

South Central Regional Water District

Audit Report

December 31, 2022 and 2021

South Central Regional Water District
Table of Contents
December 31, 2022

	Page(s)
Independent Auditor's Report	1 – 3
Management's Discussion and Analysis	4 – 8
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Fund Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 21
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 <i>Government Auditing Standards</i>	22 – 23
Schedule of Findings	24

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, 2022 and 2021, 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, 2022 and 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, South Central Regional Water District adopted GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

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 March 13, 2023, 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
March 13, 2023

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2022

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, 2022, the net position increased \$1,433,974.
- For the year ended December 31, 2021, the net position increased \$1,731,399.
- Total operating revenues decreased to \$8,557,714 during 2022, a \$640,655 or 6.96% decrease from 2021. Total operating revenues increased to \$9,198,369 during 2021, a \$854,679 or 10.24% increase from 2020.
- In 2022, grant revenue decreased by \$208,894. In 2021, grant revenue decreased by \$531,392.
- Total operating expenses during 2022 were \$6,588,252; 4.43% less than 2021's expenses.
- Total operating expenses during 2021 were \$6,893,303; 7.90% more than 2020's expenses.
- Total water plant assets, less accumulated depreciation, plus construction in progress were \$108,634,571 in 2022 compared to \$110,153,847 in 2021.
- Outstanding long-term debt at December 31, 2022 decreased to \$24,580,514 from \$26,299,942 at December 31, 2021.

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, 2022	December 31, 2021
Assets		
Current Assets	\$ 10,287,989	\$ 8,950,495
Investments	2,417,417	2,363,786
Capital Assets	108,634,571	110,153,847
Other Assets	1,268,976	1,274,547
Total Assets	122,608,953	122,742,675
Liabilities		
Current Liabilities	2,136,073	2,080,313
Long-term Debt, Less Current Maturities	24,552,998	26,176,454
Total Liabilities	26,689,071	28,256,767
Net Position		
Net Investment in Capital Assets	84,054,057	83,853,905
Restricted, Nonexpendable for Debt Service	2,328,427	2,275,634
Unrestricted	9,537,398	8,356,369
Total Net Position	\$ 95,919,882	\$ 94,485,908

The net position and liabilities of South Central Regional Water District decreased to \$122,608,953 in 2022, a \$133,722 decrease from 2021. There is a restricted asset of \$2,328,427 for debt service reserve.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2022

	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	<u>122,742,675</u>	<u>122,709,786</u>
Liabilities		
Current Liabilities	2,080,313	2,020,611
Long-term Debt, Less Current Maturities	26,176,454	27,934,666
Total Liabilities	<u>28,256,767</u>	<u>29,955,277</u>
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	<u>\$ 94,485,908</u>	<u>\$ 92,754,509</u>

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

Review of Revenues and Expenses

In 2022, operating revenues decreased \$640,655 from 2021 due to decreased water sales. The non-operating revenue decreased by \$103,165 due to less grant funds received.

The District's operating expenses decreased by \$305,051 or 4.43% from 2021 to 2022.

Depreciation expense was \$2,009,597 in 2022 and \$2,009,649 in 2021.

The net income before non-operating activities is \$1,969,462 and \$2,305,066 for 2022 and 2021, respectively. Grant revenues of \$78,150 in 2022 and \$287,044 in 2021 were received from the State MR&I Grant Program and ARPA from Burleigh County.

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.

