

**SOUTHWEST WATER AUTHORITY  
DICKINSON, NORTH DAKOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

## TABLE OF CONTENTS

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position	9
Statements of Revenues, Expenses and Change in Fund Net Position	11
Statements of Cash Flows	12
Notes to the Financial Statements	14
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Employer's Share of Net Pension Liability	33
Schedule of Employer's Contributions	34
Notes to the Required Supplementary Information	35
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedules of Expenses	36
Schedule of Percentage Change	38
<b>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</b>	39



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## 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 the business-type activities of Southwest Water Authority as of and for the year ended December 31, 2017 and 2016, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southwest Water Authority as of December 31, 2017 and 2016, 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.

## **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, and the schedule of employer's 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 opinions on the financial statements that collectively comprise Southwest Water Authority's basic financial statements. The schedules 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 schedules of expenses and the schedule of percentage change are the responsibility of management and were 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southwest Water Authority's internal control over financial reporting and compliance.



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

March 21, 2018

**SOUTHWEST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF DECEMBER 31, 2017 AND 2016**

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 2017, 2016 and 2015. 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 \$28,474,294 as of the end of the year 2017 compared with \$26,825,750 as of the end of the year 2016 and \$26,504,503 as of the end of the year 2015. This is an increase in total assets of \$1,648,544 between 2017 and 2016 and an increase in total assets of \$321,247 between 2016 and 2015. The liabilities totaled \$6,515,294 for 2017 compared with \$4,200,720 for 2016 and \$3,360,445 for 2015. This is an increase in liabilities of \$2,314,574 between 2017 and 2016 and an increase in liabilities of \$840,275 between 2016 and 2015. The assets exceeded liabilities at the end of the year 2017 by \$24,207,712 compared with \$23,413,095 at the end of the year 2016 and \$23,221,174 at the end of the year 2015. This is an increase in net position of \$794,617 between 2017 and 2016, and an increase in net position of \$191,921 between 2016 and 2015. The deferred pension outflows totaled \$2,374,796 for year-end 2017 compared with \$944,467 for year-end 2016 and \$258,972 for year-end 2015. This is an increase in deferred pension outflows of \$1,430,329 between 2017 and 2016, and an increase in deferred pension outflows of \$685,495 between 2016 and 2015. The deferred pension inflows totaled \$126,084 for year-end 2017 compared with \$156,402 for year-end 2016 and \$181,856 for year-end 2015. This is a decrease in deferred pension inflows of \$30,318 between 2017 and 2016 and a decrease in deferred pension inflows of \$25,454 between 2016 and 2015.

Assets held at the American Trust Center total \$19,721,216 at year-end 2017 compared with \$18,583,567 at year-end 2016 and \$17,214,849 at year-end 2015. The amount that is the Replacement and Extraordinary Maintenance Fund is \$17,822,454 year-end 2017 compared with \$16,532,532 year-end 2016 and \$15,153,850 at year-end 2015. This is an increase of \$1,289,922 between 2017 and 2016, and an increase of \$1,378,682 between 2016 and 2015. 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 \$.65 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 \$331,832 year-end 2017 compared with \$520,191 year-end 2016 and \$519,292 at year-end 2015. This is a decrease of \$188,359 between 2017 and 2016, and an increase of \$899 between 2016 and 2015. Of this amount \$36,895 in 2017 compared to \$81,657 in 2016 and \$201,657 is restricted in 2015. This is a decrease of \$44,762 between 2017 and 2016 and a decrease of \$120,000 between 2016 and 2015. 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.

**SOUTHWEST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

Total cash in bank as of the end of the year 2017 is \$3,603,125 compared with \$2,814,542 at the end of 2016 and \$2,795,762 at the end of 2015. This is an increase of \$788,583 between 2017 and 2016 and an increase of \$18,780 between 2016 and 2015. This is made up of checking and money market accounts.

