

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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## INDEPENDENT AUDITOR'S REPORT

CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

We have audited the accompanying modified cash basis financial statements of the business-type activities of R & T Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise R & T Water District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of R & T Water District as of December 31, 2017 and 2016, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

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

## Other Matters

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise R & T Water District's basic financial statements. The schedule of expenditures of federal awards and notes are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2018 on our consideration of R & T Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering R & T Water District's internal control over financial reporting and compliance.



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

August 14, 2018

**R & T WATER DISTRICT**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,360,595	\$ 4,429,856
Current portion of receivable from WAWSA	383,732	376,057
Current portion of receivable from members	98,565	-
Total current assets	5,842,892	4,805,913
Noncurrent assets		
Beneficial interest in trust	58,457	58,583
Restricted cash and cash equivalents	1,178,501	1,729,503
Capital assets, net of accumulated depreciation	18,790,930	19,497,893
Cost shared infrastructure, net of accumulated amortization	7,756,580	4,123,861
Receivable from WAWSA, net of current portion	6,355,883	6,739,615
Receivable from members, net of current portion	3,840,474	-
Total noncurrent assets	37,980,825	32,149,455
Total assets	43,823,717	36,955,368
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - cost shared infrastructure	\$ 147,965	\$ 174,628

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>LIABILITIES</b>		
Current liabilities		
Customer deposits	\$ 674,000	\$ 727,000
Current portion of bonds payable	510,000	369,789
Current portion of liability on cost shared infrastructure	122,535	147,196
Due to WAWSA	250,000	-
Total current liabilities	1,556,535	1,243,985
Long-term liabilities		
Bonds payable	10,845,000	6,730,000
Liability on cost shared infrastructure	2,890,050	4,043,550
Total long-term liabilities	13,735,050	10,773,550
Total liabilities	15,291,585	12,017,535
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - Western Area Water Supply Authority	11,718,862	11,772,009
Deferred inflows - Members	3,811,180	-
Total deferred inflows of resources	15,530,042	11,772,009
<b>NET POSITION</b>		
Net investment in capital assets	7,226,502	7,849,510
Restricted for:		
Beneficial interest in trust	58,457	58,583
Debt service	504,501	1,002,503
Unrestricted	5,360,595	4,429,856
Total net position	\$ 13,150,055	\$ 13,340,452

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION – MODIFIED CASH BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Operating revenue		
Water sales	\$ 1,746,797	\$ 1,532,767
Bulk sales	24,485	45,461
Hook-up revenue	651,100	-
WAWSA operating reimbursement	985,057	973,563
Total operating revenue	3,407,439	2,551,791
Operating expenses		
Governing board	14,800	12,000
Salaries	619,344	634,289
Retirement	37,118	34,618
Health and dental insurance	71,695	59,708
Education and training	3,562	3,465
Utilities	109,062	97,673
Chemicals	197,148	162,414
Maintenance, repairs and supplies	440,820	109,689
Office expense	8,104	2,625
Insurance	15,073	14,553
Dues and subscriptions	1,577	1,010
Cost of water sold	1,113,647	1,081,194
Depreciation	1,035,031	859,475
Amortization	140,987	105,739
Professional fees	71,985	84,370
Total operating expenses	3,879,953	3,262,822
Operating income (loss)	(472,514)	(711,031)
NON-OPERATING REVENUE (EXPENSES)		
Increase (decrease) of beneficial interest in trust	(126)	(9,246)
Interest/dividend income	48,006	55,590
WAWSA interest reimbursement	180,282	191,265
Member interest reimbursement	6,243	-
Interest expense on cost shared infrastructure liability	(39,721)	(22,039)
Interest expense on bonds payable	(149,783)	(152,871)
Amortization of WAWSA deferred inflows	124,669	123,916
Amortization of member deferred inflows	131,420	-
Other revenues	13,642	8,845
Gain (loss) on sale of assets	17,665	-
Other expenses	(50,180)	(46,266)
Total nonoperating revenues (expenses)	282,117	149,194
CHANGE IN NET POSITION	(190,397)	(561,837)
NET POSITION - JANUARY 1	13,340,452	13,902,289
NET POSITION - DECEMBER 31	\$ 13,150,055	\$13,340,452

