

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Northwest Rural Water District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Northwest Rural Water District, as of December 31, 2022, and the notes to the financial statements, which collectively comprise the Northwest Rural Water 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 financial position of the business-type activities of the Northwest Rural Water District as of December 31, 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Northwest Rural Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 the 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 Northwest Rural 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 Northwest Rural 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 Northwest Rural 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of employer's required contributions on page 28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Matters

As discussed in Note 14 to the financial statements, certain errors were discovered relating to the balance of cost shared infrastructure and the related liability not properly recorded in 2021. Accordingly, such amounts have been restated as an adjustment to the cost shared infrastructure, the accompanying accumulated amortization accounts, along with interest and amortization expense as of December 31, 2021, to correct these errors. Our opinion is not modified with respect to these errors.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2023 on our consideration of the Northwest Rural 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northwest Rural Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Rural Water District's internal control over financial reporting and compliance.



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

March 17, 2023

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021 (Restated)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,880,347	\$ 4,939,032
Accounts receivable, net	462,894	438,528
Inventory	472,589	416,544
Prepaid expenses	30,422	8,382
Current portion of receivable from members	106,162	102,079
Total current assets	<u>6,952,414</u>	<u>5,904,565</u>
Noncurrent assets:		
Reserve for debt service	312,325	312,325
Cost shared infrastructure, net	12,638,687	12,439,947
Capital assets, net	12,693,503	13,098,084
Receivable from members, net	2,584,697	2,669,946
Total noncurrent assets	<u>28,229,212</u>	<u>28,520,302</u>
Total assets	<u>35,181,626</u>	<u>34,424,867</u>
Liabilities		
Current liabilities:		
Accounts payable	6,355	48,881
Interest payable	27,928	29,571
Accrued liabilities	56,298	53,217
Prepayments on account	37,226	37,298
Expansion deposits	681,100	565,600
Current portion of long-term debt	225,000	220,000
Current portion of liability on cost shared infrastructure	415,426	359,396
Total current liabilities	<u>1,449,333</u>	<u>1,313,963</u>
Noncurrent liabilities:		
Notes payable	3,770,000	3,900,000
Bonds payable	100,000	195,000
Liability on cost shared infrastructure	7,687,397	7,455,413
Total noncurrent liabilities	<u>11,557,397</u>	<u>11,550,413</u>
Total liabilities	<u>13,006,730</u>	<u>12,864,376</u>
Deferred inflows of resources		
Deferred inflows - members	<u>3,266,520</u>	<u>3,402,625</u>
Net position		
Net investment in capital assets	12,558,706	12,777,622
Restricted reserves for debt service	312,325	312,325
Unrestricted	6,037,345	5,067,919
Total net position	<u>\$ 18,908,376</u>	<u>\$ 18,157,866</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021 (Restated)</u>
Operating income		
Revenue from continuing operations		
Water sales	\$ 5,113,005	\$ 5,066,194
Membership	4,300	5,200
Hookups	286,700	435,066
Other	151,856	235,782
Total operating revenues	<u>5,555,861</u>	<u>5,742,242</u>
Expenses from continuing operations		
Purchase of water	1,601,182	1,609,262
Maintenance	276,627	355,271
Administrative and general	1,698,572	1,576,639
Communications and utilities	128,539	114,447
Transportation	64,859	65,858
Depreciation	605,573	618,220
Amortization	405,881	380,223
Other expenses	60,803	3,551
Total operating expenses	<u>4,842,036</u>	<u>4,723,471</u>
Income from continuing operations	<u>713,825</u>	<u>1,018,771</u>
Nonoperating revenues (expenses)		
Interest income	14,461	8,751
Interest expense	(137,402)	(133,925)
Amortization of member deferred inflows	159,626	136,105
Total nonoperating revenues (expenses)	<u>36,685</u>	<u>10,931</u>
Change in net position	<u>750,510</u>	<u>1,029,702</u>
Net position - January 1	18,157,866	17,128,164
Change in net position	<u>750,510</u>	<u>1,029,702</u>
Net position - December 31	<u>\$ 18,908,376</u>	<u>\$ 18,157,866</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021 (Restated)</u>
Cash flows from operating activities		
Cash received from customers	\$ 5,646,923	\$ 5,854,617
Cash payments to suppliers	(3,085,285)	(3,153,699)
Cash payments to employees	(862,827)	(757,124)
Net cash provided by operating activities	<u>1,698,811</u>	<u>1,943,794</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(35,853)	(17,674)
Payments on cost shared infrastructure financing	(516,820)	(448,829)
Reimbursement from Members for bond payments	205,500	208,000
Payments on Member debt	(65,739)	(67,780)
Payments on long-term debt	(220,000)	(215,000)
Interest paid on long-term debt	(139,045)	(101,362)
Net cash used by capital and related financing activities	<u>(771,957)</u>	<u>(642,645)</u>
Cash flows from investing activities		
Interest income	14,461	8,751
Net cash provided (used) by investing activities	<u>14,461</u>	<u>8,751</u>
Net change in cash and cash equivalents	941,315	1,309,900
Cash and cash equivalents - January 1	<u>5,251,357</u>	<u>3,941,457</u>
Cash and cash equivalents - December 31	<u>6,192,672</u>	<u>5,251,357</u>
Cash and cash equivalents are comprised of:		
Cash and cash equivalents	5,880,347	4,939,032
Reserve for debt service	312,325	312,325
Total cash and cash equivalents	<u>\$ 6,192,672</u>	<u>\$ 5,251,357</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021 (Restated)</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 713,825	\$ 1,018,771
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	605,573	618,220
Amortization	405,881	380,223
Bad debt expense (recovery)	(312)	114,890
Effects on operating cash flows due to changes in:		
Accounts receivable	(24,054)	(19,304)
Inventory	(56,045)	(76,309)
Prepaid expenses	(22,040)	2,868
Accounts payable	(42,526)	(87,901)
Accrued liabilities	3,081	(24,453)
Expansion deposits	115,500	5,000
Unearned revenue	(72)	11,789
Net cash provided by operating activities	<u>\$ 1,698,811</u>	<u>\$ 1,943,794</u>
Supplemental schedule of noncash investing and financing activities:		
Cost shared infrastructure acquired with debt	\$ 769,760	\$ 1,386,097
Amortization of deferred inflow	159,626	136,105
Credit received on disposed IDT meters	8,382	11,250