The liabilities total \$6,515,294 for year-end 2017 compared with \$4,200,720 for year-end 2016 and \$3,360,445 for year-end 2015. This is an increase in liabilities of \$2,314,574 between 2017 and 2016 and an increase in liabilities of \$840,275 between 2016 and 2015. Of this amount, \$1,750,960 is current liabilities mostly in the form of accounts payable. This compares with 2016 year-ending balance of \$1,346,236 in current liabilities and year-ending balance of \$1,418,373 in current liabilities for 2015. This is an increase in current liabilities of \$404,724 between 2017 and 2016 and a decrease in current liabilities of \$72,137 between 2016 and 2015. 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 2017 are \$238,083, \$45,993 for year-end 2016 and \$47,263 for year-end 2015. The long-term liabilities total \$4,764,334 at year-end 2017 compared with \$2,854,484 at year-end 2016 and \$1,942,072 at year-end 2015. Of this amount \$4,597,103 is the net pension liability for year-end 2017, \$2,652,647 for year-end 2016 and \$1,650,142 for year-end 2015. Also included in long-term liabilities are unearned hookup fees and rental deposits from tenants/customers. Unearned hookup fees for year-end 2017 are \$36,895, compared with \$84,657 year-end 2016 and \$201,657 year-end 2015. 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 2017 are \$59,475, compared with \$56,850 for year-end 2016 and \$54,900 for year-end 2015.

In addition to assets, the statement of net position shows a separate section for *deferred pension outflows*. This separate financial statement element 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. *Deferred pension outflows* represent actuarial differences within NDPERS pension 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*. This separate financial statement element, *deferred pension inflows*, represents 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* represent actuarial differences within NDPERS pension 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.

**SOUTHWEST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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**

	2017	2016	2015
<b>ASSETS</b>			
Unrestricted current assets	\$ 5,016,840	\$ 4,710,992	\$ 5,547,275
Restricted noncurrent assets	17,932,240	16,634,829	15,284,405
Capital assets	5,525,214	5,479,929	5,672,823
Total Assets	<u>28,474,294</u>	<u>26,825,750</u>	<u>26,504,503</u>
 <b>DEFERRED OUTFLOWS</b>			
Deferred Pension Outflows	<u>2,374,796</u>	<u>944,467</u>	<u>258,972</u>
 <b>LIABILITIES</b>			
Current Liabilities	1,750,960	1,346,236	1,418,373
Long-term liabilities	4,764,334	2,854,484	1,942,072
Total liabilities	<u>6,515,294</u>	<u>4,200,720</u>	<u>3,360,445</u>
 <b>DEFERRED INFLOWS</b>			
Deferred Pension Inflows	<u>126,084</u>	<u>156,402</u>	<u>181,856</u>
 <b>NET POSITION</b>			
Net investment in capital assets	5,525,214	5,479,929	5,672,823
Restricted net position	17,932,240	16,634,830	15,284,405
Unrestricted net position	<u>750,258</u>	<u>1,298,336</u>	<u>2,263,946</u>
 Total Net Position	<u><u>\$ 24,207,712</u></u>	<u><u>\$ 23,413,095</u></u>	<u><u>\$ 23,221,174</u></u>



**SOUTHWEST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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**

	2017	2016	2015
Operating revenues:			
Sales	\$ 15,145,987	\$ 14,631,863	\$ 13,821,981
Hook up fee transfers	117,020	219,675	279,435
Other	35,207	74,681	179,756
Total operating revenues	<u>15,298,214</u>	<u>14,926,219</u>	<u>14,281,172</u>
Operating expenses:			
Transmission	7,214,566	7,186,684	6,421,447
Distribution	4,496,921	4,238,498	3,716,083
Board of directors	214,384	201,881	234,303
Administrative	990,987	938,451	897,043
Easement acquisition	166,376	177,015	187,405
Rural water sign-up	223,360	201,821	172,465
Customer service	189,175	186,044	176,335
Treatment	2,137,567	2,056,136	1,903,458
Total operating expenses	<u>15,633,336</u>	<u>15,186,530</u>	<u>13,708,539</u>
Operating income/(loss)	<u>(335,122)</u>	<u>(260,311)</u>	<u>572,633</u>
Nonoperating revenue:			
Property taxes	653,089	621,831	552,410
Unrealized gain/(loss) on investments	166,353	(534,730)	(151,361)
Investment income	310,297	365,131	510,665
Total nonoperating revenue before contributions	<u>1,129,739</u>	<u>452,232</u>	<u>911,714</u>
Change in net position	794,617	191,921	1,484,347
Total net position - beginning of year	<u>23,413,095</u>	<u>23,221,174</u>	<u>21,736,827</u>
Total net position - end of year	<u>\$ 24,207,712</u>	<u>\$ 23,413,095</u>	<u>\$ 23,221,174</u>

**SOUTHWEST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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 2017 totaled \$15,145,987 compared with \$14,631,863 for 2016 and \$13,821,981 for 2015. This is an increase in revenues of \$514,124 between 2017 and 2016 and an increase in revenues of \$809,882 between 2016 and 2015. The net income/net losses by department for 2017 are transmission net loss of \$483,082, distribution net income of \$1,506 and treatment net loss of \$152,820. This compares with net income/net loss for 2016 are transmission net loss of \$439,298, distribution net loss of \$92,519 and treatment a net loss of \$251,747 and net income/net loss by department for 2015 of transmission net loss of \$172,167, distribution net income of \$100,939 and treatment net loss of \$173,756.