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2022

	December 31, 2022	December 31, 2021
Operating Revenue		
Metered Sales	\$ 7,720,720	\$ 8,241,278
Waste Water Income	89,732	78,913
Connection Fees	251,311	365,250
Connection Fees - Waste Water	14,000	16,000
Advance for Construction	434,146	452,666
Other Service Revenues	47,805	44,262
Total Operating Revenue	<u>8,557,714</u>	<u>9,198,369</u>
Non-Operating Revenues		
Grant Revenue	78,150	287,044
Interest Income	114,640	28,911
Gain/(Loss) on Disposition	20,000	-
Total Non-Operating Revenue	<u>212,790</u>	<u>315,955</u>
Total Revenues	<u>\$ 8,770,504</u>	<u>\$ 9,514,324</u>
	December 31, 2022	December 31, 2021
Operating Expenses		
Purchased Water	\$ 640,326	\$ 845,100
Depreciation	2,009,597	2,009,649
Plant Operations and Maintenance	1,961,921	2,012,386
Expansion Promotion	20	-
General and Administrative Salaries	446,729	364,641
Accounting and Collection Labor	229,858	224,986
Amortization	56,900	56,900
Leases	18,583	18,405
Employee Benefits	351,767	317,857
Mapping Labor	9,000	7,589
Taxes Other Than Income	101,801	94,590
Transportation	81,000	67,557
Outside Services Employed	94,121	57,755
Purchased Power	283,492	559,510
Membership Functions	25,136	22,253
Miscellaneous General	27,066	23,563
Office Supplies	38,420	39,374
Property and Liability Insurance	50,550	44,070
Building Expense and Maintenance	44,480	28,067
Waste Water	58,964	61,309
Water Testing	41,192	32,710
Miscellaneous Tools Expense	17,329	5,032
Total Operating Expenses	<u>6,588,252</u>	<u>6,893,303</u>
Non-Operating Expenses		
Returned Excess EMC Insurance Proceeds	-	94,923
Interest on Long-term Debt	680,949	722,672
Bond Administration Costs	67,329	72,027
Total Non-Operating Expenses	<u>748,278</u>	<u>889,622</u>
Total Expenses	<u>\$ 7,336,530</u>	<u>\$ 7,782,925</u>

South Central Regional Water District
Management's Discussion and Analysis
December 31, 2022

	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>794,699</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, 2022

Capital Assets

The District's water plant and system at December 31, 2022 increased to \$135,742,693 from \$135,357,634 at December 31, 2021 due to completion of the Apple Creek North Tank and the prefiltration building project. The District has construction in progress at December 31, 2022 of \$106,085 and \$30,017 at December 31, 2021.

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.

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, 2022 is \$22,820,155 compared to \$24,580,513 in 2021. 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 2022 was due to payments made on the bonds during the year.

Economic and Other Factors

The growth in rural Burleigh County, near the city of Bismarck, continues to be the primary location for additional customers to the District. Although growth has slowed from the addition of 200 new homes per year that was experienced 15 years ago, the growth does continue. From 2016 through 2020 the District added 80 new homes per year. In 2022 and 2021, 82 new customers and 100 new customers, respectively, were added in Burleigh County. One new large subdivision is planned for 2023, which we anticipate will have a positive impact for the District.

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, 2022 and 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,637,537	\$ 8,365,647
Accounts Receivable, Net	362,512	336,584
Accounts Receivable - Other	124,275	104,203
Inventory	115,454	90,129
Prepaid Expenses	44,999	52,270
Interest Receivable	3,212	1,662
Total Current Assets	10,287,989	8,950,495
INVESTMENTS		
Certificates of Deposit	88,990	88,152
Reserved for Debt Service	2,328,427	2,275,634
Total Investments	2,417,417	2,363,786
CAPITAL ASSETS		
Construction in Progress	106,085	30,017
Water Treatment Plant & System	135,742,693	135,357,634
Less: Accumulated Depreciation	(27,214,207)	(25,233,804)
Net Capital Assets	108,634,571	110,153,847
OTHER ASSETS		
Deferred Debits		
Water Supply Agreement, Net	804,453	861,353
Patronage Capital Credits	464,523	413,194
Total Other Assets	1,268,976	1,274,547
TOTAL ASSETS	122,608,953	122,742,675
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	1,600	1,600
Accrued Interest	171,823	182,791
Accrued Vacation and Benefits Payable	103,101	104,086
Advances for Expansion	18,000	18,000
Loans and Bonds Payable, Current Portion	1,760,359	1,719,429
Unearned Revenue - Base Fees, Current Portion	81,190	54,407
Total Current Liabilities	2,136,073	2,080,313
NONCURRENT LIABILITIES		
Loans and Bonds Payable, Noncurrent Portion	22,820,155	24,580,513
Unearned Revenue - Base Fees, Noncurrent Portion	1,732,843	1,595,941
Total Noncurrent Liabilities	24,552,998	26,176,454
TOTAL LIABILITIES	26,689,071	28,256,767
NET POSITION		
Net Investment in Capital Assets	84,054,057	83,853,905
Restricted, Nonexpendable for Debt Service	2,328,427	2,275,634
Unrestricted	9,537,398	8,356,369
TOTAL NET POSITION	\$ 95,919,882	\$ 94,485,908

