

**WESTERN AREA WATER SUPPLY AUTHORITY
WILLISTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western Area Water Supply Authority
Williston, North Dakota

We have audited the accompanying financial statements of the business-type activities of Western Area Water Supply Authority as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Western Area Water Supply Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Western Area Water Supply Authority as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer OPEB contributions, schedule of employer's proportionate share of net OPEB liability, schedule of employer pension contributions, and schedule of employer's proportionate share of net pension liability 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Western Area Water Supply Authority's basic financial statements. The statements of net position by fund and revenues, expenses, and changes in net position by fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statements of net position by fund and revenues, expenses, and changes in net position by fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020 on our consideration of Western Area Water Supply Authority'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 Authority'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 the Authority's internal control over financial reporting and compliance.



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

October 26, 2020

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

| Current assets: | 2019 | 2018 |
|---|---------------|---------------|
| Cash and cash equivalents | \$ 15,647,383 | \$ 13,506,550 |
| Accounts receivable (net of allowance of \$85,779 in 2019 and \$100,000 in 2018) | 2,591,546 | 4,228,160 |
| Current portion of amount due from Member entities | 987,329 | 871,960 |
| Inventories | 535,483 | 356,732 |
| Prepaid expenses | 70,051 | 52,166 |
| Current portion of prepaid rent | 30,000 | - |
| Total current assets | 19,861,792 | 19,015,568 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 255,578,560 | 250,293,454 |
| Intangible assets, net of accumulated amortization | 104,571,332 | 100,552,498 |
| Amount due from Member entities, net | 19,285,511 | 13,308,930 |
| Prepaid rent | 717,500 | - |
| Total noncurrent assets | 380,152,903 | 364,154,882 |
| Total assets | 400,014,695 | 383,170,450 |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|--------------------------------------|---------|---------|
| Deferred outflow - OPEB | 28,695 | 13,866 |
| Deferred outflow - pension | 661,578 | 706,538 |
| Total deferred outflows of resources | 690,273 | 720,404 |

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION - CONTINUED
DECEMBER 31, 2019 AND 2018

LIABILITIES

| | 2019 | 2018 |
|---|--------------|-------------|
| Current liabilities: | | |
| Accounts payable | \$ 1,780,300 | \$ 762,206 |
| Other current liabilities | 844,168 | 206,548 |
| Current portion of access and use liabilities | 2,372,803 | 2,270,953 |
| Current portion of notes payable | 4,080,227 | 3,792,039 |
| Total current liabilities | 9,077,498 | 7,031,746 |
| Noncurrent liabilities: | | |
| Access and use liabilities | 22,682,678 | 25,091,214 |
| Notes payable | 168,753,816 | 168,223,656 |
| Interest payable | 3,739,213 | 3,739,213 |
| Unamortized loan origination fees | (55,044) | (60,915) |
| Net OPEB liability | 71,044 | 64,833 |
| Net pension liability | 1,112,156 | 1,479,713 |
| Total noncurrent liabilities | 196,303,863 | 198,537,714 |
| Total liabilities | 205,381,361 | 205,569,460 |

DEFERRED INFLOW OF RESOURCES

| | | |
|-------------------------------------|------------|------------|
| Deferred inflow - Member entities | 29,017,817 | 23,308,135 |
| Deferred inflow - OPEB | 5,834 | 7,033 |
| Deferred inflow - pension | 621,055 | 161,037 |
| Deferred inflow - West Dakota Water | 1,987,767 | 2,046,005 |
| Total deferred inflows of resources | 31,632,473 | 25,522,210 |

NET POSITION

| | | |
|---|----------------|----------------|
| Net investment in capital and intangible assets | 153,570,435 | 142,401,760 |
| Unrestricted | 10,120,699 | 10,397,424 |
| Total net position | \$ 163,691,134 | \$ 152,799,184 |

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| OPERATING REVENUE | | |
| Water sales | \$ 23,066,768 | \$ 26,082,839 |
| Billing and invoicing | 118,305 | 134,559 |
| Bulk commercial water reimbursement | 134,363 | 134,592 |
| Total operating revenue | 23,319,436 | 26,351,990 |
| OPERATING EXPENSES | | |
| Operating and maintenance | 7,187,449 | 6,814,861 |
| Professional fees | 252,259 | 164,844 |
| Purchase of water | 1,253,737 | 2,004,634 |
| Management fees | 116,096 | 169,746 |
| Administrative and general | 271,161 | 320,569 |
| Payroll and employee benefits | 1,908,910 | 1,907,174 |
| Communications and utilities | 140,628 | 239,896 |
| Transportation | 98,835 | 116,160 |
| Depreciation | 5,825,324 | 5,507,111 |
| Amortization | 1,072,022 | 1,038,767 |
| Total operating expenses | 18,126,421 | 18,283,762 |
| OPERATING INCOME | 5,193,015 | 8,068,228 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous income | 180,379 | 309,893 |
| Rental income | 93,515 | 24,100 |
| Interest income | 39,971 | 22,238 |
| Interest expense | (4,343,134) | (4,197,520) |
| Access and use interest and admin fee | (806,878) | (879,043) |
| Grant revenue | 9,309,540 | 11,247,082 |
| Amortization of Member entities deferred inflows | 1,253,488 | 833,333 |
| Gain (loss) on disposal of capital assets | (27,946) | (24,493) |
| Total nonoperating revenues (expenses) | 5,698,935 | 7,335,590 |
| CHANGE IN NET POSITION | 10,891,950 | 15,403,818 |
| NET POSITION - JANUARY 1 | 152,799,184 | 137,395,366 |
| NET POSITION - DECEMBER 31 | \$ 163,691,134 | \$ 152,799,184 |

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 24,956,050 | \$ 26,777,951 |
| Cash payments to suppliers | (8,550,952) | (11,697,326) |
| Cash payments to employees | (1,838,941) | (1,645,291) |
| Net cash provided by operating activities | 14,566,157 | 13,435,334 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (11,151,765) | (14,888,687) |
| Acquisition of loan origination fees | (2,080) | - |
| Proceeds from sale of fixed assets | 6,000 | 24,286 |
| Acquisition of intangible assets | (5,083,467) | (3,512,599) |
| Proceeds from long-term notes payable | 5,145,440 | 5,641,468 |
| Payments on long-term notes payable | (4,327,092) | (3,582,389) |
| Payments on access and use liabilities | (2,306,686) | (2,279,356) |
| Payments received - West Dakota Water contract | 2,200,000 | 2,050,000 |
| Water usage - West Dakota Water contract | (2,258,238) | (3,995) |
| Advance payments received on member entities debt | 415,600 | 956,413 |
| Remittance of member entities debt | (415,600) | (1,886,315) |
| Collection of amount due from member entities | 871,220 | 1,085,870 |
| Cost-share income | 180,379 | 309,893 |
| Grant revenue | 9,309,540 | 11,247,082 |
| Cash paid for interest | (5,142,061) | (4,448,660) |
| Net cash used by capital and related financing activities | (12,558,810) | (9,286,989) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Rental income | 93,515 | 24,100 |
| Interest income | 39,971 | 22,238 |
| Net cash provided by investing activities | 133,486 | 46,338 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 2,140,833 | 4,194,683 |
| CASH AND CASH EQUIVALENTS - JANUARY 1 | 13,506,550 | 9,311,867 |
| CASH AND CASH EQUIVALENTS - DECEMBER 31 | \$ 15,647,383 | \$ 13,506,550 |

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | 2019 | 2018 |
|--|----------------------|----------------------|
| Operating income | \$ 5,193,015 | \$ 8,068,228 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 5,825,324 | 5,507,111 |
| Amortization | 1,072,022 | 1,038,767 |
| Deferred outflow - OPEB | (14,829) | (13,866) |
| Deferred outflow - pension | 44,960 | 182,765 |
| Deferred inflow - OPEB | (1,199) | 7,033 |
| Deferred inflow - pension | 460,018 | 90,079 |
| Effects on operating cash flows due to changes in: | | |
| Accounts receivable | 1,636,614 | 425,961 |
| Inventories | (178,751) | (78,168) |
| Prepaid expenses | (17,885) | (395) |
| Prepaid rent | (747,500) | - |
| Accounts payable | 1,018,094 | (1,447,638) |
| Other current liabilities | 637,620 | (340,171) |
| Net OPEB liability | 6,211 | 64,833 |
| Net pension liability | (367,557) | (69,205) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 14,566,157 | \$ 13,435,334 |

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING
AND FINANCING ACTIVITIES:**

| | | |
|---|--------------|------------|
| Amortization of Member Entities deferred inflows | \$ 1,253,488 | \$ 833,333 |
| Amortization of loan origination fees | 7,951 | 7,854 |
| Gain (loss) on disposal of capital assets | (27,946) | (24,493) |
| Net book value of capital assets traded | - | 172,426 |
| Deferred inflow resulting from capital assets acquired through cost shared infrastructure agreement with member entities and future amounts due from member entities to reimburse WAWSA for infrastructure costs | 6,963,170 | 5,641,468 |

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Western Area Water Supply Authority (“the Authority”) is presented to assist in understanding the Authority's financial statements.