The mill levy generated income of \$653,089 for 2017 compared with \$621,831 for 2016 and \$552,410 for 2015. This is an increase of \$31,258 between 2017 and 2016 and an increase of \$69,421 between 2016 and 2015. In 2017 the administration activities had a net loss of \$89,950 compared with a net income of \$46,353 for 2016, and a net income of \$114,451 for 2015. Administration includes activities for the board of directors, administration, sign up and easements.

The actual revenues exceeded budget by .23% over projections. The expenses were under budget by 2.4%.

The Authority sold a total of 2,442,561,100 gallons of water in 2017 compared with 2,377,511,360 gallons of water in 2016 and 2,365,418,450 gallons of water in 2015. This is an increase of 65,049,740 between 2017 and 2016 and an increase of 12,092,910 between 2016 and 2015. This is 5.14% under the projection for the year of 2,574,813,000 gallons for 2017.

**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](mailto:swa@swwater.com) or visit on the web at [www.swwater.com](http://www.swwater.com).

**SOUTHWEST WATER AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 1,542,508	\$ 714,675
Investments	1,891,724	2,046,370
Receivables:		
Accounts (net of allowance of \$2,319 and \$3,189 in 2017 and 2016, respectively)	892,752	1,215,737
Interest	10,365	11,853
Prepaid expenses	55,084	50,183
Inventory	<u>624,407</u>	<u>672,174</u>
Total current assets	<u>5,016,840</u>	<u>4,710,992</u>
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalents	131,997	142,502
Investments	17,690,457	16,390,030
Interest receivable	109,786	102,297
Capital Assets:		
Land	109,347	109,255
Buildings, improvements and equipment, net	<u>5,415,867</u>	<u>5,370,674</u>
Total noncurrent assets	<u>23,457,454</u>	<u>22,114,758</u>
Total Assets	<u>28,474,294</u>	<u>26,825,750</u>
<b>DEFERRED OUTFLOWS</b>		
Deferred Pension Outflows	<u>\$ 2,374,796</u>	<u>\$ 944,467</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTHWEST WATER AUTHORITY**  
**STATEMENTS OF NET POSITION - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 878,321	\$ 667,280
Accrued salaries	262,177	259,757
Compensated absences, current portion	178,974	174,679
Accrued expenses	136,591	127,275
Customer prepayments	238,083	45,993
Construction costs due SWWC	<u>56,814</u>	<u>71,252</u>
Total current liabilities	<u>1,750,960</u>	<u>1,346,236</u>
Long-term Liabilities		
Compensated absences, net of current portion	70,861	63,330
Unearned hookup fees	36,895	81,657
Rental/customer deposits	59,475	56,850
Net pension liability	<u>4,597,103</u>	<u>2,652,647</u>
Total long-term liabilities	<u>4,764,334</u>	<u>2,854,484</u>
Total liabilities	<u>6,515,294</u>	<u>4,200,720</u>
<b>DEFERRED INFLOWS</b>		
Deferred Pension Inflows	<u>126,084</u>	<u>156,402</u>
<b>NET POSITION</b>		
Net investment in capital assets	5,525,214	5,479,929
Restricted for replacement	17,932,240	16,634,829
Unrestricted	<u>750,258</u>	<u>1,298,337</u>
Total Net Position	<u>\$ 24,207,712</u>	<u>\$ 23,413,095</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTHWEST WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Sales	\$ 15,145,987	\$ 14,631,863
Hook up fee transfers	117,020	219,675
Other	<u>35,207</u>	<u>74,681</u>
Total operating revenues	<u>15,298,214</u>	<u>14,926,219</u>
Operating expenses:		
Transmission	7,214,566	7,186,684
Distribution	4,496,921	4,238,498
Board of directors	214,384	201,881
Administrative	990,987	938,451
Easement acquisition	166,376	177,015
Rural water sign-up	223,360	201,821
Customer service	189,175	186,044
Treatment	<u>2,137,567</u>	<u>2,056,136</u>
Total operating expenses	<u>15,633,336</u>	<u>15,186,530</u>
Operating gain(loss)	<u>(335,122)</u>	<u>(260,311)</u>
Nonoperating revenue:		
Property taxes	653,089	621,831
Unrealized gain/(loss) on investments	166,353	(534,730)
Investment income	<u>310,297</u>	<u>365,131</u>
Total nonoperating revenue	<u>1,129,739</u>	<u>452,232</u>
Change in net position	794,617	191,921
Total net position - beginning of year	<u>23,413,095</u>	<u>23,221,174</u>
Total net position - end of year	<u><u>\$ 24,207,712</u></u>	<u><u>\$ 23,413,095</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTHWEST WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 14,306,486	\$ 13,847,046
Receipts from others	35,207	74,681
Payments to suppliers	(9,641,391)	(10,546,748)
Payments to employees	(3,270,807)	(3,292,795)
	<u>1,429,495</u>	<u>82,184</u>
Cash flows from noncapital financing activities:		
Property taxes revenue	<u>653,089</u>	<u>621,831</u>
Cash flows used by capital and related financing activities:		
Purchase of property and equipment	<u>(590,124)</u>	<u>(323,219)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	2,567,248	14,146,713
Purchases of investments	(3,546,676)	(16,162,261)
Investment income	<u>304,296</u>	<u>397,654</u>
	<u>(675,132)</u>	<u>(1,617,894)</u>
Change in Cash and Cash Equivalents	817,328	(1,237,098)
Cash and cash equivalents, beginning of period	<u>857,177</u>	<u>2,094,275</u>
Cash and cash equivalents, end of period	<u>\$ 1,674,505</u>	<u>\$ 857,177</u>
Cash and cash equivalents - unrestricted	\$ 1,542,508	\$ 714,675
Cash and cash equivalents - restricted	<u>131,997</u>	<u>142,502</u>
Total cash and cash equivalents	<u>\$ 1,674,505</u>	<u>\$ 857,177</u>
Noncash investing and financing activities:		
Unrealized increase (decrease) in investments	\$ 166,353	\$ (534,730)
Purchase of equipment with trade-in	20,932	2,768

