

**R & T WATER DISTRICT  
RAY, NORTH DAKOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
R & T Water District  
Ray, North Dakota

We have audited the accompanying modified cash basis financial statements of the business-type activities of R & T Water District as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise R & T Water District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

### **Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of R & T Water District as of December 31, 2018 and 2017, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2019, on our consideration of R & T 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 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 R & T Water District's internal control over financial reporting and compliance.



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

August 22, 2019

**R & T WATER DISTRICT**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 6,398,791	\$ 5,360,595
Current portion of receivable from WAWSA	394,167	383,732
Current portion of receivable from members	94,622	98,565
Total current assets	6,887,580	5,842,892
Noncurrent assets		
Beneficial interest in trust	58,245	58,457
Restricted cash and cash equivalents	1,136,530	1,178,501
Capital assets, net of accumulated depreciation	17,680,317	18,790,930
Cost shared infrastructure, net	8,817,733	7,756,580
Receivable from WAWSA, net of current portion	5,961,716	6,355,883
Receivable from members, net of current portion	3,369,500	3,840,474
Total noncurrent assets	37,024,041	37,980,825
Total assets	43,911,621	43,823,717
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - cost shared infrastructure	\$ -	\$ 147,965

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>LIABILITIES</b>		
Current liabilities		
Customer deposits	\$ 437,725	\$ 674,000
Current portion of bonds payable	515,000	510,000
Current portion of liability on cost shared infrastructure	223,384	122,535
Due to WAWSA	-	250,000
Total current liabilities	1,176,109	1,556,535
Long-term liabilities		
Bonds payable	10,220,000	10,845,000
Liability on cost shared infrastructure	3,893,485	2,890,050
Total long-term liabilities	14,113,485	13,735,050
Total liabilities	15,289,594	15,291,585
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - Western Area Water Supply Authority	11,610,761	11,718,862
Deferred inflows - Members	3,679,760	3,811,180
Total deferred inflows of resources	15,290,521	15,530,042
<b>NET POSITION</b>		
Net investment in capital assets	6,175,665	7,226,502
Restricted for:		
Beneficial interest in trust	58,245	58,457
Debt service	698,805	504,501
Unrestricted	6,398,791	5,360,595
Total net position	\$ 13,331,506	\$ 13,150,055

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION – MODIFIED CASH BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Operating revenue		
Water sales	\$ 1,875,217	\$ 1,746,797
Bulk sales	28,106	24,485
Hook-up revenue	513,450	651,100
WAWSA operating reimbursement	1,118,029	985,057
Total operating revenue	3,534,802	3,407,439
Operating expenses		
Governing board	13,053	14,800
Salaries	635,386	619,344
Retirement	39,404	37,118
Health and dental insurance	77,237	71,695
Education and training	7,460	3,562
Utilities	104,769	109,062
Chemicals	161,416	197,148
Maintenance, repairs and supplies	150,582	440,820
Office expense	6,905	8,104
Insurance	16,163	15,073
Dues and subscriptions	2,043	1,577
Cost of water sold	1,138,558	1,113,647
Depreciation	1,030,352	1,035,031
Amortization	152,508	140,987
Professional fees	47,601	71,985
Total operating expenses	3,583,437	3,879,953
Operating income (loss)	(48,635)	(472,514)
NON-OPERATING REVENUE (EXPENSES)		
Decrease of beneficial interest in trust	(212)	(126)
Interest/dividend income	64,411	48,006
WAWSA interest reimbursement	170,756	180,282
Member interest reimbursement	60,520	6,243
Interest expense on cost shared infrastructure liability	(47,274)	(39,721)
Interest expense on bonds payable	(204,408)	(149,783)
Amortization of WAWSA deferred inflows	124,847	124,669
Amortization of member deferred inflows	131,420	131,420
Other revenues	154,574	13,642
Gain (loss) on sale of assets	(152,655)	17,665
Other expenses	(71,893)	(50,180)
Total nonoperating revenues (expenses)	230,086	282,117
CHANGE IN NET POSITION	181,451	(190,397)
NET POSITION - JANUARY 1	13,150,055	13,340,452
NET POSITION - DECEMBER 31	\$ 13,331,506	\$ 13,150,055