SEE NOTES TO THE FINANCIAL STATEMENTS

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Nature of operations and history

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

Reporting entity

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Basis of accounting

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

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

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

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

Cash and cash equivalents

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

Reserve for debt service

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

Investment policy

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Accounts receivable

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

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

Receivable from Members

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

Inventories

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

Prepaid expenses

Prepaid expenses consist of vendor credits expected to be applied against future expenses.

Capital assets

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

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Cost shared infrastructure

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

Compensated absences

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

Expansion deposits

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

Net position

Net position is shown in three primary categories:

Net Investment in capital assets – Consists of capital assets, cost shared infrastructure, including receivables from members to offset the related debt, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restrictions of net position shown in the statement of net position are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation

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

Net position flow assumption

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Use of estimates

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

Deferred inflows of resources

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

NOTE 2 CASH AND CASH EQUIVALENTS

A summary of cash and cash equivalents is as follows:

	2022	2021
Cash on hand	\$ 860	\$ 200
Operating account	445,705	517,663
Certificate of deposits	100,829	100,829
CDAR accounts	5,332,953	4,320,340
Total	<u>\$5,880,347</u>	<u>\$4,939,032</u>

Credit risk

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

Interest rate risk

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

Concentration of credit risk

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Custodial credit risk

This is the risk that, in the event a financial institution fails, the District is unable to recover the value of its deposits, investment or collateral securities in the possession of the institution. In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the Board. The depository is a member of the Federal Reserve System. North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2022, all of the District's cash balances were either covered by FDIC insurance or collateral held in the District's name.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable are shown net of the allowance for doubtful accounts of \$118,150 and \$118,462 at December 31, 2022 and 2021, respectively.