The Authority reports as a business-type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting guidelines.

Nature of operations and history

The Western Area Water Supply Authority was formed to own, finance, construct and operate the Western Area Water Supply Project. The project is a comprehensive water supply project largely utilizing Missouri River water treated at the Williston Regional Water Treatment Plant and distributed to meet the municipal, rural and industrial water needs for all or parts of McKenzie, Williams, Divide, Burke and Mountrail counties. The member entities with which Western Area Water Supply Authority has agreements with include R & T Water District, the City of Williston, McKenzie County Water Resource District, Williams Rural Water District, and BDW Water System Association. Effective May 20, 2011, the association was organized as a water Authority under North Dakota Century Code 61-35. It is exempt from federal income tax under section 501(C) 1 of the Internal Revenue Code. The Authority 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 Authority 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 Authority to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or import specific financial burdens on the Authority. Component units may also include organizations that are fiscally dependent on the Authority.

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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 accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

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

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

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Authority 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.

Investment policy

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Accounts receivable

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

Inventories

Inventories are valued at the lower of cost or net realizable value using the first in first out (FIFO) method. The costs of business-type inventories are recorded as expenditures when consumed rather than when purchased.

Capital assets

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

The Authority has established the following useful lives:

| | |
|----------------------------------|-------------|
| Structures and improvements | 20-40 years |
| Pipelines and pipeline equipment | 50 years |
| Distribution reservoirs | 40 years |
| Pump stations | 40 years |
| Meters | 20 years |
| Office furniture and equipment | 5-10 years |
| Tools and shop equipment | 5 years |
| Vehicles | 5 years |

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. A portion of the intangible assets is charged against earnings each year as amortization expense. Amortization is computed on the straight-line basis, over the estimated useful life of the asset. The Authority entered into a service concession arrangement with neighboring water districts. Under GASB 60 – Service Concession Arrangements, the access and use payment plan associated with the agreement is capitalized at the present value. All intangible assets under the service concession arrangement are to be amortized over the remaining life of the agreement.

Compensated absences

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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 Authority has two items that qualify for reporting in the categories named *Deferred outflow – pension*, which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date and *Deferred outflow – OPEB*, which represents actuarial differences within NDPERS other postemployment benefits (OPEB) plans as well as amounts paid to the plans after the measurement date.

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 Authority has four items that qualify for reporting in this category named *Deferred inflow – pension*, which represents actuarial differences within NDPERS pension plans, *Deferred inflow – OPEB*, which represents actuarial differences within NDPERS OPEB plans, *Deferred inflow – Member entities*, which represents cost shared infrastructure in which the Member entities have agreed to pay for, and *Deferred inflow – West Dakota Water*, which represents revenue that will be earned over the life of the contract. These amounts are deferred and recognized as an inflow of resources over the period that the amounts benefit the Authority.

Other postemployment benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and the OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net pension liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and 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 when due and payable in accordance with the benefit terms. Investments are reported at fair value.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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 Authority's financial statements. Net investment in capital and intangible assets consists of capital and intangible assets, net of accumulated depreciation and amortization, 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 investment in capital and intangible assets

Net investment in capital and intangible assets for the years ended December 31, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|--|----------------|----------------|
| Capital assets, net of accumulated depreciation | \$ 255,578,560 | \$ 250,293,454 |
| Intangible assets, net of accumulated amortization | 104,571,332 | 100,552,498 |
| Amount due from Member entities, net | 20,272,840 | 14,180,890 |
| Notes payable | (172,834,043) | (172,015,695) |
| Access and use liabilities | (25,055,481) | (27,362,167) |
| Unamortized loan origination fees | 55,044 | 60,915 |
| Deferred inflow - Member entities | (29,017,817) | (23,308,135) |
| | \$ 153,570,435 | \$ 142,401,760 |

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.

Use of estimates

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 2 CUSTODIAL CREDIT RISK

This is the risk that, in the event a financial institution fails, the Authority is unable to recover the value of its deposits, investment or collateral securities in the possession of the institution. As of December 31, 2019, all of the Authority's bank balances were fully covered by federal depository insurance and pledged securities.

NOTE 3 GRANT REVENUE

The Authority received \$0 and \$59,643 in grant revenue from the State Water Commission during the years ended December 31, 2019 and 2018, respectively through SWC Project No. 1973/02 under the State Water Supply Program. The Authority received \$223,693 and \$1,284,526 in grant revenue from the State Water Commission during the years ended December 31, 2019 and 2018, respectively, through SWC Project No. 1973/05 under the State Water Supply Program. The Authority received \$8,928,356 and \$9,902,913 in grant revenue from the State Water Commission during the years ended December 31, 2019 and 2018, respectively, through SWC Project No. 1973/06. The Authority also received \$157,491 and \$0 in grant revenue from the State Water Commission during the years ended December 31, 2019 and 2018, respectively, through SWC Project No. 1973/07.

NOTE 4 WATER SALES

Water sales for the years ending December 31, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|------------|----------------------|----------------------|
| Industrial | \$ 15,058,237 | \$ 17,971,697 |
| Domestic | 7,416,528 | 7,438,319 |
| Commercial | <u>592,003</u> | <u>672,823</u> |
| | <u>\$ 23,066,768</u> | <u>\$ 26,082,839</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 were as follows:

| | Balance 1/1/2019 | Additions/ Transfers | Deletions/ Transfers | Balance 12/31/2019 |
|--|-----------------------|-------------------------|-------------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 11,251,742 | \$ 155,923 | \$ - | \$ 11,407,665 |
| Construction in progress | 3,141,940 | 3,138,618 | 2,672,898 | 3,607,660 |
| Total | <u>14,393,682</u> | <u>3,294,541</u> | <u>2,672,898</u> | <u>15,015,325</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and infrastructure/pipelines | 260,069,217 | 10,356,020 | - | 270,425,237 |
| Machinery and equipment | 818,128 | 38,516 | 72,546 | 784,098 |
| Vehicles | 530,594 | 117,235 | | 647,829 |
| Furniture and fixtures | 257,540 | 21,645 | - | 279,185 |
| Total | <u>261,675,479</u> | <u>10,533,416</u> | <u>72,546</u> | <u>272,136,349</u> |
| Less accumulated depreciation: | | | | |
| Buildings and infrastructure/pipelines | 25,273,423 | 5,608,079 | - | 30,881,502 |
| Machinery and equipment | 284,208 | 87,632 | 35,306 | 336,534 |
| Vehicles | 344,903 | 97,155 | | 442,058 |
| Furniture and fixtures | 108,775 | 32,458 | - | 141,233 |
| Total | <u>26,011,309</u> | <u>5,825,324</u> | <u>35,306</u> | <u>31,801,327</u> |
| Total capital assets being depreciated, net | <u>235,664,170</u> | <u>4,708,092</u> | <u>37,240</u> | <u>240,335,022</u> |
| Amortizable assets, being amortized: | | | | |
| Interest | 269,244 | - | - | 269,244 |
| Leasehold Improvements | 9,870 | - | - | 9,870 |
| Total | <u>279,114</u> | <u>-</u> | <u>-</u> | <u>279,114</u> |
| Less accumulated amortization | | | | |
| Interest | 40,386 | 6,732 | - | 47,118 |
| Leasehold Improvements | 3,126 | 657 | - | 3,783 |
| Total | <u>43,512</u> | <u>7,389</u> | <u>-</u> | <u>50,901</u> |
| Total capital assets being amortized, net | <u>235,602</u> | <u>(7,389)</u> | <u>-</u> | <u>228,213</u> |
| Capital assets, net | <u>\$ 250,293,454</u> | <u>\$ 7,995,244</u> | <u>\$ 2,710,138</u> | <u>\$ 255,578,560</u> |