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,369,382	\$ 1,800,228
Operating reimbursement from related party	985,057	973,563
Payments to suppliers	(1,960,978)	(1,556,993)
Payments on behalf of employees	(108,813)	(94,326)
Payments to employees	(634,144)	(646,289)
Net cash provided (used) by operating activities	650,504	476,183
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Other revenue (expenses)	(36,538)	(37,421)
Net cash provided (used) by noncapital financing activities	(36,538)	(37,421)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(4,891,509)	(352,044)
Reimbursement from WAWSA for capital expenditures	71,522	217,580
Payment on bonds payable	(494,789)	(445,000)
Payment on cost shared infrastructure liability	(120,761)	(38,854)
Prepayment on cost shared infrastructure liability	(32,217)	(174,628)
Reimbursement from WAWSA for bond payments	556,339	635,015
Reimbursement from Members for bond payments	132,917	-
Payment on Member debt	(64,233)	-
Interest expense on cost shared infrastructure liability	(39,721)	(22,039)
Interest expense on bonds payable	(149,783)	(152,871)
Proceeds from long-term debt	4,750,000	-
Net cash provided (used) by capital and related financing activities	(282,235)	(332,841)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest/dividend income	48,006	55,590
Net cash provided (used) by investing activities	48,006	55,590
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>379,737</b>	<b>161,511</b>
 <b>CASH AND CASH EQUIVALENTS - JANUARY 1</b>	<b>6,159,359</b>	<b>5,997,848</b>
 <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>	<b>\$ 6,539,096</b>	<b>\$ 6,159,359</b>

SEE NOTES TO THE FINANCIAL STATEMENTS



**R & T WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CASH PRESENTATION TO CASH AND CASH EQUIVALENTS		
Current assets		
Cash and cash equivalents	\$ 5,360,595	\$ 4,429,856
Noncurrent assets		
Restricted cash and cash equivalents	<u>1,178,501</u>	<u>1,729,503</u>
Total cash and cash equivalents	<u>\$ 6,539,096</u>	<u>\$ 6,159,359</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (472,514)	\$ (711,031)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,035,031	859,475
Amortization expense	140,987	105,739
Effects on operating cash flows due to changes in:		
Customer deposits	<u>(53,000)</u>	<u>222,000</u>
Net cash provided by operating activities	<u>\$ 650,504</u>	<u>\$ 476,183</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in value of beneficial interest in trust	\$ 38,516	\$ 114,806
Distribution of beneficial interest in trust	(38,642)	(148,815)
Amortization of WAWSA deferred inflows	124,669	121,649
Amortization of Member deferred inflows	131,420	-
Cost shared infrastructure acquired with issuance of payable	(250,000)	-
Increase in deferred inflow due to issuance of receivable	3,942,600	-

SEE NOTES TO THE FINANCIAL STATEMENTS

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of R & T Water District is presented to assist in understanding the District's financial statements.

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

**Nature of operations and history**

R & T Water District provides a water system and water supply to the areas surrounding western North Dakota. Effective October 19, 1978, an association was created and established by a joint powers agreement between the cities of Ray and Tioga and the William County Water Management District. Effective February 15, 2012, the association was reorganized into a commerce authority in accordance with Chapter 11-37 of the North Dakota Century Code. Chapter 11-37 of the North Dakota Century Code has since been repealed and the entity is now organized as a water district. It is exempt from federal income tax under section 501(c)1 of the Internal Revenue Code. The District is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed or operated in a manner similar to the private sector, where the intent is that cost of providing services to the general public on a continuous basis be financed or recovered primarily through user charges.

**Reporting entity**

Component units are legally separate organizations for which the District is financially accountable. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Component units may also include organizations that are fiscally dependent on the District.

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

**Basis of accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the modified cash basis of accounting. This basis recognizes assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

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

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

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

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

**Cash and cash equivalents**

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

**Restricted cash and cash equivalents**

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

**Reserve for debt service**

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**Investment policy**

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

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

**Beneficial interest in trust**

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

**Receivable from Western Area Water Supply District**

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

**Receivable from Members**

The District transacts under a service concession arrangement with the member entities of WAWSA. Under this arrangement, the members are required to reimburse R & T Water District for their outstanding principal payments on their debt. This receivable represents the present value of the principal payment reimbursements required by the members.