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,180,498	\$ 2,369,382
Operating reimbursement from related party	1,118,029	985,057
Payments to suppliers	(1,635,497)	(1,960,978)
Payments on behalf of employees	(116,641)	(108,813)
Payments to employees	(648,439)	(634,144)
Net cash provided by operating activities	897,950	650,504
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Other revenue (expenses)	82,681	(36,538)
Net cash provided (used) by noncapital financing activities	82,681	(36,538)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of capital assets	100,000	-
Acquisition and construction of capital assets	(3,500)	(141,509)
Reimbursement from WAWSA for capital expenditures	16,746	71,522
Acquisition and construction of cost shared infrastructure	(250,000)	(4,750,000)
Proceeds from bonds payable	250,000	4,750,000
Payment on bonds payable	(870,000)	(494,789)
Reimbursement from WAWSA for bond payments	554,488	556,339
Reimbursement from Members for bond payments	561,751	132,917
Interest expense on bonds payable	(204,408)	(149,783)
Payment on cost shared infrastructure liability	(130,306)	(120,761)
Prepayment on cost shared infrastructure liability	-	(32,217)
Interest expense on cost shared infrastructure liability	(47,274)	(39,721)
Payment on Member debt	(26,314)	(64,233)
Net cash used for capital and related financing activities	(48,817)	(282,235)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest/dividend income	64,411	48,006
Net cash provided by investing activities	64,411	48,006
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>996,225</b>	<b>379,737</b>
 <b>CASH AND CASH EQUIVALENTS - JANUARY 1</b>	<b>6,539,096</b>	<b>6,159,359</b>
 <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>	<b>\$ 7,535,321</b>	<b>\$ 6,539,096</b>

SEE NOTES TO THE FINANCIAL STATEMENTS



**R & T WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CASH PRESENTATION TO CASH AND CASH EQUIVALENTS		
Current assets		
Cash and cash equivalents	\$ 6,398,791	\$ 5,360,595
Noncurrent assets		
Restricted cash and cash equivalents	<u>1,136,530</u>	<u>1,178,501</u>
Total cash and cash equivalents	<u>\$ 7,535,321</u>	<u>\$ 6,539,096</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (48,635)	\$ (472,514)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,030,352	1,035,031
Amortization expense	152,508	140,987
Effects on operating cash flows due to changes in:		
Customer deposits	<u>(236,275)</u>	<u>(53,000)</u>
 Net cash provided by operating activities	<u>\$ 897,950</u>	<u>\$ 650,504</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in value of beneficial interest in trust	\$ 36,966	\$ 38,516
Distribution of beneficial interest in trust	(37,178)	(38,642)
Amortization of WAWSA deferred inflows	124,847	124,669
Amortization of Member deferred inflows	131,420	131,420
Cost shared infrastructure acquired with issuance of payable	(1,382,555)	(250,000)
Increase in deferred inflow due to issuance of receivable	-	3,942,600

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of R & T Water District (the "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.

**Nature of operations and history**

R & T Water District provides a water system and water supply to the areas surrounding western North Dakota. Effective October 19, 1978, an association was created and established by a joint powers agreement between the cities of Ray and Tioga and the Williams County Water Management District. Effective February 15, 2012, the association was reorganized into a commerce authority in accordance with Chapter 11-37 of the North Dakota Century Code. Chapter 11-37 of the North Dakota Century Code has since been repealed and the entity is now organized as a water district. 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**

Component units are legally separate organizations for which the District is financially accountable. The Government 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 the 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 the District. Component units may also include organizations that are fiscally dependent on the District.

Based on the above criteria, the District has no component units included in its report.

**Basis of accounting**

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 modified cash basis of accounting. This basis recognizes assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2018 AND 2017

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the statements would be prepared on the accrual basis of accounting.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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, bulk sales, hookups, and WAWSA operating reimbursements 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.

**Restricted cash and cash equivalents**

Restricted cash and cash equivalents consist of cash set aside for the reserve for debt service and customer deposits.

**Reserve for debt service**

Reserve for debt service consists of cash and cash equivalents set aside for debt retirement.

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2018 AND 2017

**Investment policy**

The District does not have a formal investment policy. State statutes authorize local governments to invest in:

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

**Beneficial interest in trust**

The District is the beneficiary of a trust, which derives the majority of its income from oil royalties. The District's interest in the trust is recorded at cost in accordance with the modified cash basis of accounting.

