SOUTHWEST WATER AUTHORITY
DICKINSON, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Water Authority
Dickinson, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Water Authority as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwest Water Authority as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension*, as well as recorded a prior period adjustment to include a receivable for the water billing through December 31st. Our opinion is not modified with respect to these matters.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Southwest Water Authority's basic financial statements. The schedule of expenses and the schedule of percentage change are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenses is the responsibility of management and was derived from and relates 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of percentage change has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2019 on our consideration of Southwest Water 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 Southwest Water 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 Southwest Water Authority's internal control over financial reporting and compliance.

Brady Martz

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

March 16, 2019

SOUTHWEST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2018

As management of the Southwest Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 2018 and 2017. It is a requirement of GASB Statement No. 34 to show one more year than the actual financials present. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

Financial Highlights

The assets of the Authority totaled $29,534,475 as of the end of the year 2018 compared with $28,474,294 as of the end of the year 2017. This is an increase in total assets of $1,060,181 between 2018 and 2017. The liabilities totaled $6,244,159 for 2018 compared with $6,515,294 for 2017. This is a decrease in liabilities of $271,135 between 2018 and 2017. The assets and deferred outflows exceeded liabilities and deferred inflows at the end of the year 2018 by $25,034,428 compared with $24,207,712 at the end of the year 2017. This is an increase in net position of $826,716 between 2018 and 2017. The deferred pension outflows totaled $2,019,787 for year-end 2018 compared with $2,374,796 for year-end 2017. This is a decrease in deferred pension outflows of $355,009 between 2018 and 2017. The deferred Other Postemployment Benefits (OPEB) outflows totaled $39,144 for 2018. This is an increase from previous years as this was the first year to record this account. The deferred pension inflows totaled $302,013 for year-end 2018 compared with $126,084 for year-end 2017. This is an increase in deferred pension inflows of $175,929 between 2018 and 2017. The deferred OPEB inflows totaled $12,806 for 2018. This is an increase from previous years as this was the first year to record this account.

Assets held at the American Trust Center total $20,488,344 at year-end 2018 compared with $19,721,216 at year-end 2017. The amount that is the Replacement and Extraordinary Maintenance Fund is $18,984,521 year-end 2018 compared with $17,822,454 year-end 2017. This is an increase of $1,162,067 between 2018 and 2017. The North Dakota Legislature established the Replacement and Extraordinary Maintenance Fund when the Southwest Pipeline Project was authorized. This fund was created to cover costs of an extraordinary nature and/or to replace parts of an aging distribution system. It is funded by water customers system wide. The current rate is $.70 per 1,000 gallons sold to all customers. In addition, $.10 per 1,000 gallons sold to rural customers for the rural distribution system is also collected. The rate is $7.33 per 1,000 gallons sold to oil industry customers, and $5.14 per 1,000 gallons sold to oil industry customers at the SWA Water Depot. The fees are deposited on a monthly basis into this fund.

The amount in the Escrow Fund is $333,426 year-end 2018 compared with $331,832 year-end 2017. This is an increase of $1,594 between 2018 and 2017. Of this amount $6,082 in 2018 compared to $36,895 in 2017 is restricted. This is a decrease of $30,813 between 2018 and 2017. These are the hookup fees paid by customers who sign up for water. When water becomes available, the hookup fees are recognized as revenue. If however, the Authority is unable to serve these individuals, the hookup fees must be refunded.

Total cash on hand as of the end of the year 2018 is $4,376,990 compared with $3,603,125 at the end of 2017. This is an increase of $774,065 between 2018 and 2017. This is made up of checking and money market accounts.

The liabilities total $6,244,159 for year-end 2018 compared with $6,515,294 for year-end 2017. This is a decrease in liabilities of $271,135 between 2018 and 2017. Of this amount, $1,180,521 is current liabilities mostly in the form of accounts payable. This compares with 2017 year-ending balance of $1,750,960. This is a decrease in current liabilities of $570,439 between 2018 and 2017. Included in current liabilities are customer prepayments. These are overpayments applied on account by customers and are used to offset the next billing. Total customer prepayments for year-end 2018 are $46,011 and $238,083 for year-end 2017. The long-term liabilities total $5,063,638 at year-end 2018 compared with $4,764,334 at year-end 2017. Of this amount $4,679,689 is the net pension liability for year-end 2018 and $4,597,103 for year-end 2017. As of 2018 the net OPEB liability of $205,038 is included in long-term liabilities as well. This is an increase from previous years as this was the first year to record this account. Also included in long-term liabilities are unearned hookup fees and rental deposits from tenants/customers. Unearned hookup fees for year-end 2018 are $6,082, compared with $36,895 year-end 2017. Unearned hookup fees are held in escrow for customers who have signed up for water service with the Southwest Pipeline Project (SWPP). When service becomes available, these funds will be released and will then be recognized as revenue. If the SWPP is unable to provide water service, these hookup fees will be refunded to the individual. Rental deposits from tenants/customers for year-end 2018 are $59,325, compared with $59,475 for year-end 2017.