Depreciation and amortization expense on capital assets for the year ended December 31, 2019 totaled \$5,825,324 and \$7,389, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | Balance 1/1/2018 | Additions/ Transfers | Deletions/ Transfers | Balance 12/31/2018 |
|--|-----------------------|-------------------------|-------------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 10,627,281 | \$ 624,461 | \$ - | \$ 11,251,742 |
| Construction in progress | 4,499,235 | 383,593 | 1,740,888 | 3,141,940 |
| Total | <u>15,126,516</u> | <u>1,008,054</u> | <u>1,740,888</u> | <u>14,393,682</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and infrastructure/pipelines | 244,606,668 | 15,462,549 | - | 260,069,217 |
| Machinery and equipment | 793,394 | 214,546 | 189,812 | 818,128 |
| Vehicles | 501,435 | 73,733 | 44,574 | 530,594 |
| Furniture and fixtures | 250,425 | 7,115 | - | 257,540 |
| Total | <u>246,151,922</u> | <u>15,757,943</u> | <u>234,386</u> | <u>261,675,479</u> |
| Less accumulated depreciation: | | | | |
| Buildings and infrastructure/pipelines | 19,981,580 | 5,291,843 | - | 25,273,423 |
| Machinery and equipment | 223,977 | 89,358 | 29,127 | 284,208 |
| Vehicles | 269,112 | 95,849 | 20,058 | 344,903 |
| Furniture and fixtures | 78,714 | 30,061 | - | 108,775 |
| Total | <u>20,553,383</u> | <u>5,507,111</u> | <u>49,185</u> | <u>26,011,309</u> |
| Total capital assets being depreciated, net | <u>225,598,539</u> | <u>10,250,832</u> | <u>185,201</u> | <u>235,664,170</u> |
| Amortizable assets, being amortized: | | | | |
| Interest | 269,244 | - | - | 269,244 |
| Leasehold Improvements | 9,870 | - | - | 9,870 |
| Total | <u>279,114</u> | <u>-</u> | <u>-</u> | <u>279,114</u> |
| Less accumulated amortization | | | | |
| Interest | 33,655 | 6,731 | - | 40,386 |
| Leasehold improvements | 2,468 | 658 | - | 3,126 |
| Total | <u>36,123</u> | <u>7,389</u> | <u>-</u> | <u>43,512</u> |
| Total capital assets being amortized, net | <u>242,991</u> | <u>(7,389)</u> | <u>-</u> | <u>235,602</u> |
| Capital assets, net | <u>\$ 240,968,046</u> | <u>\$ 11,251,497</u> | <u>\$ 1,926,089</u> | <u>\$ 250,293,454</u> |

Depreciation and amortization expense on capital assets for the year ended December 31, 2018 totaled \$5,507,111 and \$7,389, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 6 INTANGIBLE ASSETS

The Authority has entered into service concession arrangements with R & T Water District, the City of Williston, McKenzie County Water Resource District, and BDW Water System Association. The Authority has made infrastructure upgrades to facilities that they do not have title to. They have also signed access and use payment agreements with the entities that have debt on their facilities to help them pay for their debt. Under the service concession arrangement, these are recorded as intangible assets by the Authority and amortized over the life of the agreement, which is 99 years. The access and use payment agreements recorded as intangible assets have a corresponding liability. Intangible asset activity for the years ended December 31, 2019 and 2018 were as follows:

| | Balance 1/1/2019 | Additions/ Transfers | Deletions/ Transfers | Balance 12/31/2019 |
|---|-----------------------|-------------------------|-------------------------|-----------------------|
| Intangible assets, not being amortized: | | | | |
| Construction in progress, City of Williston | \$ 937,991 | \$ 2,837,282 | \$ - | \$ 3,775,273 |
| Total | <u>937,991</u> | <u>2,837,282</u> | <u>-</u> | <u>3,775,273</u> |
| Intangible assets, being amortized | | | | |
| City of Williston | 75,916,614 | 133,147 | - | 76,049,761 |
| BDW Water System Association | 151,108 | - | - | 151,108 |
| R & T Water Supply Commerce Authority | 11,778,830 | - | - | 11,778,830 |
| McKenzie County Water Resource District | 14,207,259 | - | - | 14,207,259 |
| Direct Connections | 2,412,397 | 2,113,038 | - | 4,525,435 |
| Total | <u>104,466,208</u> | <u>2,246,185</u> | <u>-</u> | <u>106,712,393</u> |
| Less accumulated amortization | | | | |
| City of Williston | 3,393,202 | 767,394 | - | 4,160,596 |
| BDW Water System Association | 10,175 | 1,527 | - | 11,702 |
| R & T Water Supply Commerce Authority | 625,502 | 118,980 | - | 744,482 |
| McKenzie County Water Resource District | 818,682 | 143,507 | - | 962,189 |
| Direct Connections | 4,140 | 33,225 | - | 37,365 |
| Total | <u>4,851,701</u> | <u>1,064,633</u> | <u>-</u> | <u>5,916,334</u> |
| Total intangible assets, net | <u>\$ 100,552,498</u> | <u>\$ 4,018,834</u> | <u>\$ -</u> | <u>\$ 104,571,332</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | Balance 1/1/2018 | Additions/ Transfers | Deletions/ Transfers | Balance 12/31/2018 |
|---|----------------------|-------------------------|-------------------------|-----------------------|
| Intangible assets, not being amortized: | | | | |
| Construction in progress, City of Williston | \$ - | \$ 937,991 | \$ - | \$ 937,991 |
| Total | <u>-</u> | <u>937,991</u> | <u>-</u> | <u>937,991</u> |
| Intangible assets | | | | |
| City of Williston | 75,579,797 | 336,817 | - | 75,916,614 |
| BDW Water System Association | 151,108 | - | - | 151,108 |
| R & T Water Supply Commerce Authority | 11,778,830 | - | - | 11,778,830 |
| McKenzie County Water Resource District | 14,207,259 | - | - | 14,207,259 |
| Direct Connections | 174,606 | 2,237,791 | - | 2,412,397 |
| Total | <u>101,891,600</u> | <u>2,574,608</u> | <u>-</u> | <u>104,466,208</u> |
| Less accumulated amortization | | | | |
| City of Williston | 2,629,486 | 763,716 | - | 3,393,202 |
| BDW Water System Association | 8,648 | 1,527 | - | 10,175 |
| R & T Water Supply Commerce Authority | 506,522 | 118,980 | - | 625,502 |
| McKenzie County Water Resource District | 675,174 | 143,508 | - | 818,682 |
| Direct Connections | 493 | 3,647 | - | 4,140 |
| Total | <u>3,820,323</u> | <u>1,031,378</u> | <u>-</u> | <u>4,851,701</u> |
| Total intangible assets, net | <u>\$ 98,071,277</u> | <u>\$ 2,481,221</u> | <u>\$ -</u> | <u>\$ 100,552,498</u> |

Amortization expense on intangible assets for the years ended December 31, 2019 and 2018 totaled \$1,064,633 and \$1,031,378, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 7 LONG-TERM NOTES PAYABLE

The following is a summary of long-term debt transactions of the Authority for the years ended December 31, 2019 and 2018:

| | 1/1/19 Balance | Additions | Repayments | 12/31/19 Balance | Unamortized Loan Fees | Interest Payable |
|---|-------------------|-----------|------------|---------------------|--------------------------|---------------------|
| 0% note to the Bank of North Dakota, maturing June 30, 2036, payable in monthly installments starting on July 31, 2031, secured by revenues and equipment. | \$ 25,000,000 | \$ - | \$ - | \$ 25,000,000 | \$ 7,621 | \$ - |
| 5% fixed rate note to the Bank of North Dakota, maturing June 30, 2029, monthly interest only payments from July 31, 2017 to June 30, 2021, followed by monthly principal and interest payments starting on July 31, 2021, secured by revenues and equipment. Note was refinanced in June 2017. Balance at time of refinance was \$25,000,000. Interest was suspended during the period from January 2016 to June 2017 and is payable in June 2029. | - | - | - | - | - | 1,873,288 |
| 5% fixed rate note to the Bank of North Dakota, maturing June 30, 2031, monthly interest only payments from July 31, 2017 to June 30, 2029, followed by monthly principal and interest payments starting on July 31, 2029, secured by revenues and equipment. Interest is suspended during the period from January 2016 to June 2018 and is payable in June 2031. | 10,000,000 | - | - | 10,000,000 | 2,530 | 959,589 |
| 2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from January 31, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036. | 20,000,000 | - | - | 20,000,000 | 4,424 | 458,904 |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | 1/1/19 Balance | Additions | Repayments | 12/31/19 Balance | Unamortized Loan Fees | Interest Payable |
|---|-----------------------|---------------------|---------------------|-----------------------|--------------------------|---------------------|
| 2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from September 30, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036. | 19,500,000 | - | - | 19,500,000 | 5,490 | 447,432 |
| 1.5% fixed rate note to Bank of North Dakota, maturing January 25, 2036, interest only payments from February 25, 2016 to July 25, 2016, followed by monthly principal and interest payments starting August 25, 2016, secured by revenues and equipment. | 8,539,422 | - | 466,220 | 8,073,202 | 15,462 | - |
| Variable rate note to the Bank of North Dakota, maturing July 1, 2037, monthly principal and interest payments starting on August 1, 2017. Variable rate at 1.50% over 30 day LIBOR rate, adjustable monthly, with a 2.00% floor, secured by revenues and equipment. Interest rate at 12/31/18 was 2.88%. | 83,334,805 | - | 3,455,872 | 79,878,933 | 17,533 | - |
| 1.5% fixed rate note to Bank of North Dakota, maturing September 1, 2048, interest only payments from March 1, 2019 to August 1, 2019, followed by monthly principal and interest payments starting September 1, 2019, secured by revenues and equipment. | 5,641,468 | 5,145,440 | 405,000 | 10,381,908 | 1,984 | - |
| Total | <u>\$ 172,015,695</u> | <u>\$ 5,145,440</u> | <u>\$ 4,327,092</u> | <u>\$ 172,834,043</u> | <u>\$ 55,044</u> | <u>\$ 3,739,213</u> |
| Current portion | | | | <u>(4,080,227)</u> | | |
| Non-current portion | | | | <u>\$ 168,753,816</u> | | |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | 1/1/18 Balance | Additions | Repayments | 12/31/18 Balance | Unamortized Loan Fees | Interest Payable |
|---|-------------------|-----------|------------|---------------------|--------------------------|---------------------|
| 0% note to the Bank of North Dakota, maturing June 30, 2036, payable in monthly installments starting on July 31, 2031, secured by revenues and equipment. | \$ 25,000,000 | \$ - | \$ - | \$ 25,000,000 | \$ 8,079 | \$ - |
| 5% fixed rate note to the Bank of North Dakota, maturing June 30, 2029, monthly interest only payments from July 31, 2017 to June 30, 2021, followed by monthly principal and interest payments starting on July 31, 2021, secured by revenues and equipment. Note was refinanced in June 2017. Balance at time of refinance was \$25,000,000. Interest was suspended during the period from January 2016 to June 2017 and is payable in June 2029. | - | - | - | - | - | 1,873,288 |
| 5% fixed rate note to the Bank of North Dakota, maturing June 30, 2031, monthly interest only payments from July 31, 2017 to June 30, 2029, followed by monthly principal and interest payments starting on July 31, 2029, secured by revenues and equipment. Interest is suspended during the period from January 2016 to June 2018 and is payable in June 2031. | 10,000,000 | - | - | 10,000,000 | 3,794 | 959,589 |
| 2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from January 31, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036. | 20,000,000 | - | - | 20,000,000 | 5,688 | 458,904 |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | 1/1/18 Balance | Additions | Repayments | 12/31/18 Balance | Unamortized Loan Fees | Interest Payable |
|---|-----------------------|---------------------|---------------------|-----------------------|--------------------------|---------------------|
| 2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from January 31, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036. | 19,500,000 | - | - | 19,500,000 | 6,757 | 447,432 |
| 1.5% fixed rate note to Bank of North Dakota, maturing January 25, 2036, interest only payments from February 25, 2016 to July 25, 2016, followed by monthly principal and interest payments starting August 25, 2016, secured by revenues and equipment. | 9,369,036 | - | 829,614 | 8,539,422 | 18,076 | - |
| Variable rate note to the Bank of North Dakota, maturing July 1, 2037, monthly principal and interest payments starting on August 1, 2017. Variable rate at 1.50% over 30 day LIBOR rate, adjustable monthly, with a 2.00% floor, secured by revenues and equipment. Interest rate at 12/31/18 was 2.88%. | 86,087,580.00 | - | 2,752,775 | 83,334,805 | 18,521 | - |
| 1.5% fixed rate note to Bank of North Dakota, maturing September 1, 2048, interest only payments from March 1, 2019 to August 1, 2019 followed by monthly principal and interest payments starting August 25, 2016, secured by revenues and equipment. | - | 5,641,468 | - | 5,641,468 | - | - |
| Total | \$ 169,956,616 | \$ 5,641,468 | \$ 3,582,389 | \$ 172,015,695 | \$ 60,915 | \$ 3,739,213 |
| Current portion | | | | (3,792,039) | | |
| Non-current portion | | | | <u>\$ 168,223,656</u> | | |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Loan Covenants and Collateral

Substantially all of the Authority's assets are pledged as collateral. The Authority complied with all covenants on their loans as of December 31, 2019 and 2018.

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

| Year ending December 31, | Principal | Interest | Total |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2020 | \$ 4,080,227 | \$ 3,996,011 | \$ 8,076,238 |
| 2021 | 4,200,923 | 3,901,491 | 8,102,414 |
| 2022 | 5,505,911 | 3,774,791 | 9,280,702 |
| 2023 | 6,864,366 | 3,599,553 | 10,463,919 |
| 2024 | 7,056,908 | 3,410,409 | 10,467,317 |
| 2025-2029 | 40,804,218 | 14,003,971 | 54,808,189 |
| 2030-2034 | 69,081,466 | 8,251,711 | 77,333,177 |
| 2035-2039 | 34,943,116 | 4,101,627 | 39,044,743 |
| 2040-2042 | 296,907 | 4,454 | 301,361 |
| Total | \$ 172,834,042 | \$ 45,044,018 | \$ 217,878,060 |

NOTE 8 ACCESS AND USE LIABILITIES

The Authority has entered into access and use agreements with their member entities. These agreements set forth the terms and conditions on which the members will permit the Authority to access and use identified infrastructure owned by the various members. As consideration of the agreements, the Authority is required to make payments equal to the amount of debt service requirements on loans identified in the agreements. These are carried at their present value. The liability consists of the following:

| | Balance 1/1/19 | Additions | Repayments | Balance 12/31/19 | Due Within One Year | Maturity Date | Interest Rate | Annual Installment |
|---|---------------------|-------------|--------------------|---------------------|------------------------|------------------|------------------|---------------------|
| City of Williston | | | | | | | | |
| 1999 bond | \$ 720,000 | \$ - | \$ 235,000 | \$ 485,000 | \$ 240,000 | 9/1/2021 | 2.50% | 240,000 - 245,000 |
| 2003 bond | 1,100,000 | - | 210,000 | 890,000 | 215,000 | 9/1/2023 | 2.50% | 215,000 - 230,000 |
| 2006 bond | 8,120,000 | - | 930,000 | 7,190,000 | 955,000 | 9/1/2026 | 2.50% | 955,000 - 1,105,000 |
| R & T Water Supply Commerce Authority | | | | | | | | |
| 2008 bond | 320,000 | - | 25,000 | 295,000 | 30,000 | 9/1/2028 | 2.50% | 30,000 - 35,000 |
| 2012 bond | 6,025,000 | - | 370,000 | 5,655,000 | 380,000 | 9/1/2032 | 2.00% | 380,000 - 500,000 |
| McKenzie County Water Resource District | | | | | | | | |
| McKenzie County Loan | 3,374,484 | - | 204,332 | 3,170,152 | 209,224 | 4/16/2033 | 2.50% | 209,000 - 281,000 |
| USDA System Loan | 2,098,855 | - | 32,557 | 2,066,298 | 33,330 | 7/30/2055 | 2.875% | 33,000 - 91,000 |
| USDA System Loan | 1,243,828 | - | 19,797 | 1,224,031 | 20,249 | 7/30/2055 | 2.75% | 20,000 - 53,000 |
| ND Public Finance Loan | 4,360,000 | - | 280,000 | 4,080,000 | 290,000 | 9/1/2031 | 2.50% | 290,000 - 390,000 |
| Total | \$27,362,167 | \$ - | \$2,306,686 | \$25,055,481 | \$2,372,803 | | | |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

| | Balance 1/1/18 | Additions | Repayments | Balance 12/31/18 | Due Within One Year | Maturity Date | Interest Rate | Annual Installment |
|--|---------------------|-------------|---------------------|---------------------|------------------------|------------------|------------------|---------------------|
| City of Williston | | | | | | | | |
| 1999 bond | \$ 950,000 | \$ - | \$ 230,000 | \$ 720,000 | \$ 235,000 | 9/1/2021 | 2.50% | 235,000 - 245,000 |
| 2003 bond | 1,305,000 | - | 205,000 | 1,100,000 | 210,000 | 9/1/2023 | 2.50% | 210,000 - 230,000 |
| 2006 bond | 9,025,000 | - | 905,000 | 8,120,000 | 930,000 | 9/1/2026 | 2.50% | 930,000 - 1,105,000 |
| R & T Water Supply Commerce Authority | | | | | | | | |
| 2008 bond | 345,000 | - | 25,000 | 320,000 | 25,000 | 9/1/2028 | 2.50% | 25,000 - 35,000 |
| 2012 bond | 6,385,000 | - | 360,000 | 6,025,000 | 370,000 | 9/1/2030 | 2.00% | 370,000 - 500,000 |
| McKenzie County Water Resource District | | | | | | | | |
| McKenzie County Loan | 3,607,926 | - | 233,442 | 3,374,484 | 168,599 | 4/16/2033 | 2.50% | 168,000 - 280,000 |
| USDA System Loan | 2,130,502 | - | 31,647 | 2,098,855 | 32,557 | 7/30/2055 | 2.875% | 32,000 - 91,000 |
| USDA System Loan | 1,263,095 | - | 19,267 | 1,243,828 | 19,797 | 7/30/2055 | 2.75% | 20,000 - 53,000 |
| ND Public Finance Loan | 4,630,000 | - | 270,000 | 4,360,000 | 280,000 | 9/1/2031 | 2.50% | 280,000 - 390,000 |
| Total | \$29,641,523 | \$ - | \$ 2,279,356 | \$27,362,167 | \$2,270,953 | | | |

Payments on access and use liabilities totaled \$2,306,686 and \$2,279,356 for the years ended December 31, 2019 and 2018, respectively.