SOUTH CENTRAL REGIONAL WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUE		
Metered Sales	\$ 7,720,720	\$ 8,241,278
Waste Water Income	89,732	78,913
Forfeited Discounts	34,111	31,397
Connection Fees	251,311	365,250
Connection Fees - Waste Water	14,000	16,000
Advance for Construction	434,146	452,666
Miscellaneous Service Revenues	13,694	12,865
Total Operating Revenue	<u>8,557,714</u>	<u>9,198,369</u>
OPERATING EXPENSES		
Purchased Water	640,326	845,100
Depreciation	2,009,597	2,009,649
Plant Operations and Maintenance	1,961,921	2,012,386
Expansion Promotion	20	-
General and Administrative Salaries	446,729	364,641
Accounting and Collection Labor	229,858	224,986
Amortization	56,900	56,900
Leases	18,583	18,405
Employee Benefits	351,767	317,857
Mapping Labor and Supply	9,000	7,589
Taxes Other Than Income	101,801	94,590
Transportation	81,000	67,557
Outside Services Employed	94,121	57,755
Purchased Power	283,492	559,510
Membership Functions	25,136	22,253
Miscellaneous General	27,066	23,563
Office Supplies	38,420	39,374
Property and Liability Insurance	50,550	44,070
Building Expense and Maintenance	44,480	28,067
Waste Water	58,964	61,309
Water Testing	41,192	32,710
Miscellaneous Tools Expense	17,329	5,032
Total Operating Expenses	<u>6,588,252</u>	<u>6,893,303</u>
OPERATING INCOME (LOSS)	<u>1,969,462</u>	<u>2,305,066</u>
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenue	78,150	287,044
Returned Excess EMC Insurance Proceeds	-	(94,923)
Interest Income	114,640	28,911
Gain/(Loss) on Disposition	20,000	-
Bond Administration Costs	(67,329)	(72,027)
Interest on Long-term Debt	(680,949)	(722,672)
Total Non-Operating Revenues (Expenses)	<u>(535,488)</u>	<u>(573,667)</u>
CHANGE IN NET POSITION	1,433,974	1,731,399
NET POSITION - BEGINNING OF YEAR	<u>94,485,908</u>	<u>92,754,509</u>
NET POSITION - END OF YEAR	<u>\$ 95,919,882</u>	<u>\$ 94,485,908</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Operating cash receipts from customers	\$ 8,410,088	\$ 8,721,234
Proceeds from connection fees	265,311	381,250
Cash payments to suppliers for goods and services	(3,246,363)	(3,686,088)
Cash payments to employees for services	(1,294,431)	(1,199,319)
NET CASH FROM OPERATING ACTIVITIES	<u>4,134,605</u>	<u>4,217,077</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	(104,960)	(120,756)
Interest received	113,090	29,698
NET CASH FROM INVESTING ACTIVITIES	<u>8,130</u>	<u>(91,058)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(470,321)	(542,631)
Interest payment on debt	(691,917)	(733,224)
Principal payments on long-term debt	(1,719,428)	(1,671,648)
Proceeds from advances on long-term debt	-	15,625
Bond administration costs	(67,329)	(72,027)
Grant proceeds	78,150	287,044
Returned Excess EMC Insurance Proceeds	-	(94,923)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,870,845)</u>	<u>(2,811,784)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,271,890	1,314,235
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,365,647</u>	<u>7,051,412</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 9,637,537</u></u>	<u><u>\$ 8,365,647</u></u>
OPERATING ACTIVITIES RECONCILIATION		
Operating income (loss)	\$ 1,969,462	\$ 2,305,066
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,066,497	2,066,549
Changes in assets and liabilities		
(Increase) decrease in receivables	(46,000)	(40,278)
(Increase) decrease in inventory	(25,325)	(61,864)
(Increase) decrease in prepaid expenses	7,271	(20,461)
Increase (decrease) in advances for expansion	-	(1,200)
Increase (decrease) in accounts payable	-	(50)
Increase (decrease) in unearned revenue - base fees	163,685	(54,407)
Increase (decrease) in accrued expenses	(985)	23,722
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 4,134,605</u></u>	<u><u>\$ 4,217,077</u></u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021 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.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Accounting Pronouncement – The following accounting pronouncement has been implemented for the year ended December 31, 2022.