In addition to assets, the statement of net position shows a separate section for *deferred pension outflows and deferred OPEB outflows*. These separate financial statement elements represent 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. *Deferred pension outflows and deferred OPEB outflows* represent actuarial differences within NDPERS pension and OPEB plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position shows a separate section for *deferred pension inflows and deferred OPEB inflows*. These separate financial statement elements represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of revenue until that time. *Deferred pension inflows and deferred OPEB inflows* represent actuarial differences within NDPERS pension and OPEB plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: 1) Statement of Net Position 2) Statement of Revenues, Expenses and Change in Fund Net Position, 3) Statement of Cash Flows and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

CONDENSED STATEMENTS OF NET POSITION

	2018	2017*
ASSETS		
Unrestricted current assets	$ 5,172,616	$ 5,016,840
Restricted noncurrent assets	19,093,451	17,932,240
Capital assets	5,268,408	5,525,214
Total Assets	29,534,475	28,474,294
DEFERRED OUTFLOWS		
Deferred Pension Outflows	2,019,787	2,374,796
Deferred OPEB Outflows	39,144	-
Total Outflows	2,058,931	2,374,796
LIABILITIES		
Current Liabilities	1,180,521	1,750,960
Long-term liabilities	5,063,638	4,764,334
Total liabilities	6,244,159	6,515,294
DEFERRED INFLOWS		
Deferred Pension Inflows	302,013	126,084
Deferred OPEB Inflows	12,806	-
Total Inflows	314,819	126,084
NET POSITION		
Net investment in capital assets	5,268,408	5,525,214
Restricted net position	19,093,452	17,932,240
Unrestricted net position	672,568	750,258
Total Net Position	$ 25,034,428	$ 24,207,712

*The Authority implemented the new GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than The Pensions (OPEB), which requires governmental agencies to report their expense and liability. The Authority also implemented accruing Accounts Receivable from the last meter reading to the end of the year. GASB Statement No. 75 and the Accounts Receivable accrual was implemented in 2018 financial statements. Prior year financial statements were not restated, as detailed information is not available for prior years.

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* presents information showing how the entity's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	2018	2017*
Operating revenues:		
Sales	$ 14,241,221	$ 15,145,987
Hook up fee transfers	113,788	117,020
Other	32,583	35,207
Total operating revenues	14,387,592	15,298,214
Operating expenses:		
Transmission	6,029,072	7,214,566
Distribution	4,568,695	4,496,921
Board of directors	188,841	214,384
Administrative	925,193	990,987
Easement acquisition	150,336	166,376
Rural water sign-up	200,131	223,360
Customer service	192,211	189,175
Treatment	2,218,647	2,137,567
Total operating expenses	14,473,126	15,633,336
Operating income/(loss)	(85,534)	(335,122)
Nonoperating revenue:		
Property taxes	681,770	653,089
Unrealized gain/(loss) on investments	(161,209)	166,353
Investment income	409,002	310,297
Total nonoperating revenue before contributions	929,563	1,129,739
Change in net position	844,029	794,617
Total net position - beginning of year as previously stated	24,207,712	23,413,095
Prior period adjustment (see note 10)	(17,313)	-
Total net position - beginning of year as restated	24,190,399	23,413,095
Total net position - end of year	$ 25,034,428	$ 24,207,712

*The Authority implemented the new GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than The Pensions (OPEB), which requires governmental agencies to report their expense and liability. The Authority also implemented accruing Accounts Receivable from the last meter reading to the end of the year. GASB Statement No. 75 and the Accounts Receivable accrual was implemented in 2018 financial statements. Prior year financial statements were not restated, as detailed information is not available for prior years.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority has one fund, an enterprise fund. The enterprise fund is for the Operations and Maintenance of the SWPP. The main sources of revenue for this fund are from the sale of water and from a mill levy that is levied by the Authority in the amount of one mill in each of the twelve counties that are a part of the Authority.