**Cost shared infrastructure**

Cost shared infrastructure is capitalized at contract cost. A portion of the cost is charged against earnings each year as amortization expense. Amortization is computed on the straight-line basis, over the estimated useful life of the infrastructure, which ranges from 20 to 30 years.

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**Capital assets**

Capital assets are recorded at historical costs less accumulated depreciation. A portion of the cost of the capital assets is charged against earnings each year as depreciation expense. Depreciation is computed on the straight-line basis, over the estimated useful life of the asset. The District established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

The District has established the following useful lives:

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

**Customer Deposits**

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

**Pensions**

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

**Net Position**

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

**Net Position Flow Assumption**

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. Deferred Inflows of Resources - WAWSA represents a reimbursement from WAWSA for capital expenditures and debt principal payments. The District transacts under a service concession arrangement with Western Area Water Supply Authority (WAWSA). This deferred inflow of resources, under GASB 60 - Service Concession Arrangements guidance, is to be amortized over the life of the agreement with WAWSA, which is 99 years. Refer to Note 8 for a full description of the relationship between the entities. Deferred Inflows of Resources – Customer Security Deposits represents a payment from R & T customers for water hookup services. The District will recognize this revenue once the customer hookup process is completed.

**Use of Estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Reclassifications**

Certain reclassifications have been made to the prior year for comparative purposes to conform to the presentation in the current year.

**NOTE 2 CUSTODIAL CREDIT RISK**

The District maintains cash deposits at various financial institutions. The amounts on deposit were insured by the FDIC/NCUA up to \$250,000 per financial institution. At December 31, 2017, the District had approximately \$5,089,000 in excess of the FDIC/NCUA limit on deposit. Approximately \$4,838,000 in excess of the FDIC/NCUA depository insurance was covered by pledged securities at December 31, 2017. Approximately \$251,000 is in excess of the FDIC/NCUA depository insurance and pledged securities at December 31, 2017.

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 3 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2017 and 2016:

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

	Balance 1/1/2016	Additions	Disposals	Balance 12/31/16
Capital assets, not being depreciated				
Land	\$ 235,254	\$ 145,000	\$ -	\$ 380,254
Construction in progress	125,159	51,469	16,635	159,993
Total capital assets, not being depreciated	<u>360,413</u>	<u>196,469</u>	<u>16,635</u>	<u>540,247</u>
Capital assets being depreciated				
Buildings and infrastructure	24,280,222	141,442	-	24,421,664
Machinery and vehicles	160,820	30,768	-	191,588
Equipment	113,588	-	-	113,588
Total capital assets being depreciated	<u>24,554,630</u>	<u>172,210</u>	<u>-</u>	<u>24,726,840</u>
Less accumulated depreciation				
Buildings and infrastructure	4,809,609	831,147	-	5,640,756
Machinery and vehicles	81,374	16,969	-	98,343
Equipment	18,736	11,359	-	30,095
Total accumulated depreciation	<u>4,909,719</u>	<u>859,475</u>	<u>-</u>	<u>5,769,194</u>
Total capital assets being depreciated, net	<u>19,644,911</u>	<u>(687,265)</u>	<u>-</u>	<u>18,957,646</u>
Net capital assets	<u>\$20,005,324</u>	<u>\$ (490,796)</u>	<u>\$ 16,635</u>	<u>\$19,497,893</u>

Depreciation expense was 1,035,031 and \$877,098, respectively, for the years ended December 31, 2017 and 2016, which includes \$866,137 and \$859,475 from capital assets for the years ended December 31, 2017 and 2016, respectively and \$168,894 and \$17,623 from cost shared infrastructure for the years ended December 31, 2017 and 2016, respectively. See Note 9 for details on cost shared infrastructure.



**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**NOTE 4 LONG-TERM LIABILITIES**

Long-term liability activity for the years ended December 31, 2017 and 2016 was as follows:

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

  

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016	Due Within One Year
Revenue bonds 2008	\$ 395,000	\$ -	\$ 25,000	\$ 370,000	\$ 25,000
2012 SRF Bonds	7,149,789	-	420,000	6,729,789	344,789
	<u>\$ 7,544,789</u>	<u>\$ -</u>	<u>\$ 445,000</u>	<u>\$ 7,099,789</u>	<u>\$ 369,789</u>

Outstanding liabilities at December 31, 2017 and 2016 consisted of the following:

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

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

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

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

The future required payments on long-term debt including interest are as follows:

Year Ending December 31,	Principal	Interest	Total
2018	\$ 510,000	\$ 205,700	\$ 715,700
2019	525,000	196,000	721,000
2020	540,000	186,025	726,025
2021	555,000	175,725	730,725
2022	565,000	165,150	730,150
2023 - 2027	3,040,000	658,400	3,698,400
2028 - 2032	3,170,000	359,475	3,529,475
2033 - 2037	885,000	157,725	1,042,725
2038 - 2042	970,000	88,875	1,058,875
2043 - 2046	595,000	17,475	612,475
	<u>\$11,355,000</u>	<u>\$ 2,210,550</u>	<u>\$13,565,550</u>

**NOTE 5 RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, automobile and equipment insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$45,968 for equipment.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period.

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

The District has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**NOTE 6 PENSION PLAN**

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

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

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

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

***Pension Benefits***

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

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

***Death and Disability Benefits***

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

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

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

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

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

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

***Pension Expense***

For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$37,118 and \$34,618, respectively. As the District uses the modified cash basis of accounting, no deferred outflows of resources and deferred inflows of resources related to pension are reported.

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

***Payables to the pension plan***

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

**NOTE 7 COMMITMENTS**

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

**NOTE 8 JOINTLY GOVERNED ORGANIZATIONS**

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

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

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**Access and Use Agreement:** This agreement sets forth the terms and conditions on which the Member will permit WAWSA to access and use identified infrastructure owned by R & T Water District. This includes infrastructure identified under sub-agreements with the cities of Ray, Stanley, and Tioga. The District will be responsible for all repairs and maintenance of the access infrastructure identified in the agreement. The District will have the authority and responsibility for the general management and operation of the identified infrastructure, establishing and implementing purchasing and administrative policies, ensuring compliance with applicable legal requirements, budgeting and accounting procedures, programs and other operational matters. The District retains ownership of the infrastructure unless a purchase option is exercised. As consideration of this agreement, WAWSA will make payments equal to the amount of debt service requirements on the District's water revenue bonds. The District is also entitled to reimbursement for costs identified in the agreement and in accordance with an approved budget. The District bears the risk of loss to the infrastructure. The term of the agreement continues until the earlier of: (i) repayment of all WAWSA debt or ii) 99 years after the effective date of the agreement.

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

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

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

**R & T WATER DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
 DECEMBER 31, 2017 AND 2016

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

	2017	2016
Sales of water to WAWSA	\$ 14,424	\$ 17,039
Baseline sales reimbursement	-	37,380
Principal debt payment reimbursement	376,057	443,750
Interest and administrative fees	180,282	191,265
Operations and maintenance reimbursement	985,057	936,183
Capital expenditures reimbursement	71,522	217,580
Water purchases from WAWSA	(1,113,647)	(1,081,194)
	\$ 513,695	\$ 762,003

The deferred inflow of resources from WAWSA consists of the following items for the years ended December 31, 2017 and 2016:

	2017	2016
Debt reimbursement receivable as of December 31	\$ 6,739,615	\$ 7,115,672
Principal debt payment reimbursements	1,826,008	1,449,951
Accumulated capital expenditure reimbursements	3,674,531	3,603,009
Accumulated amortization	(521,292)	(396,623)
Deferred inflow of resources from WAWSA	\$ 11,718,862	\$ 11,772,009

**NOTE 9 COST SHARED INFRASTRUCTURE**

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

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

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

Details on the cost shared infrastructure asset are as follows for the years ended December 31, 2017 and 2016:

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

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



**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

	Balance 1/1/2016	Additions	Disposals	Balance 12/31/2016
Cost shared infrastructure being depreciated	\$ -	\$ 1,057,400	\$ -	\$ 1,057,400
Less accumulated depreciation	-	17,623	-	17,623
Total cost shared infrastructure being depreciated, net	-	1,039,777	-	1,039,777
Cost shared infrastructure being amortized	-	3,172,200	-	3,172,200
Less accumulated amortization	-	88,116	-	88,116
Total cost shared infrastructure being amortized, net	-	3,084,084	-	3,084,084
Net cost shared infrastructure	\$ -	\$ 4,123,861	\$ -	\$ 4,123,861

Depreciation and amortization on cost shared infrastructure for the year ended December 31, 2016 were \$17,623 and \$88,116, respectively.