**Receivable from Western Area Water Supply District**

The District transacts under a service concession arrangement with Western Area Water Supply Authority (WAWSA). Under this arrangement, WAWSA is required to reimburse R&T Water Supply District for their outstanding principal payments on their debt. This receivable represents the present value of the principal payment reimbursements required by WAWSA.

**Receivable from Members**

The District transacts under a service concession arrangement with the member entities of WAWSA. Under this arrangement, the members are required to reimburse R & T 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.

**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. Amortization is computed on the straight-line basis, over the estimated useful life of the infrastructure, which ranges from 20 to 30 years.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

**Capital assets**

Capital assets are recorded at historical costs 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 \$5,000. 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:

Buildings and Infrastructure	15 to 40 years
Equipment and Vehicles	5 to 20 years

**Customer deposits**

Customer deposits represents a payment from the District's customers for water hookup services. The District will recognize this revenue once the customer hookup process is completed.

**Pensions**

For purposes of measuring pension expense, information about additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized on the modified cash basis of accounting. Investments are reported at fair value.

**Net position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Net position flow assumption**

Sometimes, the government will fund capital outlays for particular purposes 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 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.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

**Deferred outflows/inflows of resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. Deferred Outflows of Resources – cost shared infrastructure represents payments on the cost shared infrastructure liability in excess of the required balance due. The District will recognize the reduction of the cost shared infrastructure liability in future periods.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This 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 two items that qualify for reporting in this category. Deferred Inflows of Resources - WAWSA represents a reimbursement from WAWSA for capital expenditures and debt principal payments. The District transacts under a service concession arrangement with Western Area Water Supply Authority (WAWSA). This deferred inflow of resources, under GASB 60 - Service Concession Arrangements guidance, is to be amortized over the life of the agreement with WAWSA, which is 99 years. Refer to Note 8 for a full description of the relationship between the entities. Deferred Inflows of Resources – Members represents the portion of the bond payable taken out in the District's name for cost shared infrastructure that will be reimbursed by the member entities (78.852%).

**Use of estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset 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.

**NOTE 2 CUSTODIAL CREDIT RISK**

The District maintains cash deposits at various financial institutions. The amounts on deposit were insured by the FDIC/NCUA up to \$250,000 per financial institution. At December 31, 2018, the District had approximately \$5,340,000 in excess of the FDIC/NCUA limit on deposit. The entire amount in excess of the FDIC/NCUA depository insurance was covered by pledged securities at December 31, 2018.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 3 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2018 and 2017:

	Balance 1/1/2018	Additions	Disposals	Balance 12/31/2018
Capital assets, not being depreciated				
Land	\$ 380,254	\$ -	\$ -	\$ 380,254
Total capital assets, not being depreciated	<u>380,254</u>	<u>-</u>	<u>-</u>	<u>380,254</u>
Capital assets being depreciated				
Buildings and infrastructure	24,719,666	-	315,081	24,404,585
Machinery and vehicles	172,933	46,462	46,213	173,182
Equipment	113,588	-	-	113,588
Total capital assets being depreciated	<u>25,006,187</u>	<u>46,462</u>	<u>361,294</u>	<u>24,691,355</u>
Less accumulated depreciation				
Buildings and infrastructure	6,479,226	835,198	59,515	7,254,909
Machinery and vehicles	74,831	14,901	6,162	83,570
Equipment	41,454	11,359	-	52,813
Total accumulated depreciation	<u>6,595,511</u>	<u>861,458</u>	<u>65,677</u>	<u>7,391,292</u>
Total capital assets being depreciated, net	<u>18,410,676</u>	<u>(814,996)</u>	<u>295,617</u>	<u>17,300,063</u>
Net capital assets	<u>\$ 18,790,930</u>	<u>\$ (814,996)</u>	<u>\$ 295,617</u>	<u>\$ 17,680,317</u>