The revenues from the sale of water for 2018 totaled $14,241,221 compared with $15,145,987 for 2017. This is a decrease in revenues of $904,766 between 2018 and 2017. The net income/net losses by department for 2018 are transmission net loss of $489,593, distribution net loss of $164,337 and treatment net loss of $266,327. This compares with net income/net loss for 2017 are transmission net loss of $483,082, distribution net income of $1,506 and treatment a net loss of $152,820.

The mill levy generated income of $681,770 for 2018 compared with $653,089 for 2017. This is an increase of $28,681 between 2018 and 2017. In 2018 the administration activities had a net income of $24,459 compared with a net loss of $89,950 for 2017. Administration includes activities for the board of directors, administration, sign up and easements.

The actual revenues and expenses were under budget. The revenues were under budget by 6.4% of projections and the expenses were under budget by 8.2%.

The Authority sold a total of 2,271,118,490 gallons of water in 2018 compared with 2,442,561,100 gallons of water in 2017. This is a decrease of 171,442,610 between 2018 and 2017. This is 8.13% under the projection for the year of 2,472,120,000 gallons for 2018.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Chief Financial Officer, Southwest Water Authority, 4665 Second Street SW, Dickinson, ND 58601-7231. You can also contact the Authority online at swa@swwater.com or visit on the web at www.swwater.com.

SOUTHWEST WATER AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	2018
ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 1,841,469
Investments	1,456,481
Receivables:	
Accounts (net of allowance of $5,676)	1,139,203
Interest	7,435
Prepaid expenses	64,689
Inventory	663,339
Total current assets	5,172,616
Noncurrent Assets	
Restricted assets:	
Cash and cash equivalents	152,784
Investments	18,831,736
Interest receivable	108,931
Capital Assets:	
Land	109,627
Buildings, improvements and equipment, net	5,158,781
Total noncurrent assets	24,361,859
Total Assets	29,534,475
DEFERRED OUTFLOWS	
Deferred Pension Outflows	2,019,787
Deferred OPEB Outflows	39,144
	2,058,931

SEE NOTES TO THE FINANCIAL STATEMENTS

SOUTHWEST WATER AUTHORITY
STATEMENT OF NET POSITION - CONTINUED
AS OF DECEMBER 31, 2018

	2018
LIABILITIES	
Current Liabilities	
Accounts payable	$ 598,162
Accrued salaries	247,415
Compensated absences, current portion	165,029
Accrued expenses	123,904
Customer prepayments	46,011
Total current liabilities	1,180,521
Long-term Liabilities	
Compensated absences, net of current portion	113,504
Unearned hookup fees	6,082
Rental/customer deposits	59,325
Net pension liability	4,679,689
Net OPEB liability	205,038
Total long-term liabilities	5,063,638
Total liabilities	6,244,159
DEFERRED INFLOWS	
Deferred Pension Inflows	302,013
Deferred OPEB Inflows	12,806
	314,819
NET POSITION	
Net investment in capital assets	5,268,408
Restricted for replacement	19,093,452
Unrestricted	672,568
Total Net Position	$ 25,034,428

SEE NOTES TO THE FINANCIAL STATEMENTS

SOUTHWEST WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Operating revenues:	
Sales	$ 14,241,221
Hook up fee transfers	113,788
Other	32,583
Total operating revenues	14,387,592
Operating expenses:	
Transmission	6,029,072
Distribution	4,568,695
Board of directors	188,841
Administrative	925,193
Easement acquisition	150,336
Rural water sign-up	200,131
Customer service	192,211
Treatment	2,218,647
Total operating expenses	14,473,126
Operating gain(loss)	(85,534)
Nonoperating revenue:	
Property taxes	681,770
Unrealized gain/(loss) on investments	(161,209)
Investment income	409,002
Total nonoperating revenue	929,563
Change in net position	844,029
Total net position - beginning of year as previously stated	24,207,712
Prior period adjustment (see note 10)	(17,313)
Total net position - beginning of year as restated	24,190,399
Total net position - end of year	$ 25,034,428