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

Year Ending December 31,	
2018	\$ 122,535
2019	125,043
2020	126,517
2021	129,070
2022	130,588
2023-2027	686,046
2028-2032	744,510
2033-2037	564,439
2038-2042	205,136
2043-2046	178,701
	<u>\$3,012,585</u>

**R & T WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017 AND 2016**

The deferred inflow of resources from Members consists of the following items for the years ended December 31, 2017 and 2016:

	2017	2016
Debt reimbursement receivable as of December 31	\$ 3,939,039	\$ -
Principal debt payment reimbursements	125,000	-
R&T portion of interest reimbursements	1,674	-
Total payments made to WAWSA	(123,113)	-
Accumulated amortization	(131,420)	-
Deferred inflow of resources from Members	\$ 3,811,180	\$ -

**NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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

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

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

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

**R & T WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - *CONTINUED*  
DECEMBER 31, 2017 AND 2016

**NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through August 14, 2018, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**R & T WATER DISTRICT**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
U.S. Environmental Protection Agency (EPA)		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>\$ 5,000,000</u>

The accompanying notes are an integral part of this schedule

**R & T WATER DISTRICT**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**NOTE 1 BASIS FOR PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of R & T Water District under programs of the federal government for the year ended December 31, 2017. 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 R & T Water District, it is not intended to and does not present the financial position, change in net position, or cash flows of R & T Water District.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. R & T Water District has not elected to use the 10-percent de minimus cost rate as allowed under Uniform Guidance.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of R & T Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise R & T Water District's basic financial statements, and have issued our report thereon dated August 14, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 2017-001 and 2017-002 to be material weaknesses.



A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-003 to be a significant deficiency.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

August 14, 2018



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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  
R & T Water District  
Minot, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited R & T Water District'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 R & T Water District's major federal programs for the year ended December 31, 2017. R & T Water District'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 R & T Water District'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 R & T Water District'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 R & T Water District's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, R & T Water District 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, 2017.

## **Report on Internal Control over Compliance**

Management of R & T Water District 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 R & T Water District'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 R & T Water District'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**

August 14, 2018

**R & T WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**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:

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

**R & T WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**  
**DECEMBER 31, 2017**

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

**2017-001**     *Significant Adjusting Entries - Material Weakness*

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

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

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

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

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

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

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

Indication of repeat finding:                                            This is a repeat finding. See finding 2016-001.

**R & T WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**  
**DECEMBER 31, 2017**

**2017-002**     *Financial Statement Preparation - Material Weakness*

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

**Condition/Context:**         The District's auditors prepared the financial statements as of December 31, 2017 and 2016. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by modified cash basis of accounting. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

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

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

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

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

**Indication of repeat Finding:**                     This is a repeat finding. See finding 2016-002.

**R & T WATER DISTRICT**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – *CONTINUED*  
DECEMBER 31, 2017

**2017-003**     *Segregation of Duties - Significant Deficiency*

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

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

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

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

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

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

Indication of repeat finding:                             This is a repeat finding. See finding 2016-003.

**Section III: Findings and Questioned Costs for Federal Awards:**

There are no findings which are required to be reported under this section.

**R & T WATER DISTRICT**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**Schedule of Prior Year Findings and Questioned Costs:**

**2016-001**     *Significant Adjusting Entries - Material Weakness*

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

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

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

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

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

Status:                        This finding will be a repeat for 2017. See finding 2017-001.



**R & T WATER DISTRICT**  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – *CONTINUED*  
DECEMBER 31, 2017

**2016-002**     *Financial Statement Preparation - Material Weakness*

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

Condition/Context:        The District's auditors prepared the financial statements as of December 31, 2017 and 2016. The District does not have controls necessary to assess whether all relevant disclosures have been included in the financial statements as required by modified cash basis of accounting. The lack of appropriate disclosures may affect the user's judgment related to financial condition, results of operations and cash flows of the District.

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

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

Status:                        This finding will be a repeat for 2017. See finding 2017-002.

**R & T WATER DISTRICT**  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – *CONTINUED*  
DECEMBER 31, 2017

**2016-003**     *Segregation of Duties - Significant Deficiency*

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

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

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

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

Status:                        This finding will be a repeat for 2017. See finding 2017-003.