GASB Statement No. 87, Leases – This standard 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 the governments' leasing activities.

The District's leases have been evaluated and were not considered material, thus will not be accounted for under this new standard.

Subsequent Events – The District has evaluated subsequent events through March 13, 2023, the date which the financial statements were available to be issued.

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, 2022, the District's carrying balances were \$12,054,954. The bank balance of these deposits as of December 31, 2022 was \$12,308,869. Of the bank balances, \$2,578,426 was covered by Federal Depository Insurance or guaranteed by the state of North Dakota and \$9,730,443 was collateralized with securities held by the District's agent but not in the District's name.

NOTE 3 - INVESTMENTS

At December 31, 2022, 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 0.65 percent with terms from one to two years.

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

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.

NOTE 5 – WATER PLANT

As of December 31, 2022:

	Balance 1/1/22	Additions	Retirements	Balance 12/31/22
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	9,830,502	63,864	-	9,894,366
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>29,082,676</u>	<u>63,864</u>	<u>-</u>	<u>29,146,540</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	471,709	-	-	471,709
Distribution Reservoirs	4,780,705	168,714	-	4,949,419
Distribution Reservoirs - Emmons	3,091,132	-	-	3,091,132
Transmission and Distribution	31,419,435	-	-	31,419,435
Transmission and Distribution - Emmons	51,391,574	-	-	51,391,574
Service	2,548,204	-	-	2,548,204
Meter Units	3,393,485	137,314	-	3,530,799
	<u>97,096,244</u>	<u>306,028</u>	<u>-</u>	<u>97,402,272</u>
<u>General Plant</u>				
Furniture and Equipment	264,170	-	-	264,170
Transportation Equipment	250,830	44,360	29,194	265,996
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>2,208,076</u>	<u>44,360</u>	<u>29,194</u>	<u>2,223,242</u>
<u>Nondepreciable Property</u>				
Land and Land Rights	87,958	-	-	87,958
Construction in Progress	30,017	106,085	30,017	106,085
	<u>117,975</u>	<u>106,085</u>	<u>30,017</u>	<u>194,043</u>
 Total Water Plant in Service Cost	 <u>135,387,652</u>	 <u>520,337</u>	 <u>59,211</u>	 <u>135,848,778</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 5 – WATER PLANT CONTINUED

	<u>Balance 1/1/22</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/22</u>
Less Accumulated Depreciation				
<u>Source of Supply</u>				
Wells and Springs	534,570	40,847	-	575,417
Wells and Springs - Emmons	333,090	37,010	-	370,100
Supply Mains	97,303	5,924	-	103,227
	<u>964,963</u>	<u>83,781</u>	<u>-</u>	<u>1,048,744</u>
<u>Pumping Plant</u>				
Structure and Improvements	54,245	1,492	-	55,737
Structure and Improvements - Emmons	17,991	2,839	-	20,830
Electric Pumping Equipment	250,220	587	-	250,807
	<u>322,456</u>	<u>4,918</u>	<u>-</u>	<u>327,374</u>
<u>Water Treatment</u>				
Structure and Improvements	1,328,177	135,788	-	1,463,965
Structure and Improvements - Emmons	955,064	106,254	-	1,061,318
Water Treatment Equipment	2,848,144	70,605	-	2,918,749
Water Treatment Equipment - Emmons	561,213	62,357	-	623,570
	<u>5,692,598</u>	<u>375,004</u>	<u>-</u>	<u>6,067,602</u>
<u>Transmission and Distribution Plant</u>				
Structures and Improvements	230,829	6,289	-	237,118
Distribution Reservoirs	903,492	63,976	-	967,468
Distribution Reservoirs - Emmons	306,395	36,765	-	343,160
Transmission and Distribution	8,170,167	448,185	-	8,618,352
Transmission and Distribution - Emmons	4,705,554	685,221	-	5,390,775
Service	932,276	36,403	-	968,679
Meter Units	1,979,745	156,387	-	2,136,132
	<u>17,228,458</u>	<u>1,433,226</u>	<u>-</u>	<u>18,661,684</u>
<u>General Plant</u>				
Furniture and Equipment	264,171	-	-	264,171
Transportation Equipment	173,131	53,869	29,194	197,806
Transportation Equipment - Emmons	55,510	21,369	-	76,879
Shop Tools and Equipment	35,987	-	-	35,987
Communication Equipment	81,002	7,102	-	88,104
Communication Equipment - Emmons	5,800	-	-	5,800
Miscellaneous Equipment	58,293	6,265	-	64,558
Miscellaneous Equipment - Emmons	5,560	695	-	6,255
Building	345,877	23,366	-	369,243
	<u>1,025,331</u>	<u>112,666</u>	<u>29,194</u>	<u>1,108,803</u>
Total Accumulated Depreciation	<u>25,233,806</u>	<u>2,009,595</u>	<u>29,194</u>	<u>27,214,207</u>
Water Plant in Service, Net	<u>\$ 110,153,846</u>	<u>\$ (1,489,258)</u>	<u>\$ 30,017</u>	<u>\$ 108,634,571</u>