SEE NOTES TO THE FINANCIAL STATEMENTS

SOUTHWEST WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Cash flows from operating activities:	
Receipts from customers	$ 14,198,031
Receipts from others	32,583
Payments to suppliers	(10,652,708)
Payments to employees	(3,193,671)
Cash provided (used) by operating activities	384,235
Cash flows from noncapital financing activities:	
Property taxes revenue	681,770
Cash flows used by capital and related financing activities:	
Purchase of property and equipment	(274,486)
Cash flows from investing activities:	
Proceeds from the sale of investments	2,092,508
Purchases of investments	(2,977,066)
Investment income	412,787
Cash provided (used) by investing activities	(471,771)
Change in cash and cash equivalents	319,748
Cash and cash equivalents, beginning of period	1,674,505
Cash and cash equivalents, end of period	$ 1,994,253
Cash and cash equivalents - unrestricted	$ 1,841,469
Cash and cash equivalents - restricted	152,784
Total cash and cash equivalents	$ 1,994,253
Noncash investing and financing activities:	
Unrealized increase (decrease) in investments	(161,209)
Purchase of equipment with trade-in	26,970

SEE NOTES TO THE FINANCIAL STATEMENTS

SOUTHWEST WATER AUTHORITY
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Reconciliation of operating gain to net cash provided (used) by operating activities	
Operating income (loss)	$ (85,534)
Adjustments to reconcile operating gain to net cash provided (used) by operating activities:	
Depreciation	531,292
Deferred outflows - pension	315,865
Deferred inflows - pension	188,735
Effects on operating cash flows due to changes in:	
Accounts receivable	(246,451)
Prepaid expenses	(9,605)
Inventory	(38,932)
Accounts payable	(336,973)
Accrued salaries	(14,762)
Accrued expenses	(12,687)
Compensated absences	28,698
Customer Prepayments	(192,072)
Unearned hookup fees/rental/customer deposits	(30,963)
Net pension liability	82,586
Net OPEB Liability	205,038
Total adjustments	469,769
Net cash provided (used) by operating activities	$ 384,235

SEE NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

The Authority was created in 1991 by an Act of the North Dakota Legislature. The Authority was established to provide for the supply and distribution of water from the Missouri River to the people of southwestern North Dakota through a pipeline transmission and delivery system. The pipeline transmission and delivery system was constructed and is owned by the North Dakota State Water Commission. The Authority is responsible for the operation and maintenance of the SWPP. The business and affairs of the Authority is managed by a Board of 15 directors elected in accordance to sections 61-24.5-06 through 61-24.5-09 of the North Dakota Century Code.

On April 1, 2000, the Authority assumed the operational responsibilities of the Dickinson Water Treatment Plant. Prior to this date, the City of Dickinson operated the facility and billed the Authority the cost of treating the water which the Authority sold. The City of Dickinson retained the ownership of the facility.

Effective July 1, 2015, all water service contracts were amended in order to enforce the permit conditions on SWPP customers and to follow the North Dakota State Water Commission's Water Supply Cost Share Policy of domestic water supply having priority over industrial water supply. The amendment included any community selling water for oil and gas be sold at the Authority oil industry rates.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. These financial statements represent the financial position, results of operations and cash flows of the Authority for fiscal years ended December 31, 2018. The more significant of the Authority's accounting policies are described below.

Reporting Entity

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by Governmental Accounting Standards Board (GASB). Southwest Water Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include 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 impose specific financial burdens on the Authority. Based upon the application of these criteria, the Authority is not includable as a component unit within another reporting entity and the Authority does not have a component unit.

Fund Accounting

The Authority uses fund accounting to report on its financial position and the results of its operations. The activities of the various funds are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, reserves, net position, revenues and expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities.