An aging of the accounts receivable at December 31, 2022 and 2021 is shown as follows:

	<u>2022</u>	<u>Percent</u>	<u>2021</u>	<u>Percent</u>
Current	\$ 523,268	90.1%	\$ 507,863	91.2%
30 days	39,293	6.8%	36,842	6.6%
60 days	10,056	1.7%	11,749	2.1%
90 days	1,246	0.2%	210	0.0%
120+ days	<u>7,181</u>	<u>1.2%</u>	<u>326</u>	<u>0.1%</u>
	581,044	<u>100.0%</u>	556,990	<u>100.0%</u>
Less allowance	<u>(118,150)</u>		<u>(118,462)</u>	
Total accounts receivable, net	<u>\$ 462,894</u>		<u>\$ 438,528</u>	

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 4 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	Balance 1/1/2022	Additions	Disposals	Balance 12/31/2022
Capital assets, not being depreciated:				
Land	\$ 80,465	\$ -	\$ -	\$ 80,465
Organizational fees	4,951	-	-	4,951
Total	<u>85,416</u>	<u>-</u>	<u>-</u>	<u>85,416</u>
Capital assets, being depreciated:				
Buildings	4,165,681	7,002	-	4,172,683
Transmission system	13,732,295	23,217	-	13,755,512
Vehicles	481,820	-	-	481,820
Tools and equipment	41,153	-	-	41,153
Office equipment	54,857	5,634	-	60,491
60th St W Road Project	17,675	-	-	17,675
Total	<u>18,493,481</u>	<u>35,853</u>	<u>-</u>	<u>18,529,334</u>
Less accumulated depreciation:				
Buildings	746,450	80,363	-	826,813
Transmission system	4,200,421	340,179	-	4,540,600
Vehicles	452,727	13,518	-	466,245
Tools and equipment	36,996	2,559	-	39,555
Office equipment	43,983	3,815	-	47,798
60th St W Road Project	236	-	-	236
Total	<u>5,480,813</u>	<u>440,434</u>	<u>-</u>	<u>5,921,247</u>
Total capital assets				
being depreciated, net	<u>13,012,668</u>	<u>(404,581)</u>	<u>-</u>	<u>12,608,087</u>
Capital assets, net	<u>\$ 13,098,084</u>	<u>\$ (404,581)</u>	<u>\$ -</u>	<u>\$ 12,693,503</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

	Balance 1/1/2021	Additions	Impairment	Balance 12/31/2021
Capital assets, not being depreciated:				
Land	\$ 80,465	\$ -	\$ -	\$ 80,465
Organizational fees	4,951	-	-	4,951
Total	85,416	-	-	85,416
Capital assets, being depreciated:				
Buildings	4,165,681	-	-	4,165,681
Transmission system	13,732,295	-	-	13,732,295
Vehicles	481,820	-	-	481,820
Tools and equipment	41,153	-	-	41,153
Office equipment	54,857	-	-	54,857
60th St W Road Project	-	17,675	-	17,675
Total	18,475,806	17,675	-	18,493,481
Less accumulated depreciation:				
Buildings	651,946	94,504	-	746,450
Transmission system	3,861,407	339,014	-	4,200,421
Vehicles	439,210	13,517	-	452,727
Tools and equipment	34,437	2,559	-	36,996
Office equipment	40,731	3,252	-	43,983
60th St W Road Project	-	236	-	236
Total	5,027,731	453,082	-	5,480,813
Total capital assets being depreciated, net	13,448,075	(435,407)	-	13,012,668
Capital assets, net	\$ 13,533,491	\$ (435,407)	\$ -	\$ 13,098,084