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

	Balance 1/1/2017	Additions	Disposals	Balance 12/31/17
Capital assets, not being depreciated				
Land	\$ 380,254	\$ -	\$ -	\$ 380,254
Construction in progress	159,993	-	159,993	-
Total capital assets, not being depreciated	<u>540,247</u>	<u>-</u>	<u>159,993</u>	<u>380,254</u>
Capital assets being depreciated				
Buildings and infrastructure	24,421,664	298,002	-	24,719,666
Machinery and vehicles	191,588	46,213	64,868	172,933
Equipment	113,588	-	-	113,588
Total capital assets being depreciated	<u>24,726,840</u>	<u>344,215</u>	<u>64,868</u>	<u>25,006,187</u>
Less accumulated depreciation				
Buildings and infrastructure	5,640,756	838,470	-	6,479,226
Machinery and vehicles	98,343	16,308	39,820	74,831
Equipment	30,095	11,359	-	41,454
Total accumulated depreciation	<u>5,769,194</u>	<u>866,137</u>	<u>39,820</u>	<u>6,595,511</u>
Total capital assets being depreciated, net	<u>18,957,646</u>	<u>(521,922)</u>	<u>25,048</u>	<u>18,410,676</u>
Net capital assets	<u>\$ 19,497,893</u>	<u>\$ (521,922)</u>	<u>\$ 185,041</u>	<u>\$ 18,790,930</u>

Depreciation expense was 1,030,352 and \$1,035,031, respectively, for the years ended December 31, 2018 and 2017, which includes \$861,458 and \$866,137 from capital assets for the years ended December 31, 2018 and 2017, respectively and \$168,894 and \$168,894 from cost shared infrastructure for the years ended December 31, 2018 and 2017, respectively. See Note 9 for details on cost shared infrastructure.



**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 4 LONG-TERM LIABILITIES**

Long-term liability activity for the years ended December 31, 2018 and 2017 was as follows:

	Balance 1/1/2018	Increases	Decreases	Balance 12/31/2018	Due Within One Year
Revenue Bonds 2008	\$ 345,000	\$ -	\$ 25,000	\$ 320,000	\$ 25,000
2012 SRF Bonds	6,385,000	-	360,000	6,025,000	370,000
2017 SRF Bonds	4,625,000	250,000	485,000	4,390,000	120,000
	<u>\$ 11,355,000</u>	<u>\$ 250,000</u>	<u>\$ 870,000</u>	<u>\$ 10,735,000</u>	<u>\$ 515,000</u>

  

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017	Due Within One Year
Revenue Bonds 2008	\$ 370,000	\$ -	\$ 25,000	\$ 345,000	\$ 25,000
2012 SRF Bonds	6,729,789	-	344,789	6,385,000	360,000
2017 SRF Bonds	-	4,750,000	125,000	4,625,000	125,000
	<u>\$ 7,099,789</u>	<u>\$ 4,750,000</u>	<u>\$ 494,789</u>	<u>\$ 11,355,000</u>	<u>\$ 510,000</u>

Outstanding liabilities at December 31, 2018 and 2017 consisted of the following:

*Revenue Bonds 2008:* The District issued revenue bonds of 2008 whereby the District pledges income derived from the acquired or constructed assets to pay debt service. These bonds were in the amount of \$1,452,760. Principal payments are due annually on September 1. Interest is due March 1 and September 1 of each year. These bonds carry an interest rate of 2.5% and will mature on September 1, 2028.

*2012 SRF Bonds:* The District issued SRF bonds of 2012 whereby the District pledges income derived from the acquired or constructed assets to pay debt service. These bonds were issued in the amount of \$9,349,789. Principal payments are due annually on September 1. Interest is due March 1 and September 1 of each year. These bonds carry an interest rate of 2.0% and will mature on September 1, 2032.

*2017 SRF Bonds:* The District issued SRF bonds of 2017 whereby the District pledges income derived from the acquired or constructed assets to pay debt service. These bonds were issued in the amount of \$5,000,000 of which \$4,750,000 was drawn down as of December 31, 2017 and another \$250,000 was drawn down as of December 31, 2018. Principal payments are due annually on September 1. Interest is due March 1 and September 1 of each year. These bonds carry an interest rate of 1.50% and will mature on September 1, 2046.