The following fund type is used by the Authority:

Proprietary Fund Type

The Proprietary Funds measurement focus is upon determination of net income, financial position, and changes in financial position. These funds are used to account for activities that are similar to those found in the private sector. They are maintained on the accrual basis of accounting. The following is the Authority's Proprietary Fund type:

Enterprise Funds: account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis by financing or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities and deferred inflows (whether current or non-current) associated with their activities are reported. Proprietary Fund equity is classified as net position. Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are water sales, hook up transfers and other income. Operating expenses include transmission, distribution, board of directors, administrative, easement acquisition, rural water sign-up, customer service and treatment. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets - Legal Compliance

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. In July of each year the board of directors shall estimate and itemize all the administrative expenses and obligations of the Authority, including expenses of directors, expenses of operating the office, and any other obligations and liabilities relating to administrative, clerical, engineering, surveying, investigations, legal and other related expenses of the Authority. Upon the completion and adoption of such budget, the board of directors shall make a tax levy in the amount sufficient to meet such budget. Such levy must be in the form of a resolution adopted by a majority vote of the members of the board of directors of the Authority. Such resolution must levy in mills, but may not exceed one mill, and must be sufficient to meet the administrative, engineering, surveying, investigations, legal and related expenses, obligations, and liabilities of the Authority as provided in the budget. Upon adoption to the mill levy by the board of directors, but no later than October 1, the secretary of the board shall send one certified copy of the mill levy to the county auditor of each county which is a member of the Authority. The board shall also prepare and adopt an annual budget for operation, management, maintenance, and repayment of the Southwest Pipeline Project. Revenues for operation, management, maintenance, and repayment of the Southwest Pipeline Project must come from water service contract revenues.

Cash and Cash Equivalents

For the purposes of reporting cash flows, the Authority considers all checking, savings, and certificates of deposit, with an original maturity of three months or less, to be cash equivalents.

Receivables and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed interest at 1.5% of the unpaid balance.

Payments on trade receivables are allocated to the earliest unpaid billings. The carrying amounts of trade receivables are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade receivable balances periodically and adjusts the allowance account based on current economic conditions and past experience.

Investments

Investments are accounted for at fair value. Fair value is *"the amount that can reasonably be expected to be received for an investment in a current sale between a willing buyer and a willing seller."* Fair value was determined by reference to published market data. Net increase (decrease) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost plus sales of investments at fair value. This change is included in investment income for the year.

Inventories and Prepaid Items

Inventories are valued at the lower of cost or net realizable value.

Payments made to vendors for items or services for a future period beyond fiscal year end, are recorded as prepaid expenses.

Property and Equipment

Property and equipment are carried at historical cost or estimated historical cost if actual historical cost is not known. Contributed assets are recorded at acquisition value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance is expensed as incurred.

The Authority's capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is $1,500 and a useful life of at least three years.

The Authority depreciates its buildings over a 40-year period and its equipment and furnishings over 3 to 10 years.

Equity Classifications

Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted for replacement – A reserve fund for replacement and extraordinary maintenance of project works must be maintained. The reserve is maintained in accordance with NDCC Section 61-24.5.

- Unrestricted net position – All other net position that do not meet the definitions of "invested in capital assets, net of related debt" or "restricted for replacement."

Accumulated Unpaid Vacation and Sick Pay

Annual leave is a part of permanent employees' compensation. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond December 31st of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees are entitled to accrue sick leave in a range of eight to twelve hours per month with unlimited accumulation. Employees with at least 10 years of employment are paid one-tenth of their accumulated sick leave when the employee terminates employment.

Customer Prepayments

The Authority reports customer prepayments on the statement of net position. Customer prepayments are overpayments applied on account by customers. These prepayments are used to offset the next billing to these customers.

Pensions

Pensions. 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 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post Employment Benefits

Other Post Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and 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.

Unearned Hookup Fees

The Authority reports unearned hookup fees on its balance sheet. Unearned hookup fees arise when resources are received by the Authority before it has a legal claim to them, as when hookup fees are collected prior to service being provided to the member. In subsequent periods, when the Authority has a legal claim to the resources, the liability for unearned hookup fees is removed from the balance sheet and revenue is recognized.

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/expenditures) until then. The Authority has two items that qualify for reporting in this category named Deferred Pension Outflows and Deferred OPEB Outflows which represents actuarial differences within NDPERS pension and other post employment benefit plans as well as amounts paid to the plan 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 and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. Accordingly, Deferred Pension Inflows and Deferred OPEB Inflows, represents actuarial differences within NDPERS pension and other post employment benefit plans. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure the Authority would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The Authority does not have a formal policy regarding custodial credit risk.

At December 31, 2018 the carrying amount of the Authority's deposits was $4,377,190. The bank balances was $4,379,103. The bank balance and deposits are collateralized and insured.