The future required payments on access and use liabilities are provided below.

| Year Ending December 31, | |
|--------------------------|----------------------|
| 2020 | \$ 2,372,803 |
| 2021 | 2,425,021 |
| 2022 | 2,236,953 |
| 2023 | 2,294,063 |
| 2024 | 2,120,961 |
| 2025-2029 | 7,932,554 |
| 2030-2034 | 3,370,361 |
| 2035-2039 | 432,414 |
| 2040-2044 | 497,036 |
| 2045-2049 | 571,617 |
| 2050-2054 | 657,211 |
| 2055 | 144,487 |
| | <u>\$ 25,055,481</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 9 PENSION PLAN

2019

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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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.

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.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, the Authority reported a liability of \$1,112,156 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 June 30, 2019 the Employer's proportion was 0.094888 percent, which was an increase of 0.007207 percent from its proportion measured as of June 30, 2018.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

For the year ended December 31, 2019, the Authority recognized pension expense of \$137,421. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 659 | \$ (201,835) |
| Changes of assumptions | 415,583 | (356,814) |
| Net difference between projected and actual earnings on pension plan investments | 19,376 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 141,139 | (62,406) |
| Employer contributions subsequent to the measurement date | 84,821 | - |
| Total | \$ 661,578 | \$ (621,055) |

\$84,821 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|------|----|----------|
| 2020 | \$ | 93,166 |
| 2021 | | 19,999 |
| 2022 | | (39,622) |
| 2023 | | (90,532) |
| 2024 | | (27,309) |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Actuarial assumptions. The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | | |
|------------------|--------------------------------------|-----------------------|----------------------------|
| Inflation | 2.50% | | |
| Salary increases | <u>Service at Beginning of Year:</u> | <u>State Employee</u> | <u>Non-State Employee:</u> |
| | 0 | 12.00% | 15.00% |
| | 1 | 9.50% | 10.00% |
| | 2 | 7.25% | 8.00% |
| | <u>Age*</u> | | |
| | Under 30 | 7.25% | 10.00% |
| | 30 – 39 | 6.50% | 7.50% |
| | 40 - 49 | 6.25% | 6.75% |
| | 50 - 59 | 5.75% | 6.50% |
| | 60+ | 5.00% | 5.25% |

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

| | |
|----------------------------|-----------------------------------|
| 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 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. 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:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------|-------------------|--|
| Domestic Equity | 30% | 6.25% |
| International Equity | 21% | 6.95% |
| Private Equity | 7% | 10.15% |
| Domestic Fixed Income | 23% | 2.11% |
| International Fixed Income | 0% | 0.00% |
| Global Real Assets | 19% | 5.41% |
| Cash Equivalents | 0% | 0.00% |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|--------------------------------|--|--------------------------------|
| Employer's proportionate share of the net pension liability | \$ 1,594,592 | \$ 1,112,156 | \$ 706,825 |

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, North Dakota 58502-1657.

Payables to the pension plan

No amount was payable to the pension plan at fiscal year-end.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

2018

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 seven 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; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include 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.

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.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the Authority reported a liability of \$1,479,713 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 June 30, 2018 the Employer's proportion was 0.087681 percent, which was a decrease of 0.008685 percent from its proportion measured as of June 30, 2017.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

For the year ended December 31, 2018, the Authority recognized pension expense of \$261,639. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 3,917 | \$ (50,343) |
| Changes of assumptions | 534,145 | (21,120) |
| Net difference between projected and actual earnings on pension plan investments | - | (7,199) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 129,219 | (82,375) |
| Employer contributions subsequent to the measurement date | <u>39,257</u> | <u>-</u> |
| Total | <u>\$ 706,538</u> | <u>\$ (161,037)</u> |

\$39,257 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | | |
|----------------------------|----|---------|
| 2019 | \$ | 192,056 |
| 2020 | | 171,391 |
| 2021 | | 100,091 |
| 2022 | | 44,446 |
| 2023 | | (1,740) |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Actuarial assumptions. The total pension 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 | 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 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 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. 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:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------|-------------------|--|
| Domestic Equity | 31% | 6.05% |
| International Equity | 21% | 6.71% |
| Private Equity | 5% | 10.20% |
| Domestic Fixed Income | 17% | 1.45% |
| International Fixed Income | 5% | 0.00% |
| Global Real Assets | 20% | 5.11% |
| Cash Equivalents | 1% | 0.00% |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. 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 Employer'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:

| | 1% Decrease (5.32%) | Current Discount Rate (6.32%) | 1% Increase (7.32%) |
|---|--------------------------------|--|--------------------------------|
| Employer's proportionate share of the net pension liability | \$ 2,010,654 | \$ 1,479,713 | \$ 1,036,659 |

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, North Dakota 58502-1657.

Payables to the pension plan

No amount was payable to the pension plan at fiscal year-end.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS PLAN

2019

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 the retirement benefits from the PERS, the HPRS, and Judges retired under 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. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration for 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At December 31, 2019, the Authority reported a liability of \$71,044 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At December 31, 2019, the Authority's proportion was 0.088452 percent, which was an increase of .006132 from its proportion measured as of December 31, 2018.

For the year ended December 31, 2019, the Employer recognized OPEB expense of \$0. At December 31, 2019, the Authority reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 1,754 | \$ (2,219) |
| Changes of assumptions | 8,467 | - |
| Net difference between projected and actual earnings on OPEB plan investments | 79 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 4,814 | (3,615) |
| Employer contributions subsequent to the measurement date | <u>13,581</u> | <u>-</u> |
| Total | <u>\$ 28,695</u> | <u>\$ (5,834)</u> |

\$13,581 reported as deferred outflows of resources related to OPEB resulting from Authority contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending December 31, 2019.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31, | |
|----------------------------|----------|
| 2020 | \$ 1,398 |
| 2021 | 1,398 |
| 2022 | 2,059 |
| 2023 | 1,938 |
| 2024 | 1,153 |
| Thereafter | 1,334 |

Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.5% |
| Salary Increase | Not Applicable |
| Investment Rate of Return | 7.25%, 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, 2019 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|-------------------|--|
| Large Cap Domestic Equities | 33% | 6.00% |
| Small Cap Domestic Equities | 6% | 7.30% |
| International Equities | 21% | 6.95% |
| Domestic Fixed Income | 40% | 2.07% |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. 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 report. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their 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 Total OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|--|------------------------|----------------------------------|------------------------|
| Employer's proportionate share of the net OPEB liability | \$ 90,678 | \$ 71,044 | \$ 54,237 |

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB 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, North Dakota, 58502-1657.

2018

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 the retirement benefits from the PERS, the HPRS, and Judges retired under 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.

WESTERN AREA WATER SUPPLY AUTHORITY
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Responsibility for administration for 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At December 31, 2018, the Authority reported a liability of \$64,833 for its proportionate share of the net OPEB liability. 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 Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At December 31, 2018, the Authority's proportion was 0.088452 percent, which was an increase of .006132 from its proportion measured as of December 31, 2018.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

For the year ended December 31, 2018, the Employer recognized OPEB expense of \$0. At December 31, 2018, the Authority reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 1,941 | \$ (1,340) |
| Changes of assumptions | 5,320 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (1,395) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 320 | (4,298) |
| Employer contributions subsequent to the measurement date | 6,285 | - |
| Total | \$ 13,866 | \$ (7,033) |

\$6,285 reported as deferred outflows of resources related to OPEB resulting from Authority contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31, | |
|----------------------------|---------|
| 2019 | \$ (79) |
| 2020 | (79) |
| 2021 | (79) |
| 2022 | 537 |
| 2024 | 424 |
| Thereafter | (176) |

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.50% |
| Salary Increase | 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:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|-------------------|--|
| 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 7.50%. 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 report. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their 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.

WESTERN AREA WATER SUPPLY AUTHORITY
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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|----------------------------------|------------------------|
| Employer's proportionate share of the net OPEB liability | \$ 82,029 | \$ 64,833 | \$ 50,091 |

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB 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, North Dakota, 58502-1657.

NOTE 11 CONCENTRATION OF CREDIT RISK

Western Area Water Supply Authority, located in Williston, North Dakota, provides a comprehensive water supply largely utilizing Missouri River water treated at the Williston Regional Water Treatment Plant and distributed to meet the municipal, rural and industrial water needs for all or parts of McKenzie, Williams, Divide, Burke and Mountrail counties. The Authority grants credit to customers located within this service area. The amount of accounting loss could be equivalent to the accounts receivable balance at year end.

NOTE 12 RISK MANAGEMENT

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

The Authority also participates in the North Dakota Fire and Tornado Fund. The Authority pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimated replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the Authority 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 Authority also has an additional employee dishonesty policy with Liberty Mutual which covers losses up to \$3,000,000.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

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

NOTE 13 FUTURE GASB 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, 2019. 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 June 15, 2021. 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, 2020. Earlier application is encouraged.