**R & T WATER DISTRICT**  
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The future required payments on long-term debt including interest are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 515,000	\$ 194,350	\$ 709,350
2020	530,000	184,525	714,525
2021	545,000	174,375	719,375
2022	555,000	163,950	718,950
2023	570,000	153,325	723,325
2024-2028	3,060,000	597,350	3,657,350
2029-2033	2,620,000	301,400	2,921,400
2034-2038	825,000	151,200	976,200
2039-2043	915,000	86,700	1,001,700
2044-2046	600,000	18,150	618,150
	<u>\$ 10,735,000</u>	<u>\$ 2,025,325</u>	<u>\$ 12,760,325</u>

**NOTE 5 RISK MANAGEMENT**

The R & T Water District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general liability, automobile and equipment insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$46,213 for equipment.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding 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 estimating 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 \$1,000,000 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 has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
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**NOTE 6 PENSION PLAN**

***North Dakota Public Employees Retirement System (Main System)***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

**R & T WATER DISTRICT**  
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***Death and Disability Benefits***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

***Refunds of Member Account Balance***

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

**R & T WATER DISTRICT**  
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***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2018, if R & T Water District were to report on the full accrual basis, a liability of \$786,816 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At December 31, 2018, the Employer's proportion was 0.000454 percent, which was an increase of .0000004 from its proportion measured as of December 31, 2017. The net pension liability along with the related deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

**Actuarial Assumptions**

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

\*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no set-back for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
Global Real Assets	19%	5.11%

**Discount rate.** For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%, the municipal bond rate is 3.62%, and the resulting Single Discount Rate is 6.32%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	<b>1% Decrease (5.32%)</b>	<b>Current Discount Rate (6.32%)</b>	<b>1% Increase (7.32%)</b>
Employer's proportionate share of the net pension liability	\$1,041,960	\$766,816	\$537,217

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director - NDPERS; P.O. Box 1657; Bismarck, ND 58502-1657.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 7 OTHER POST EMPLOYMENT BENEFITS**

***North Dakota Public Employees Retirement System***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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***OPEB Liability and OPEB Expense***

At December 31, 2018, if the District were to report on the full accrual basis, a liability of \$33,598, for its proportionate share of the net OPEB liability would have been reported. The net OPEB liability was measured as of July 1, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At December 31, 2018, the District's proportion was 0.042660 percent, which was a decrease of 0.002140 from its proportion measured as of December 31, 2017. The net OPEB liability along with the related deferred inflows or outflows of resources are not reported on the District's financial statements as they are on the modified cash basis.

***Actuarial assumptions.*** The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

***Discount rate.*** The discount rate used to measure the total OPEB liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their



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beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.*** The following presents the net OPEB liability of the Plans as of December 31, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$42,509	\$33,598	\$25,958

**NOTE 8 COMMITMENTS**

**Water supply contract**—The District has entered into a water supply contract with the Cities of Tioga, Ray, Ross, Stanley, and Wildrose, whereby the District supplies water at a rate agreed upon by both parties based on the terms in the contract.

**NOTE 9 JOINTLY GOVERNED ORGANIZATIONS**

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 the 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 part 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 ten seats on the board of WAWSA.

During 2012, R&T Water Supply District entered into the following agreements with WAWSA:

**Infrastructure Operating Agreement:** 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, 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.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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Access and Use Agreement: This agreement sets forth the terms and conditions on which the Member will permit WAWSA to access and use identified infrastructure owned by R & T Water District. This includes infrastructure identified under sub-agreements with the cities of Ray, Stanley, and Tioga. The District will be responsible for all repairs and maintenance of the access infrastructure identified in the agreement. 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. The District retains ownership of the infrastructure unless a purchase option is exercised. As consideration of this agreement, WAWSA will make payments equal to the amount of debt service requirements on the District's water revenue bonds. The District is also entitled to reimbursement for costs identified in the agreement and in accordance with an approved budget. The District bears the risk of loss to the infrastructure. The term of the agreement continues until the earlier of: (i) repayment of all WAWSA debt or ii) 99 years after the effective date of the agreement.

Water Supply Agreement: Under this agreement, R & T Water District commits to purchasing water from WAWSA. Subject to a minimum monthly quantity, peak instantaneous flow, and minimum pressure limitation set forth in the agreement, WAWSA agrees to provide, pump, transmit and deliver treated water to the District. The District will pay for the water using an agreed-upon base rate plus supplemental rate as outlined in the agreement, which is subject to change. This agreement is not effective until WAWSA's water supply is connected at identified delivery points. The agreement remains in effect until all of WAWSA's debt is repaid.

R&T Output Agreement: This agreement sets forth the terms and conditions on which the District will sell to WAWSA the entire output of the plant. As consideration for the entire output of the treated water from the plant to WAWSA, WAWSA will make payments equal to the debt service paid by the District during the term, approved operation and maintenance costs, capital expenditure reimbursements, and baseline 2010 industrial water sales revenue. Effective March 15, 2018, the agreement was amended to remove the requirement for WAWSA to accrue baseline sales if they do not have sufficient free cash flows to make the payments. The amendment also discharges WAWSA requirement to pay past accrued amounts.