NOTE 3 INVESTMENTS

The Authority has set up five investment accounts with a local trust company. The escrow account represents hookup fees, which have been collected as deposits from future potential customers. The reserve account represents funds set aside for emergency situations. The general fund operating account is set up for general fund operations. The O&M account is set up for O&M operations. The Reserve Fund for Replacement represents funds set aside for the purpose of replacement and extraordinary maintenance of Project works. The reserve for replacement account is restricted.

The Authority invests in certificates of deposits, corporate bonds, U.S. government securities and U.S. government backed securities, and fixed income mutual funds.

The total fair value of the investments as of December 31, 2018 is $20,288,217 and its cost is $20,894,700.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At December 31, 2018, the following table shows the investments by investment type and maturity:

Investment Type	Total Market Value	Less than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
Corporate Bonds	$ 487,277	$ -	$ 487,277	$ -	$ -
Government Bonds	17,194,346	-	10,771,214	5,680,897	742,235
Government Mortgage-Backed	1,643	-	-	1,643	-
Mutual Funds - Fixed Income	924,951	924,951	-	-	-
Certificates of Deposit	1,680,000	30,000	1,650,000	-	-
Total Debt Securities	$ 20,288,217	$ 954,951	$ 12,908,491	$ 5,682,540	$ 742,235

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does not have an investment policy that specifically addresses credit risk. The following table represents the Authority's ratings as of December 31, 2018:

S&P	Total Market Value	Corporate Bonds	Government Bonds	Government Mortgage Backed	Mutual Funds
AAA	$ 1,643	$ -	$ -	$ 1,643	$ -
AA+	15,833,586	-	15,833,586	-	-
NR	2,772,988	487,277	1,360,761	-	924,950
Total credit risk Debt securities	18,608,217	$ 487,277	$ 17,194,347	$ 1,643	$ 924,950
Investments not subject to categorization:					
Certificates of deposit	1,680,000				
Total debt securities	$ 20,288,217				

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

Mutual funds are valued based on quoted market prices, when available, or market prices provided by a national pricing service which used methods of valuation that consider the reports of nationally recognized exchanges for the asset being valued. If listed prices or quotes are not available, fair value is based upon externally developed models that use observable inputs due to the limited market activity of the instrument.

Bonds (Government and Corporate) and Mortgage-backed securities are valued based on evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. To evaluate the wide range of these securities, evaluators draw parallels from the trading and quoting of bonds with similar features. Characteristics used to identify comparable securities may include such things as: sector, type of bond, coupon, credit quality ratings, bond insurance or other credit enhancement, maturity, call, put, sinking fund or other early redemption features.

There have been no changes in the methodologies used at December 31, 2018.

The following table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2018:

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Corporate Bonds	$ 487,277	$ -	$ 487,277	$ -
Government Bonds	17,194,346	-	17,194,346	-
Government Mortgage-Backed	1,643	-	1,643	-
Mutual Funds - Fixed Income	924,951	924,951	-	-
		$ 924,951	$ 17,683,266	$ -
Investments not subject to categorization:				
Certificates of deposit	1,680,000			
Total	$ 20,288,217			

NOTE 5 LAND, STRUCTURES AND EQUIPMENT

The following is a summary of changes in land, structures and equipment for the year ended December 2018:

Land, Structures and Equipment	
Capital assets not being depreciated:	
Land	
Balance - January 1, 2018	$ 109,347
Additions	280
Deletions	-
Balance - December 31, 2018	$ 109,627
Capital assets being depreciated:	
Buildings, improvements and equipment	
Balance - January 1, 2018	$ 8,294,117
Additions	301,176
Deletions	(189,090)
Balance - December 31, 2018	$ 8,406,203
Accumulated Depreciation	
Buildings, improvements and equipment	
Balance - January 1, 2018	$ 2,878,250
Additions	531,292
Deletions	(162,120)
Balance - December 31, 2018	$ 3,247,422
Land, structures and equipment, net	$ 5,268,408

NOTE 6 COMPENSATED ABSENCES

The Authority's liability for accumulated unpaid leave as of December 31, 2018 was $278,533. A summary of compensated absences follows:

	2018
Balance - January 1	$ 249,835
Additions	193,727
Reductions	(165,029)
Balance - December 31	$ 278,533
Amounts Due Within One Year	$ 165,029