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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

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

WESTERN AREA WATER SUPPLY AUTHORITY
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GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 14 JOINT AGREEMENTS

Access and use agreements

The Authority has entered into access and use agreements with their member entities. These agreements set forth the terms and conditions on which the members will permit the Authority to access and use identified infrastructure owned by the various members. This includes infrastructure identified under sub-agreements with the cities of Watford City, Fortuna, Ray, Stanley, Tioga, Columbus, Noonan and Crosby. The members will be responsible for all repairs and maintenance of the access infrastructure identified in agreements. The members 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 members retain ownership of the infrastructure unless purchase options are exercised. As consideration for the agreements, the Authority will make payments equal to the amount of debt service requirements on loans identified in the agreements. The members are also entitled to reimbursement for costs for operating and maintenance and approved capital expenditures as outlined in the agreements. The members bear the risk of loss to the infrastructure. The term of the agreements continue until the earlier of: (i) repayment of all the Authority's debt or ii) 99 years after the effective date of the agreement.

Infrastructure operating agreements

The Authority has entered into infrastructure operating agreements with each member entity and Watford City, Ross and Wildrose under sub-agreements. Under these agreements, the member will be responsible for all repairs and maintenance of infrastructure owned by the Authority as identified in each agreement. The members may also make approved capital expenditures with respect to the Authority's infrastructure in accordance with an approved budget. The members 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 agreements, the members are entitled to reimbursement for costs identified in the agreement and in accordance with an approved budget. The Authority will bear the risk of loss to the infrastructure. The agreements are in effect until the earlier of: (i) repayment of all of the Authority's debt or ii) 99 years after the effective date of the agreement.

Output agreements

The Authority has entered into output agreements with R&T Water Supply Commerce Authority, the City of Williston, and BDW Water System Association. These agreements set forth the terms and conditions upon which these members will sell the output of their facilities to the Authority. As consideration for the entire output of the treated water, the Authority will make payments equal to the debt service paid by the members 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's requirement to pay past accrued amounts.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

Water supply agreements

The Authority has entered into water supply agreements with each member entity and Watford City under a sub-agreement. Under these agreements, the members commit to purchasing water from the Authority. Subject to a minimum monthly quantity, peak instantaneous flow, and minimum pressure limitation set forth in the agreements, the Authority agrees to provide, pump, transmit and deliver treated water to the members. The members will pay for the water using an agreed upon base rate plus supplemental rate as outlined in the agreement, which is subject to change. These agreements are effective only when the Authority's water supply is connected at identified delivery points. The agreements remain in effect until all of the Authority's debt is repaid.

As part of the above agreements, all industrial water sales will be for the benefit of WAWSA. The members will be reimbursed an amount as outlined in the agreements based on their 2010 industrial water sales revenue if WAWSA has sufficient free cash flows.

Under the above agreements, the Authority has agreed to reimburse the member entities \$1,253,737 and \$2,004,634 for the purchase of water along with \$5,997,742 and \$6,175,413 for operations and maintenance during the years ended December 31, 2019 and 2018, respectively. There were no baseline sales reimbursements made during the years ended December 31, 2019 and 2018. During the years ended December 31, 2019 and 2018, debt payment reimbursements totaled \$3,113,564 and \$3,158,399 respectively, of which \$2,306,686 and \$2,279,356 was for principal. Of the above amounts \$93,894 and \$92,922 was payable to the members for other operating reimbursements and is included in accounts payable as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Authority has net intangible assets representing the organization's right to use infrastructure owned by member entities of \$104,571,332 and \$100,552,498, respectively, which were originally valued at the present value of the future debt payments to be made to the member entities, as well as capital expenditure reimbursements. Intangible assets are amortized over the remaining period of 99 years from the effective date of the infrastructure operating agreements. Amortization for the years ended December 31, 2019 and 2018 was \$1,064,633 and \$1,031,378, respectively. The Authority also has access and use liabilities of \$25,055,481 and \$27,362,167 as of December 31, 2019 and 2018, respectively, which is the present value of future debt payments remaining to be made to the member entities.

Cost shared infrastructure

Effective January 1, 2016, the members agreed to share in the cost of a \$20,000,000 project to further build out the infrastructure. The members share in the cost based on the portion of the project that is within their service area. The Authority funded the entire project in 2016 by taking out a note payable from BND for \$10,000,000 and using \$10,000,000 of its own funds. Two of the members, R & T Water District and Williams Rural Water District, agreed to each take out \$5,000,000 loans in their names. The proceeds from those loans were used to pay back the Authority.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

In December 2018, the members agreed to share in the cost of an additional \$16,500,000 loan held in WAWSA's name bringing the total cost share amount to \$36,500,000. This loan was not fully funded as of December 31, 2019 and 2018. Total amount funded under this loan and receivable from the member entities as of December 31, 2019 and 2018 was \$10,381,908 and \$5,641,468, respectively. During 2019, WAWSA discovered that \$1,817,730 of costs were for these projects were unable to be covered by the loan but will still be the responsibility of the members entities.

The remaining receivable as of December 31, 2019 and 2018 was \$20,272,840 and \$14,180,890, respectively, and is recorded in the amount due from member entities account. Of this amount, \$987,329 is current.

The deferred inflows – member entities represent the unamortized portion of the future interest that the Authority has in the \$36,500,000 of cost shared infrastructure. The deferred inflow is amortized into income over a period of 20 to 30 years based on the life of the loans attached to the infrastructure. The Authority amortized \$1,253,488 and \$833,333 into income during the years ended December 31, 2019 and 2018, respectively, leaving deferred inflows – member entities of \$29,017,817 and \$23,308,135 as of December 31, 2019 and 2018, respectively.

NOTE 15 COMMITMENTS

The Authority has entered into various contracts for infrastructure construction and improvements. The total costs of these projects are estimated to be approximately \$17,995,000 as of December 31, 2019. The Authority has used loans and grants to pay for the projects. As of December 31, 2019, the Authority had incurred and capitalized approximately \$12,040,000 in costs related to the projects. Estimated costs to complete the projects as of December 31, 2019 are \$5,955,000.

Engineering services – Effective January 1, 2019, the Authority entered into a contract with Advanced Engineering and Environmental Services, Inc. for professional services. The fee for the agreement will be hourly for basic engineering services and negotiated separately for each task order. The agreement is effective and applicable to task orders issued through December 31, 2021.

Facility leases – During 2012, the Authority entered into agreements with Armstrong Water Solutions, Inc. to lease facilities at several fill stations for the purpose of providing water heating services on the leased premises. The term is for five years from the effective date of each individual lease agreement.

During 2019, the Authority entered into an agreement with McKenzie County to lease a building for 25 years. The Authority paid the entire lease balance of \$750,000 up front in 2019. The lease commenced December 1, 2019. During the year ended December 31, 2019 the Authority recognized expense of \$2,500 on this lease. The remaining \$747,500 is recorded as prepaid rent as of December 31, 2019, of which \$30,000 is current.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

NOTE 16 SUBSEQUENT EVENTS

Change orders totaling approximately \$282,000 were approved on the outstanding construction contracts.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. While the Authority expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

No other significant events occurred subsequent to the Authority's year end. Subsequent events have been evaluated through October 26, 2020, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS*

| | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Employer's covered- employee payroll | Contributions as a percentage of covered- employee payroll |
|------|---|--|--|---|---|
| 2019 | \$ 13,581 | \$ (13,581) | - | \$ 1,191,301 | 1.14% |
| 2018 | 12,520 | (12,520) | - | 1,098,221 | 1.14% |

* Complete data for this schedule is not available prior to 2018.

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY
LAST TEN FISCAL YEARS*

| | Employer's proportion of the net OPEB liability (asset) | Employer's proportionate share of the net OPEB liability | Employer's covered- employee payroll | Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered- employee payroll | Plan fiduciary net position as a percentage of the total OPEB liability |
|------|--|---|---|---|---|
| 2019 | 0.088452% | \$ 71,044 | \$ 987,001 | 7.20% | 61.89% |
| 2018 | 0.082320% | 64,833 | 900,757 | 7.20% | 59.78% |

* Complete data for this schedule is not available prior to 2018.

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
LAST TEN FISCAL YEARS*

| | Employer's proportion of the net pension liability | Employer's proportionate share of the net pension liability | Employer's covered- employee payroll | Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|------|---|--|---|---|--|
| 2019 | 0.094888% | \$ 1,112,156 | \$ 987,001 | 112.68% | 63.53% |
| 2018 | 0.087681% | 1,479,713 | 900,757 | 164.27% | 62.80% |
| 2017 | 0.096366% | 1,548,918 | 983,750 | 157.45% | 61.98% |
| 2016 | 0.101119% | 985,503 | 1,019,044 | 96.71% | 70.46% |
| 2015 | 0.090968% | 618,567 | 810,415 | 76.33% | 77.15% |

* Complete data for this schedule is not available prior to 2015.