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTHWEST WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of operating gain to net cash provided (used)		
by operating activities		
Operating income (loss)	\$ (335,122)	\$ (260,311)
Adjustments to reconcile operating gain to		
net cash provided (used) by operating activities:		
Depreciation	544,838	516,113
Deferred outflows - pension	(1,430,329)	(685,495)
Deferred inflows - pension	(30,318)	(25,454)
Effects on operating cash flows due to changes in:		
Accounts receivable	322,985	(198,158)
Prepaid expenses	(4,901)	(9,244)
Inventory	47,767	(95,542)
Accounts payable	196,603	(35,131)
Accrued salaries	2,420	(40,852)
Accrued expenses	9,316	(978)
Compensated absences	11,826	34,051
Customer Prepayments	192,090	(1,270)
Unearned hookup fees/rental/customer deposits	(42,137)	(118,050)
Net pension liability	<u>1,944,456</u>	<u>1,002,505</u>
Total adjustments	<u>1,764,616</u>	<u>342,495</u>
Net cash provided (used) by operating activities	<u>\$ 1,429,495</u>	<u>\$ 82,184</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016. 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 in Governmental Accounting Standards Board (GASB) Statement No. 14, *'The Financial Reporting Entity'*. 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.



**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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, liabilities, 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 and liabilities (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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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 estimated fair 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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**Customer Prepayments**

The Authority reports customer prepayments on the balance sheet. Customer prepayments are overpayments applied on account by customers. These prepayments are used to offset the next billing to these customers.

**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.

**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 one item that qualifies for reporting in this category named Deferred Pension Outflows which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item that qualifies for reporting in this category. Accordingly, the item, Deferred Pension Inflows, represents actuarial differences within NDPERS pension 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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, the carrying amounts of the Authority's deposits were \$3,603,125 and \$2,537,177 respectively. The bank balances were \$3,625,741 and \$2,814,542 respectively. 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, 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, 2017 is \$19,582,181 and its cost is \$20,027,454. The total fair value of the investments as of December 31, 2016 is \$18,436,400 and its cost is \$19,048,026.