NOTE 7 DEFINED BENEFIT PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:
1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At December 31, 2018, Southwest Water Authority reported a liability of $4,679,689 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 Authority's proportion of the net pension liability was based on the Authority'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 Authority's proportion was 0.277297 percent, which was a decrease of 0.008712 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Authority recognized pension expense of $838,114. At December 31, 2018, 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	$12,386	($159,212)
Changes of assumptions	1,689,270	(66,793)
Net difference between projected and actual earnings on pension plan investments	-	(22,767)
Changes in proportion and differences between employer contributions and proportionate share of contributions	217,069	(53,241)
Employer contributions subsequent to the measurement date (see below)	101,062	-
Total	$2,019,787	($302,013)

$101,062 reported as deferred outflows of resources related to pensions resulting from the Authority's 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	$547,753
2020	484,959
2021	385,249
2022	191,521
2023	7,230

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:	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age*		
	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 rate 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	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

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

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

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

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Authority's proportionate share of the net pension liability	$ 6,358,828	$ 4,679,689	$ 3,278,502

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 Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota, 58502.

NOTE 8 DEFINED OPEB PLAN

North Dakota Public Employees Retirement System

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

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

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

OPEB Benefits

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

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

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

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

At December 31, 2018, the Southwest Water Authority reported a liability of $ 205,038 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on the Authority's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Authority's proportion was 0.260343 percent.

For the year ended December 31, 2018, the Authority recognized OPEB expense of $24,663. At December 31, 2018, the Authority reported deferred 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	$6,139	($4,236)
Changes of assumptions	16,824	-
Net difference between projected and actual earnings on pension plan investments	-	(4,411)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(4,159)
Employer contributions subsequent to the measurement date (see below)	16,181	-
Total	$39,144	($12,806)

$16,181 reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

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

Year ended June 30:	
2019	$1,046
2020	1,046
2021	1,046
2022	2,992
2023	1,274
2024	2,635
Thereafter	118

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

Inflation	2.50%
Salary increases	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 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Authority's proportionate share of the net pension liability	$ 259,422	$ 205,038	$ 158,417

Pension 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 Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota, 58502.

NOTE 9 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Political subdivisions have 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. All members joined to help capitalize the NDIRF. The Authority pays an annual premium to NDIRF for its general insurance, personal injury insurance, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of $2,000,000 per occurrence. The Authority does participate in the North Dakota fire and tornado fund, state bonding fund, and the North Dakota Workforce Safety & Insurance workers' compensation program.

The Authority continues to carry insurance for all other risks of loss, including auto insurance, employee health and accident insurance, with coverage up to $2,000,000 per occurrence.

Beginning January 1, 2017, the Authority began carrying pollution insurance with One Beacon Insurance Group with coverage up to $1,000,000 per occurrence.

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

NOTE 10 PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2018, two prior period adjustments were recorded:

GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* was implemented during the year ended December 31, 2018. Southwest Water Authority has recorded a prior period adjustment in the Statement of Activities to reflect the net OPEB liability, deferred outflows and deferred inflows.

A prior period adjustment was also recorded to adjust the accounts receivable from water billings. The adjustment was to include a receivable for the days of water billing subsequent to the last meter reading in December through December 31, 2018.

The total prior period adjustment is as follows:

	Accounts Receivable	Net OPEB Liability	Deferred Outflows	Deferred Inflows	Equity
GASB Statement No 75	$ -	$213,480	($20,677)	$13,959	($206,762)
Accounts Receivable	189,446	-	-	-	189,446
Total	$189,446	$213,480	($20,677)	$13,959	($17,313)

NOTE 11 FUTURE GASB PRONOUNCEMENTS

GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

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

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

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

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

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

SOUTHWEST WATER AUTHORITY
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.277297%	$4,679,689	$2,848,716	164.27%	62.80%
2017	0.286009%	4,597,103	2,919,708	157.45%	61.98%
2016	0.272279%	2,652,647	2,743,931	96.67%	70.46%
2015	0.246740%	1,650,142	2,161,934	76.33%	77.15%

*Complete data for this schedule is not available prior to 2015. The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30th.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST WATER AUTHORITY
SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS
LAST 10 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
2018	$207,233	($207,233)	$ -	$2,910,582	7.12%
2017	208,567	(208,567)	-	2,929,305	7.12%
2016	204,573	(204,573)	-	2,873,226	7.12%
2015	189,478	(189,478)	-	2,661,206	7.12%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST WATER AUTHORITY
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	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
2018	0.260343%	$205,038	$2,848,716	7.20%	61.89%

