2025	1,860,676	556,140	2,416,816
2026	1,915,081	507,110	2,422,191
2027-2031	6,491,987	1,787,596	8,279,583
2032-2036	2,113,735	1,233,084	3,346,819
2037-2041	2,391,975	962,942	3,354,917
2042-2046	2,719,138	656,580	3,375,718
2047-2051	2,299,721	338,397	2,638,118
2052-2056	1,220,912	71,295	1,292,207
	<u>\$ 26,299,942</u>	<u>\$ 8,057,355</u>	<u>\$ 34,357,297</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, 2021 and 2020

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, 2021, 2020, and 2019, was \$42,049, \$41,957, and \$41,542. 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 – FUTURE 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 June 15, 2021.

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

With the exception of the new standards discussed above, we have not identified any new accounting pronouncements that have potential significance to the District's financial statements.

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, 2021, 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 17, 2022.

Report on 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) as a basis for designing 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 2021-001 that we consider to be a significant deficiency.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on South Central Regional Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs.

South Central Regional Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 17, 2022

SOUTH CENTRAL REGIONAL WATER DISTRICT
Schedule of Findings
For the Year Ended December 31, 2021

Finding 2021-001: 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.

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 – Board members should periodically review documentation supporting individual transactions. Duties should be reviewed and segregated as employees are added.

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