As part of the above agreements, all industrial water sales will be for the benefit of WAWSA. The District will be reimbursed an amount as outlined in the agreements based on their 2010 industrial water sales revenue.

Under the above agreements, R & T Water District received as follows:

	2018	2017
Sales of water to WAWSA	\$ 31,089	\$ 14,424
Principal debt payment reimbursement	383,732	376,057
Interest and administrative fees	170,756	180,282
Operations and maintenance reimbursement	1,118,029	985,057
Capital expenditures reimbursement	16,746	71,522
Water purchases from WAWSA	(1,138,558)	(1,113,647)
	<u>\$ 581,794</u>	<u>\$ 513,695</u>

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The deferred inflow of resources from WAWSA consists of the following items for the years ended December 31, 2018 and 2017:

	2018	2017
Debt reimbursement receivable as of December 31	\$ 6,355,883	\$ 6,739,615
Principal debt payment reimbursements	2,209,740	1,826,008
Accumulated capital expenditure reimbursements	3,691,277	3,674,531
Accumulated amortization	(646,139)	(521,292)
Deferred inflow of resources from WAWSA	\$ 11,610,761	\$ 11,718,862

**NOTE 10 COST SHARED INFRASTRUCTURE**

During the year ended December 31, 2016, the District entered into an agreement with Western Area Water Supply Authority and its member entities to facilitate the development of water distribution infrastructure within the District's borders. Under the agreement, the District agreed to re-pay a portion (21.148%) of the capital invested (\$20,000,000) in the infrastructure over 20 to 30 years which is split between three loans. In exchange, the District has the right to use the infrastructure installed over the period of the loans. The repayment of the three loans is shared between the Members. One of those loans is in R & T Water District's name. According to the agreement, the assets purchased with the \$5,000,000 loan in R & T Water District's name are owned by the District until the loan is paid off.

As a result, upon entering into the agreement, the District recognized an intangible right of use asset and an offsetting liability on cost shared infrastructure for the assets and loans that are not in the District's name.

The District recorded a capital asset and offsetting note payable for the loan that was taken out in their name (see Note 4, 2017 SRF Bonds). As WAWSA paid the full \$5,000,000 for the assets up front with their own money and the District only paid WAWSA back \$4,750,000, which is the amount drawn on the loan as of December 31, 2017, the District recorded a payable to WAWSA for \$250,000 in 2017, which was paid in 2018. The District has also recorded deferred inflow of resources which represents the portion of the capital assets that the Members will reimburse the District for (78.852%).

In December 2018, the District entered into an agreement with Western Area Water Supply Authority and its member entities to re-pay a portion (24.507%) of a \$16,500,000 loan taken out in WAWSA's name to facilitate the continuing development of water distribution infrastructure within the District's borders. The District retains the right to use the infrastructure for the life of the loan which is 30 years. As of December 31, 2018, the loan was not fully funded. Loan advances under the loan amounted \$4,043,655 leaving R&T with a \$1,382,555 obligation to re-pay as of December 31, 2018.

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Details on the cost shared infrastructure asset are as follows for the years ended December 31, 2018 and 2017:

	Balance 1/1/2018	Additions	Disposals	Balance 12/31/2018
Cost shared infrastructure being depreciated	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Less accumulated depreciation	186,517	168,894	-	355,411
Total cost shared infrastructure being depreciated, net	4,813,483	(168,894)	-	4,644,589
Cost shared infrastructure being amortized	3,172,200	1,382,555	-	4,554,755
Less accumulated amortization	229,103	152,508	-	381,611
Total cost shared infrastructure being amortized, net	2,943,097	1,230,047	-	4,173,144
Net cost shared infrastructure	<u>\$ 7,756,580</u>	<u>\$ 1,061,153</u>	<u>\$ -</u>	<u>\$ 8,817,733</u>

Depreciation and amortization on cost shared infrastructure for the year ended December 31, 2018 were \$168,894 and \$152,508, respectively.