Depreciation expense for the years ended December 31, 2022 and 2021 totaled \$605,573 and \$618,220 respectively, which includes \$453,082 and \$449,426 from capital assets for the years ended December 31, 2022 and 2021, respectively and \$165,139 from cost shared infrastructure for each of the years ended December 31, 2022 and 2021. See Note 12 for details on cost shared infrastructure.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 5 LONG-TERM NOTES PAYABLE

The following is a summary of long-term debt transactions of the District for the years ended December 31, 2022 and 2021:

	Revenue Bonds	Drinking Water Note Payable	Total
Balance 1/1/21	\$ 380,000	\$ 4,150,000	\$ 4,530,000
Reductions	(90,000)	(125,000)	(215,000)
Balance 12/31/21	290,000	4,025,000	4,315,000
Reductions	(95,000)	(125,000)	(220,000)
Balance 12/31/22	<u>\$ 195,000</u>	<u>\$ 3,900,000</u>	<u>\$ 4,095,000</u>
Due within one year	<u>\$ 95,000</u>	<u>\$ 130,000</u>	<u>\$ 225,000</u>

Revenue bonds

Revenue bonds consist of \$1,500,000 authorized for Water Revenue Bonds of 2005 (payable in yearly payments ranging from \$65,000 to \$100,000 through September 1, 2024). Bonds carry a fixed rate of 2.5%. The District has pledged income derived from the enterprise operations to pay the bonds. The bonds were issued to finance the expansion of the water system. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve was funded over 5 years, and became fully funded in 2010. The total amount restricted totaled \$104,250 as of December 31, 2022.

Drinking Water note payable

North Dakota Public Finance Authority's Drinking Water State Revolving Fund Program financed the water system expansion through a note secured by revenues from the acquired or constructed assets. The note carries a fixed 1.50% interest rate and a 0.50% administration fee. The note requires semiannual interest and administration fee payments and annual principal payments commencing September 1, 2017. The note matures on September 1, 2046. The District has restricted cash to finance required debt reserves as required by the loan agreement. The reserve is to be funded \$41,615 annually over 5 years. The total amount restricted was \$208,075 as of December 31, 2022.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Loan covenants and collateral

Substantially all of the District's assets are pledged as collateral. The District complied with or received waivers on all covenants on their loans as of December 31, 2022 and 2021.

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

Year ending December 31,	Notes Payable		
	Principal	Interest	Total
2023	\$ 130,000	\$ 58,500	\$ 188,500
2024	130,000	56,550	186,550
2025	135,000	54,600	189,600
2026	135,000	52,575	187,575
2027	140,000	50,550	190,550
2028-2032	735,000	220,725	955,725
2033-2037	810,000	163,350	973,350
2038-2042	895,000	100,125	995,125
2043-2046	790,000	30,000	820,000
	<u>\$ 3,900,000</u>	<u>\$ 786,975</u>	<u>\$ 4,686,975</u>

Year ending December 31,	Bond Payable		
	Principal	Interest	Total
2023	\$ 95,000	\$ 4,875	\$ 99,875
2024	100,000	2,500	102,500
	<u>\$ 195,000</u>	<u>\$ 7,375</u>	<u>\$ 202,375</u>

NOTE 6 PENSION PLAN

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

At December 31, 2022, Northwest Rural Water District had ten employees covered by the RS Plan. Benefits provided under the plan include a graduated retirement benefit based on the participant's salary and years of service. Plan participants become eligible to receive pension benefits upon reaching a normal retirement date, which is the first day of the month following a participant's attainment of age 62. The plan also provides a subsidized early retirement option upon completing not less than 30 years of benefit service. Participants may obtain complete plan benefit details by contacting Northwest Rural Water District at 701-774-8915.