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

| | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Employer's covered- employee payroll | Contributions as a percentage of covered- employee payroll |
|------|---|---|--|---|---|
| 2019 | \$ 84,821 | \$ (84,821) | \$ - | \$ 1,191,301 | 7.12% |
| 2018 | 78,193 | (78,193) | - | 1,098,221 | 7.12% |
| 2017 | 73,490 | (73,490) | - | 1,032,167 | 7.12% |
| 2016 | 74,094 | (74,094) | - | 1,040,648 | 7.12% |
| 2015 | 63,008 | (63,008) | - | 884,945 | 7.12% |

* Complete data for this schedule is not available prior to 2015.

**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
Western Area Water Supply Authority
Williston, 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 Western Area Water Supply Authority as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Western Area Water Supply Authority's basic financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Area Water Supply Authority'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 Western Area Water Supply Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Western Area Water Supply Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and 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 questioned costs as items 2019-001 and 2019-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Area Water Supply Authority'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*.

Western Area Water Supply Authority's Responses to Findings

Western Area Water Supply Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Western Area Water Supply Authority'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

October 26, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Western Area Water Supply Authority
Williston, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Western Area Water Supply Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Western Area Water Supply Authority's major federal programs for the year ended December 31, 2019. Western Area Water Supply Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Western Area Water Supply Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Western Area Water Supply Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Western Area Water Supply Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Western Area Water Supply Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of Western Area Water Supply Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Western Area Water Supply Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Western Area Water Supply Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

October 26, 2020

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I: Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

| <u>CDFA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 66.468 | Drinking Water State Revolving Funds Program |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2019

Section II. Findings Relating to Financial Statements

2019-001 *Preparation of Financial Statements – Material Weakness*

Criteria: An appropriate system of internal controls requires that the Authority must make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the Authority personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition/Context: The Authority's auditors prepared the financial statements as of December 31, 2019. The Authority does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the Authority.

Cause: It is currently not cost effective for the Authority 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 accounting principles generally accepted in the United States of America.

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.

Views of responsible officials and corrective actions: Due to the small size of the Authority's accounting department, it is not cost effective for the Authority to properly address this material weakness.

2019-002 *Significant Adjusting Entries – Material Weakness*

Criteria: The Authority 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 a GAAP basis.

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

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2019

2019-002 – (Continued)

Context: Accounts related to property, depreciation, accounts payable and notes payable are adjusted throughout the financial statement preparation process.

Cause: It is currently not cost effective for the Authority to determine the proper balance of each general ledger account prior to the start of the audit.

Effect: The Authority does not maintain internal controls at a level where a determination can be made that the general ledger account is properly reflected on a full accrual basis.

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.

Views of responsible officials and corrective actions: Due to the small size of the Authority's accounting department, it is not cost effective for the Authority to properly address this material weakness.

2019-003 *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 billing and collection functions of the Authority do not provide for an adequate segregation of duties.

Cause: The Authority 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 enter receipts, prepare and post payments, and reconcile the Authority's bank accounts.

Recommendation: While the Authority does have some monitoring controls in place, we recommend that the Authority 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: The Board will review the accounting functions and will strive to improve in areas that are economically feasible.

SUPPLEMENTARY INFORMATION

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

| Federal Grantor/Program Title | CFDA Number | Amount Expended |
|---|----------------|---------------------|
| U.S. Environmental Protection Agency (EPA) | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | <u>\$ 4,715,300</u> |

The accompanying notes are an integral part of this schedule

SEE NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement.

NOTE 2 DE MINIMIS INDIRECT COST RATE

Western Area Water Supply Authority has not elected to use the 10-percent de minimis cost rate as allowed under the Uniform Guidance

NOTE 3 BASIS FOR PRESENTATION

This accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Western Area Water Supply Authority under programs of the federal government for the year then ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of Western Area Water Supply Authority, it is not intended to and does not present the financial position, change in net position, or cash flows of Western Area Water Supply Authority.

NOTE 4 RECONCILIATION TO FINANCIAL STATEMENTS

The following is a reconciliation between the amount presented on the schedule and amounts presented on the financial statements as of December 31, 2019.

| | |
|---|-------------------|
| Notes payable, December 31, 2018 (expended during 2018) | \$ 5,641,468 |
| Advances during 2019 (expended during 2018) | 496,028 |
| Advances during 2019 (expended during 2019) | * 4,649,412 |
| Principal payments during 2019 | (405,000) |
| Notes payable, December 31, 2019 | <u>10,381,908</u> |
| Accounts payable (expended during 2019) | * 65,888 |
| Total expended during 2019 | * \$ 4,715,300 |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND
DECEMBER 31, 2019

ASSETS

| | Industrial | Domestic | Intercompany Eliminations | Total |
|---|------------------|--------------------|------------------------------|--------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,032,215 | \$ 14,615,168 | \$ - | \$ 15,647,383 |
| Accounts receivable (net of allowance of \$85,779 in 2019 and \$100,000 in 2018) | 2,157,366 | 747,710 | (313,530) | 2,591,546 |
| Current portion of amount due from Member entities | - | 987,329 | - | 987,329 |
| Inventories | - | 535,483 | - | 535,483 |
| Prepaid expenses | - | 70,051 | - | 70,051 |
| Current portion of prepaid rent | - | 30,000 | - | 30,000 |
| Total current assets | <u>3,189,581</u> | <u>16,985,741</u> | <u>(313,530)</u> | <u>19,861,792</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation | - | 255,578,560 | - | 255,578,560 |
| Intangible assets, net of accumulated amortization | - | 104,571,332 | - | 104,571,332 |
| Amount due from Member entities, net | - | 19,285,511 | - | 19,285,511 |
| Prepaid rent | - | 717,500 | - | 717,500 |
| Total noncurrent assets | <u>-</u> | <u>380,152,903</u> | <u>-</u> | <u>380,152,903</u> |
| Total assets | <u>3,189,581</u> | <u>397,138,644</u> | <u>(313,530)</u> | <u>400,014,695</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflow - OPEB | - | 28,695 | - | 28,695 |
| Deferred outflow - pension | - | 661,578 | - | 661,578 |
| Total deferred outflows of resources | <u>-</u> | <u>690,273</u> | <u>-</u> | <u>690,273</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND - CONTINUED
DECEMBER 31, 2019

LIABILITIES

| | Industrial | Domestic | Intercompany Eliminations | Total |
|---|-----------------------|-----------------------|------------------------------|-----------------------|
| Current liabilities: | | | | |
| Accounts payable | \$ 313,530 | \$ 1,780,300 | \$ (313,530) | \$ 1,780,300 |
| Other current liabilities | - | 844,168 | - | 844,168 |
| Current portion of access and use liabilities | - | 2,372,803 | - | 2,372,803 |
| Current portion of notes payable | - | 4,080,227 | - | 4,080,227 |
| Total current liabilities | <u>313,530</u> | <u>9,077,498</u> | <u>(313,530)</u> | <u>9,077,498</u> |
| Noncurrent liabilities: | | | | |
| Access and use liabilities | - | 22,682,678 | - | 22,682,678 |
| Notes payable | - | 168,753,816 | - | 168,753,816 |
| Interest payable | 3,739,213 | - | - | 3,739,213 |
| Unamortized loan origination fees | - | (55,044) | - | (55,044) |
| OPEB liability | - | 71,044 | - | 71,044 |
| Net pension liability | - | 1,112,156 | - | 1,112,156 |
| Total noncurrent liabilities | <u>3,739,213</u> | <u>192,564,650</u> | <u>-</u> | <u>196,303,863</u> |
| Total liabilities | <u>4,052,743</u> | <u>201,642,148</u> | <u>(313,530)</u> | <u>205,381,361</u> |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Deferred inflow - Member entities | - | 29,017,817 | - | 29,017,817 |
| Deferred inflow - OPEB | - | 5,834 | - | 5,834 |
| Deferred inflow - pension | - | 621,055 | - | 621,055 |
| Deferred inflow - West Dakota Water | 1,987,767 | - | - | 1,987,767 |
| Total deferred inflows of resources | <u>1,987,767</u> | <u>29,644,706</u> | <u>-</u> | <u>31,632,473</u> |
| NET POSITION | | | | |
| Net investment in capital and intangible assets | - | 153,570,435 | - | 153,570,435 |
| Unrestricted | (2,850,929) | 12,971,628 | - | 10,120,699 |
| Total net position | <u>\$ (2,850,929)</u> | <u>\$ 166,542,063</u> | <u>\$ -</u> | <u>\$ 163,691,134</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND
DECEMBER 31, 2018