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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	Balance 1/1/2017	Additions	Disposals	Balance 12/31/2017
Cost shared infrastructure being depreciated	\$ 1,057,400	\$ 3,942,600	\$ -	\$ 5,000,000
Less accumulated depreciation	<u>17,623</u>	<u>168,894</u>	<u>-</u>	<u>186,517</u>
Total cost shared infrastructure being depreciated, net	<u>1,039,777</u>	<u>3,773,706</u>	<u>-</u>	<u>4,813,483</u>
Cost shared infrastructure being amortized	3,172,200	-	-	3,172,200
Less accumulated amortization	<u>88,116</u>	<u>140,987</u>	<u>-</u>	<u>229,103</u>
Total cost shared infrastructure being amortized, net	<u>3,084,084</u>	<u>(140,987)</u>	<u>-</u>	<u>2,943,097</u>
Net cost shared infrastructure	<u>\$ 4,123,861</u>	<u>\$ 3,632,719</u>	<u>\$ -</u>	<u>\$ 7,756,580</u>

Depreciation and amortization on cost shared infrastructure for the year ended December 31, 2017 were \$168,894 and \$140,987, respectively.

The liability on the cost shared infrastructure is being repaid over 20 to 30 years at an interest rate of 1.50%. The liability requires varying monthly payments maturing January 2036 to September 2046. Expected future payments are as follows:

Year Ending December 31,	
2019	\$ 223,384
2020	227,326
2021	232,348
2022	235,110
2023	240,178
2024-2028	1,265,785
2029-2033	1,040,586
2034-2038	331,760
2039-2043	193,504
2044-2046	126,888
	<u>\$ 4,116,869</u>

The deferred inflow of resources from Members consists of the following items for the years ended December 31, 2018 and 2017:

	2018	2017
Debt reimbursement receivable as of December 31	\$ 3,464,122	\$ 3,939,039
Principal debt payment reimbursements	610,000	125,000
R&T portion of interest reimbursements	17,905	1,674
Total payments made to WAWSA	(149,427)	(123,113)
Accumulated amortization	(262,840)	(131,420)
Deferred inflow of resources from Members	<u>\$ 3,679,760</u>	<u>\$ 3,811,180</u>

#### NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If a government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the District'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 12 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through August 22, 2019, which is the date these financial statements were available to be issued.

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

To the Board of Directors  
R & T Water District  
Ray, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of R & T Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise R & T Water District's basic financial statements, and have issued our report thereon dated August 22, 2019.

### **Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purposes 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses 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 deficiencies described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 to be material weaknesses.



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 deficiency described in the accompanying schedule of findings and responses as item 2018-003 to be a significant deficiency.

### **Compliance and Other Matters**

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

### **R & T Water District's Responses to Findings**

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

### **Purpose of this Report**

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

August 22, 2019

**R & T WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2018**

**Section II. Findings Relating to Financial Statements**

**2018-001**     *Significant Adjusting Entries - Material Weakness*

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

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

**Context:**                        Accounts related to property, depreciation, receivables, deferred inflows of resources, and notes payable are adjusted throughout the financial statement preparation process.

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

**Effect:**                         The District does not maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

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

**View of responsible officials and corrective actions:**            We agree with this finding. Due to the small size of the District, it is not cost effective for the District to properly address this significant control deficiency.

**Indication of repeat finding:**                     This is a repeat finding.

**R & T WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**DECEMBER 31, 2018**

**2018-002**     *Financial Statement Preparation - Material Weakness*

**Criteria:**                     An appropriate system of internal controls requires that the District must make a determination that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the District's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

**Condition/Context:**        The District's auditors prepared the financial statements as of December 31, 2018 and 2017. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by modified cash basis of accounting. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

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

**Effect:**                        An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with modified cash basis of accounting.

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

**View of responsible officials and corrective actions:**        We agree with this finding. Due to the small size of the District, it is not cost effective for the District to properly address this significant control deficiency.

**Indication of repeat Finding:** This is a repeat finding.

**2018-003**    *Segregation of Duties - Significant Deficiency*

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

Condition/Context:        The District has one person responsible for most accounting functions.

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

Effect:                        Under the current system, one individual has the ability to collect monies, deposit monies, issue checks, enter new customers, prepare customer's billings, receive and post customers payments, and reconcile the District's bank accounts.

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

View of responsible officials and corrective actions:        We agree with this finding. Due to the small size of the District, it is not cost effective for the District to properly address this significant control deficiency.

Indication of repeat finding:        This is a repeat finding.