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

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

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

Northwest Rural Water District made contributions to the plan of \$319,104 in 2022, and \$287,513 in 2021. There were no outstanding payables for required pension contributions at December 31, 2022 and 2021.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2022 and January 1, 2021 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 7 CONCENTRATIONS OF CREDIT RISK

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

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

NOTE 8 RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 9 FEDERAL GRANTS

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 10 JOINTLY GOVERNED ORGANIZATIONS

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

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

NOTE 11 JOINT POWERS AGREEMENT

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

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 12 COST SHARED INFRASTRUCTURE

During the year ended December 31, 2016, the District entered into an agreement with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 29.425% of the capital invested for invested amounts allocated before 2018.

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

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

During the year ended December 31, 2018, the District entered into an agreement for a \$16.5 million loan (series 2018) with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 24.461% of the capital invested. In exchange, the District has the right to use the infrastructure installed over the period of the loans. As of December 31, 2022, the loan has not been fully funded and is still being drawn on.

During the year ended December 31, 2020, the District entered into an agreement for a \$16.5 million loan (series 20202) with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 24.753% of the capital invested. As of December 31, 2022 the loan has not been fully funded and is still being drawn on.

During the year ended December 31, 2020, the District entered into an agreement for \$1.8 million in costs with Western Area Water Supply Authority (WAWSA) to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion of the capital invested in the infrastructure. The District will be responsible for 26.355% of the capital invested. These costs are not a loan and as such are not interest bearing.

In exchange, for the above agreements the District has the right to use the infrastructure installed over the period of the loans. As a result, the District recognized an intangible right of use asset and an offsetting liability on cost shared infrastructure for the assets and loans that are not in the District's name.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Details on the cost shared infrastructure asset are as follows for the years ended December 31, 2022 and 2021:

	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Cost shared infrastructure being depreciated	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Less accumulated depreciation	871,534	165,139	-	1,036,673
Total cost shared infrastructure being depreciated, net	4,128,466	(165,139)	-	3,963,327
Cost shared infrastructure being amortized	10,000,419	769,760	-	10,770,179
Less accumulated amortization	1,688,938	405,881	-	2,094,819
Total cost shared infrastructure being amortized, net	8,311,481	363,879	-	8,675,360
Net cost shared infrastructure	<u>\$12,439,947</u>	<u>\$ 198,740</u>	<u>\$ -</u>	<u>\$12,638,687</u>
	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021
Cost shared infrastructure being depreciated	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Less accumulated depreciation	706,395	165,139	-	871,534
Total cost shared infrastructure being depreciated, net	4,293,605	(165,139)	-	4,128,466
Cost shared infrastructure being amortized	8,614,322	1,386,097	-	10,000,419
Less accumulated amortization	1,308,715	380,223	-	1,688,938
Total cost shared infrastructure being amortized, net	7,305,607	1,005,874	-	8,311,481
Net cost shared infrastructure	<u>\$11,599,212</u>	<u>\$ 840,735</u>	<u>\$ -</u>	<u>\$12,439,947</u>

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

Depreciation on cost shared infrastructure for the years ended December 31, 2022 and 2021 was \$165,139. Amortization on cost shared infrastructure for years ended December 31, 2022 and 2021 was \$405,881 and \$380,233, respectively. Amounts owed on cost shared infrastructure totaled \$8,102,823 and \$7,814,809 as of December 31, 2022 and 2021, respectively, and will be repaid over 30 years at an interest rate of 1.5%. The liability requires monthly payments and will mature during 2048. Expected future payments are as follows:

Year ending <u>December 31,</u>	
2023	\$ 415,426
2024	420,769
2025	331,269
2026	336,680
2027	342,565
2028-2032	1,804,418
2033-2037	1,486,637
2038-2042	1,213,213
2043-2047	1,281,671
2048-2052	470,175
	<u>\$ 8,102,823</u>