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 5 – WATER PLANT CONTINUED

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, 2022 and 2021

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, 2022 and 2021

NOTE 6 – LONG-TERM DEBT

As of December 31, 2022:

	Interest Rates	Maturity Date	Balance 1/1/22	Additions	Reductions	Balance 12/31/22	Current Maturities
2007 Series A Bonds	2.50%	10/01/27	\$ 2,825,000	\$ -	\$ 443,000	\$ 2,382,000	\$ 453,000
2008 Series A Bonds	2.50%	09/01/28	1,665,001	-	220,000	1,445,001	225,000
2010 Series A Bonds	2.50%	10/01/30	2,400,000	-	235,000	2,165,000	245,000
2012 Series A Bonds	0.95% - 4.00%	10/01/29	5,165,000	-	510,000	4,655,000	520,000
2013 Series A Bonds	2.50%	10/01/52	3,747,650	-	81,510	3,666,140	83,547
2013 Series B Bonds	2.50%	10/01/52	2,575,850	-	56,024	2,519,826	57,424
2015 Series A Bonds	2.75%	06/15/55	1,410,362	-	25,602	1,384,760	26,306
2015 Series B Bonds	3.00%	04/01/55	1,396,958	-	24,669	1,372,289	25,415
2016 Series A Bonds	2.00%	10/01/46	2,750,000	-	80,000	2,670,000	80,000
2016 Series B Bonds	1.88%	04/01/56	1,171,534	-	23,985	1,147,549	24,435
2016 Series C Bonds	3.00%	10/01/56	1,192,587	-	19,638	1,172,949	20,232
			<u>\$ 26,299,942</u>	<u>\$ -</u>	<u>\$ 1,719,428</u>	<u>24,580,514</u>	<u>\$ 1,760,359</u>
Less Current Maturities						(1,760,359)	
						<u>\$ 22,820,155</u>	

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>	<u>26,299,942</u>	<u>\$ 1,719,429</u>
Less Current Maturities						(1,719,429)	
						<u>\$ 24,580,513</u>	

SOUTH CENTRAL REGIONAL WATER DISTRICT

Notes to Financial Statements

December 31, 2022 and 2021

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>
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	1,962,654	456,377	2,419,031
2028-2032	4,932,085	1,598,091	6,530,176
2033-2037	2,164,527	1,181,391	3,345,918
2038-2042	2,452,925	904,792	3,357,717
2043-2047	2,641,425	590,392	3,231,817
2048-2052	2,359,193	278,926	2,638,119
2053-2056	724,660	39,925	764,585
	<u>\$ 24,580,514</u>	<u>\$ 7,365,353</u>	<u>\$ 31,945,867</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, 2022 and 2021

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.

The City of Wilton paid a lump sum amount to buy down their monthly base fee on their 20 year water contract. The payment in 2022 was allocated over the remaining months in their contract resulting in a monthly rate of \$3,826.17 for 64 months. This amount is 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, 2022, 2021, and 2020, was \$45,764, \$42,049, and \$41,957. 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 (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, and automobile insurance. The coverage by NDIRF 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.

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, 2022, 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 March 13, 2023.

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 2022-001 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
March 13, 2023

SOUTH CENTRAL REGIONAL WATER DISTRICT
Schedule of Findings
For the Year Ended December 31, 2022

Finding 2022-001: 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.