*Complete data for this schedule is not available prior to 2015. The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30th.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST WATER AUTHORITY
SCHEDULE OF EMPLOYER'S OPEB CONTRIBUTIONS
LAST 10 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
2018	$33,181	($33,181)	$ -	$2,910,582	1.14%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of assumptions

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

SOUTHWEST WATER AUTHORITY
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Transmission	Distribution	Board of Directors	Administration	Easement	Sign-up	Customer Service	Treatment	Total
Salaries	$ 1,212,220	$ 467,576	$ 43,188	$ 466,443	$ 80,857	$ 80,857	$ 52,629	$ 803,837	$ 3,207,607
Benefits	673,960	303,347	77	245,806	58,124	58,124	41,422	467,839	1,848,699
Payroll taxes	89,972	34,504	3,881	30,099	5,822	5,822	4,087	66,101	240,288
Professional fees	30,526	18,043	61,625	113,719	-	48,872	5,792	24,549	303,126
Supplies	5,836	1,962	79	9,613	1,435	1,366	3,265	4,030	27,586
Utilities	1,022,146	71,385	-	-	-	-	-	175,383	1,268,914
Repairs	175,994	454,856	-	6,256	848	848	-	54,757	693,559
Travel	105,673	38,480	22,236	6,529	479	479	-	23,717	197,593
Telephone	33,423	917	4,140	1,131	695	786	285	9,895	51,272
Capital repayment	2,146,107	2,950,896	-	-	-	-	-	-	5,097,003
Insurance	60,241	-	17,179	4,853	-	-	-	31,091	113,364
Maintenance	144,877	-	-	-	-	-	-	-	144,877
Printing and promotion	51,357	27	3,027	3,344	50	849	28,567	148	87,369
Postage	2,276	1,184	132	2,605	87	459	41,380	1,869	49,992
Dues and subscriptions	211	34	25,515	26,121	445	175	-	65	52,566
Development and education	800	440	4,635	1,195	160	160	26	1,591	9,007
Water testing	-	14,139	-	-	-	-	-	20,492	34,631
Chemicals	-	-	-	-	-	-	-	487,286	487,286
Bad Debts	1,416	-	-	-	-	-	2,528	-	3,944
Rent	6,000	-	-	-	-	-	-	-	6,000
Depreciation	257,967	210,746	-	6,628	1,334	1,334	7,596	45,687	531,292
Miscellaneous	8,070	159	3,127	851	-	-	4,634	310	17,151
	$ 6,029,072	$ 4,568,695	$ 188,841	$ 925,193	$ 150,336	$ 200,131	$ 192,211	$ 2,218,647	$ 14,473,126

SOUTHWEST WATER AUTHORITY
SCHEDULE OF PERCENTAGE CHANGE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017	Percent Change
Salaries	$ 3,207,607	$ 3,285,053	-2.36%
Benefits	1,848,699	1,748,998	5.70%
Payroll taxes	240,288	244,474	-1.71%
Professional fees	303,126	394,097	-23.08%
Supplies	27,586	29,055	-5.06%
Utilities	1,268,914	1,317,174	-3.66%
Repairs	693,559	1,128,548	-38.54%
Travel	197,593	174,078	13.51%
Telephone	51,272	51,414	-0.28%
Capital repayment	5,097,003	5,163,983	-1.30%
Insurance	113,364	94,907	19.45%
Maintenance	144,877	631,587	-77.06%
Printing and promotion	87,369	112,405	-22.27%
Postage	49,992	49,765	0.46%
Dues and subscriptions	52,566	52,936	-0.70%
Development and education	9,007	14,861	-39.39%
Water testing	34,631	51,429	-32.66%
Chemicals	487,286	517,106	-5.77%
Bad Debts	3,944	3,379	16.72%
Rent	6,000	6,000	0.00%
Depreciation	531,292	544,839	-2.49%
Miscellaneous	17,151	17,248	-0.56%
	$ 14,473,126	$ 15,633,336	-7.42%

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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*

The Board of Directors
Southwest Water Authority
Dickinson, 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 Southwest Water Authority as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Water 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Water Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Water 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.*

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 result 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

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

March 16, 2019