The deferred inflow of resources represents the portion of the owned infrastructure from the loan taken out in the District's name and will be amortized into income over the life of the loan, which is 30 years in accordance with GASB 60. For the years ended December 31, 2022 and 2021, \$136,105 was amortized.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

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

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

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

NOTE 14 RESTATEMENT OF 2021

It was determined that the balance of cost shared infrastructure and related liability on cost shared infrastructure was understated as of December 31, 2021 due to Northwest Rural Water District not including their portion of an additional cost shared loan that was opened at the end of 2020. Adjustments were made to increase the balance of cost shared infrastructure and related liability on cost shared infrastructure of \$1,301,186 and to increase the accompanying accumulated amortization for \$46,203. This also led to an increase in interest expense of \$34,163 and increase in the accumulated amortization of \$46,203, for an overall increase of \$80,366 of retained earnings as of December 31, 2021.

NORTHWEST RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

NOTE 15 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through March 17, 2023, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF EMPLOYER'S REQUIRED CONTRIBUTIONS AND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

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

2022	\$ 319,104
2021	287,513
2020	244,423
2019	198,194
2018	175,075
2017	206,808
2016	224,474
2015	174,995
2014	147,871
2013	133,577

For additional information related to this plan, see footnote 6 to the financial statements.

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

Year	Proportional increase compared with prior year	Primary reason for significant increase
2012	0%	No proportional increase.
2013	8%	Actual 2011 investment return was significantly lower than the assumed 8.5% expected annual return.
2014	0%	No proportional increase.
2015	0%	No proportional increase.
2016	3%	Actual 2014 investment return was lower than the assumed 8.0% expected annual return.
2017	3%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.
2018	2.5%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.
2019	1%	Adjust billing rate to improve current funded status and reach projected funded status of 100%.
2020	2%	Actual 2018 investment return was lower than the assumed 7.25% expected annual return
2021	3%	Decreases in the assumed future annual asset return and lump sum interest rates increased the present value of benefits.
2022	2%	Decreases in the assumed future annual asset return and lump sum interest rates increased the present value of benefits.
2023	3%	Actual 2022 investment return was lower than the assumed 6.75% expected annual return.

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

To the Board of Directors and Stockholders
Northwest Rural Water District

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 Northwest Rural Water District as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Northwest Rural Water District's basic financial statements and have issued our report thereon dated March 17, 2023.

Report on Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001 and 2022-003 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Rural Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Entity's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Northwest Rural Water District's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. Northwest Rural Water District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



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

March 17, 2023

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022

Findings Relating to Financial Statements:

2022-001 *Preparation of Financial Statements – Significant Deficiency*

Criteria:	An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America. This requires the District personnel to maintain knowledge of current accounting principles and required financial statement disclosures.
Condition:	The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.
Cause:	The District elected to not allocate resources for the preparation of the financial statements.
Effect:	There is an increased risk of material misstatement to the District's financial statements.
Recommendation:	We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.
Views of responsible officials and corrective actions:	Due to the small size of the District, it is not cost effective for the District to properly address this significant deficiency.

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2022

2022-002 *Significant Adjusting Entries – Material Weakness*

Criteria:	The District is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.
Condition:	During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.
Context:	Accounts related to accounts receivable, deferred revenue, expansion deposits, property, depreciation, accounts payable and notes payable are adjusted throughout the financial statement preparation process.
Cause:	The District's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.
Effect:	The District's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.
Recommendation:	Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.
Views of responsible officials and corrective actions:	Due to the small size of the District, it is not cost effective for the District to properly address this material weakness.

NORTHWEST RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2022

2022-003 *Segregation of Duties – Significant Deficiency*

Criteria:	A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.
Condition:	There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.
Cause:	The District is subject to size and budget constraints limiting the number of personnel within the accounting department.
Effect:	The design of internal control over financial reporting could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.
Recommendation:	We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.
Views of responsible officials and corrective actions:	The Board will review the accounting functions and will strive to improve in areas that are economically feasible.