ASSETS

| | Industrial | Domestic | Intercompany Eliminations | Total |
|--|------------------|--------------------|------------------------------|--------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 2,271,491 | \$ 11,235,059 | \$ - | \$ 13,506,550 |
| Accounts receivable (net of allowance of \$100,000 industrial and \$9,784 domestic) | 3,180,954 | 1,081,068 | (33,862) | 4,228,160 |
| Current portion of amount due from Member entities | - | 871,960 | - | 871,960 |
| Inventories | - | 356,732 | - | 356,732 |
| Prepays | - | 52,166 | - | 52,166 |
| Total current assets | <u>5,452,445</u> | <u>13,596,985</u> | <u>(33,862)</u> | <u>19,015,568</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation | - | 250,293,454 | - | 250,293,454 |
| Intangible assets, net of accumulated amortization | - | 100,552,498 | - | 100,552,498 |
| Amount due from Member entities, net | - | 13,308,930 | - | 13,308,930 |
| Total noncurrent assets | <u>-</u> | <u>364,154,882</u> | <u>-</u> | <u>364,154,882</u> |
| Total assets | <u>5,452,445</u> | <u>377,751,867</u> | <u>(33,862)</u> | <u>383,170,450</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| Deferred outflow - OPEB | - | 13,866 | - | 13,866 |
| Deferred outflow - pension | - | 706,538 | - | 706,538 |
| | <u>-</u> | <u>720,404</u> | <u>-</u> | <u>720,404</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND - CONTINUED
DECEMBER 31, 2018

LIABILITIES

| | Industrial | Domestic | Intercompany Eliminations | Total |
|---|---------------------|-----------------------|------------------------------|-----------------------|
| Current liabilities: | | | | |
| Accounts payable | \$ 33,862 | \$ 762,206 | \$ (33,862) | \$ 762,206 |
| Other current liabilities | - | 206,548 | - | 206,548 |
| Due to Member entities | - | - | - | - |
| Current portion of access and use liabilities | - | 2,270,953 | - | 2,270,953 |
| Current portion of notes payable | - | 3,792,039 | - | 3,792,039 |
| Total current liabilities | <u>33,862</u> | <u>7,031,746</u> | <u>(33,862)</u> | <u>7,031,746</u> |
| Noncurrent liabilities: | | | | |
| Access and use liabilities | - | 25,091,214 | - | 25,091,214 |
| Notes payable | - | 168,223,656 | - | 168,223,656 |
| Interest payable | 3,739,213 | - | - | 3,739,213 |
| Unamortized loan origination fees | - | (60,915) | - | (60,915) |
| OPEB liability | - | 64,833 | - | 64,833 |
| Net pension liability | - | 1,479,713 | - | 1,479,713 |
| Total noncurrent liabilities | <u>3,739,213</u> | <u>194,798,501</u> | <u>-</u> | <u>198,537,714</u> |
| Total liabilities | <u>3,773,075</u> | <u>201,830,247</u> | <u>(33,862)</u> | <u>205,569,460</u> |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Deferred inflow - Member entities | - | 23,308,135 | - | 23,308,135 |
| Deferred inflow - OPEB | - | 7,033 | - | 7,033 |
| Deferred inflow - pension | - | 161,037 | - | 161,037 |
| Deferred inflow - West Dakota Water | 2,046,005 | - | - | 2,046,005 |
| Total deferred inflows of resources | <u>2,046,005</u> | <u>23,476,205</u> | <u>-</u> | <u>25,522,210</u> |
| NET POSITION | | | | |
| Net investment in capital and intangible assets | - | 142,401,760 | - | 142,401,760 |
| Unrestricted | (366,635) | 10,764,059 | - | 10,397,424 |
| Total net position | <u>\$ (366,635)</u> | <u>\$ 153,165,819</u> | <u>\$ -</u> | <u>\$ 152,799,184</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

| | <u>Industrial</u> | <u>Domestic</u> | <u>Total</u> |
|--|-----------------------|-----------------------|-----------------------|
| OPERATING REVENUE | | | |
| Water sales | \$ 15,058,237 | \$ 8,008,531 | \$ 23,066,768 |
| Billing and invoicing | - | 118,305 | 118,305 |
| Bulk commercial water reimbursement | - | 134,363 | 134,363 |
| Industrial water reimbursement | (4,444,664) | 4,444,664 | - |
| Total operating revenue | <u>10,613,573</u> | <u>12,705,863</u> | <u>23,319,436</u> |
| OPERATING EXPENSES | | | |
| Operating and maintenance | - | 7,187,449 | 7,187,449 |
| Professional fees | - | 252,259 | 252,259 |
| Purchase of water | - | 1,253,737 | 1,253,737 |
| Management fees | - | 116,096 | 116,096 |
| Administrative and general | 2,555 | 268,606 | 271,161 |
| Payroll and employee benefits | 75,000 | 1,833,910 | 1,908,910 |
| Communications and utilities | - | 140,628 | 140,628 |
| Transportation | - | 98,835 | 98,835 |
| Depreciation | - | 5,825,324 | 5,825,324 |
| Amortization | - | 1,072,022 | 1,072,022 |
| Total operating expenses | <u>77,555</u> | <u>18,048,866</u> | <u>18,126,421</u> |
| OPERATING INCOME (LOSS) | <u>10,536,018</u> | <u>(5,343,003)</u> | <u>5,193,015</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous income | - | 180,379 | 180,379 |
| Rental income | - | 93,515 | 93,515 |
| Interest income | 23,628 | 16,343 | 39,971 |
| Notes payable principal reimbursement | (3,455,872) | 3,455,872 | - |
| Interest expense | (4,335,183) | (7,951) | (4,343,134) |
| Capital project reimbursement | (2,139,321) | 2,139,321 | - |
| Access and use principal payment reimbursement | (2,306,686) | 2,306,686 | - |
| Access and use interest and admin fee | (806,878) | - | (806,878) |
| Grant revenue | - | 9,309,540 | 9,309,540 |
| Amortization of Member entities deferred inflows | - | 1,253,488 | 1,253,488 |
| Loss on disposal of capital assets | - | (27,946) | (27,946) |
| Total nonoperating revenues (expenses) | <u>(13,020,312)</u> | <u>18,719,247</u> | <u>5,698,935</u> |
| CHANGE IN NET POSITION | <u>(2,484,294)</u> | <u>13,376,244</u> | <u>10,891,950</u> |
| NET POSITION - JANUARY 1 | <u>(366,635)</u> | <u>153,165,819</u> | <u>152,799,184</u> |
| NET POSITION - DECEMBER 31 | <u>\$ (2,850,929)</u> | <u>\$ 166,542,063</u> | <u>\$ 163,691,134</u> |

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

| | <u>Industrial</u> | <u>Domestic</u> | <u>Total</u> |
|--|---------------------|-----------------------|-----------------------|
| OPERATING REVENUE | | | |
| Water sales | \$ 17,971,697 | \$ 8,111,142 | \$ 26,082,839 |
| Billing and invoicing | - | 134,559 | 134,559 |
| Bulk commercial water reimbursement | - | 134,592 | 134,592 |
| Industrial water reimbursement | <u>(5,824,798)</u> | <u>5,824,798</u> | <u>-</u> |
| Total operating revenue | <u>12,146,899</u> | <u>14,205,091</u> | <u>26,351,990</u> |
| OPERATING EXPENSES | | | |
| Operating and maintenance | 145,329 | 6,669,532 | 6,814,861 |
| Professional fees | - | 164,844 | 164,844 |
| Purchase of water | - | 2,004,634 | 2,004,634 |
| Management fees | - | 169,746 | 169,746 |
| Administrative and general | 9,225 | 311,344 | 320,569 |
| Payroll and employee benefits | 75,000 | 1,832,174 | 1,907,174 |
| Communications and utilities | - | 239,896 | 239,896 |
| Transportation | - | 116,160 | 116,160 |
| Depreciation | - | 5,507,111 | 5,507,111 |
| Amortization | - | 1,038,767 | 1,038,767 |
| Total operating expenses | <u>229,554</u> | <u>18,054,208</u> | <u>18,283,762</u> |
| OPERATING INCOME (LOSS) | <u>11,917,345</u> | <u>(3,849,117)</u> | <u>8,068,228</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous income (expense) | 101,915 | 207,978 | 309,893 |
| Rental income | - | 24,100 | 24,100 |
| Interest income | 21,039 | 1,199 | 22,238 |
| Notes payable principal reimbursement | (2,752,775) | 2,752,775 | - |
| Interest expense | (4,189,666) | (7,854) | (4,197,520) |
| Capital project reimbursement | (2,353,657) | 2,353,657 | - |
| Access and use principal payment reimbursement | (2,279,356) | 2,279,356 | - |
| Access and use interest and admin fee | (879,043) | - | (879,043) |
| Grant revenue | - | 11,247,082 | 11,247,082 |
| Amortization of Member entities deferred inflows | - | 833,333 | 833,333 |
| Gain on disposal of capital assets | - | (24,493) | (24,493) |
| Total nonoperating revenues (expenses) | <u>(12,331,543)</u> | <u>19,667,133</u> | <u>7,335,590</u> |
| CHANGE IN NET POSITION | <u>(414,198)</u> | <u>15,818,016</u> | <u>15,403,818</u> |
| NET POSITION - JANUARY 1 | <u>47,563</u> | <u>137,347,803</u> | <u>137,395,366</u> |
| NET POSITION - DECEMBER 31 | <u>\$ (366,635)</u> | <u>\$ 153,165,819</u> | <u>\$ 152,799,184</u> |