**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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

At December 31, 2017, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Total Market Value</u>	<u>Less than 1 Year</u>	<u>1 - 6 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>
Corporate Bonds	\$ 890,728	\$ -	\$ 890,728	\$ -	\$ -
Government Bonds	15,835,619	753,907	5,066,830	9,244,065	770,817
Government Mortgage-Backed	352,070	-	-	350,000	2,070
Mutual Funds - Fixed Income	573,764	573,764	-	-	-
Certificates of Deposit	1,930,000	250,000	1,680,000	-	-
Total Debt Securities	<u>\$ 19,582,181</u>	<u>\$1,577,671</u>	<u>\$ 7,637,558</u>	<u>\$ 9,594,065</u>	<u>\$ 772,887</u>

At December 31, 2016, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Total Market Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
Corporate Bonds	\$ 893,940	\$ -	\$ 494,500	\$ 399,440	\$ -
Government Bonds	14,881,046	1,443,240	5,080,332	6,627,627	1,729,847
Government Mortgage-Backed	2,384	-	-	-	2,384
Mutual Funds - Fixed Income	985,030	985,030	-	-	-
Certificates of Deposit	1,674,000	250,000	1,424,000	-	-
Total Debt Securities	<u>\$ 18,436,400</u>	<u>\$2,678,270</u>	<u>\$ 6,998,832</u>	<u>\$ 7,027,067</u>	<u>\$ 1,732,231</u>

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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, 2017.

S&P	Total Market Value	Corporate Bonds	Government Bonds	Government Mortgage Backed	Mutual Funds
AAA	\$ 2,070	\$ -	\$ -	\$ 2,070	\$ -
AA+	14,215,356	398,380	13,816,976	-	-
NR	3,434,755	492,349	2,368,642	-	573,764
Total credit risk					
Debt securities	17,652,181	<u>\$ 890,729</u>	<u>\$ 16,185,618</u>	<u>\$ 2,070</u>	<u>\$ 573,764</u>
Investments not subject to categorization:					
Certificates of deposit	<u>1,930,000</u>				
Total debt securities	<u>\$ 19,582,181</u>				

The following table represents the Authority's ratings as of December 31, 2016.

S&P	Total Market Value	Corporate Bonds	Government Bonds	Government Mortgage Backed	Mutual Funds
AAA	\$ 2,384	\$ -	\$ -	\$ 2,384	\$ -
AA+	12,003,934	399,440	11,604,494	-	-
NR	4,756,082	494,500	3,276,552	-	985,030
Total credit risk					
Debt securities	16,762,400	<u>893,940</u>	<u>14,881,046</u>	<u>2,384</u>	<u>985,030</u>
Investments not subject to categorization:					
Certificates of deposit	<u>1,674,000</u>				
Total debt securities	<u>\$ 18,436,400</u>				

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**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 following table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2017.

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>ASSETS</b>				
Corporate Bonds	\$ 890,728	\$ -	\$ 890,728	\$ -
Government Bonds	15,835,619	-	15,835,619	-
Government Mortgage-Backed	352,070	-	352,070	-
Mutual Funds - Fixed Income	573,764	573,764	-	-
		<u>\$ 573,764</u>	<u>\$ 17,078,417</u>	<u>\$ -</u>
Investments not subject to categorization:				
Certificates of deposit	<u>1,930,000</u>			
Total	<u>\$ 19,582,181</u>			



**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measured at fair value on a recurring basis at December 31, 2016.

	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>ASSETS</b>				
Corporate Bonds	\$ 893,940	\$ -	\$ 893,940	\$ -
Government Bonds	14,881,046	-	14,881,046	-
Government Mortgage-Backed	2,384	-	2,384	-
Mutual Funds - Fixed Income	985,030	985,030	-	-
Total		<u>\$ 985,030</u>	<u>\$15,777,370</u>	<u>\$ -</u>
Investments not subject to categorization:				
Certificates of deposit	<u>1,674,000</u>			
Total	<u>\$ 18,436,400</u>			

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**NOTE 5 LAND, STRUCTURES AND EQUIPMENT**

The following is a summary of changes in land, structures and equipment for the years ended December 2017 and 2016:

Land, Structures and Equipment

Capital assets not being depreciated:

Land	
Balance - January 1, 2016	\$ 109,196
Additions	59
Deletions	<u>-</u>
Balance - December 31, 2016	109,255
Additions	92
Deletions	<u>-</u>
Balance - December 31, 2017	<u>\$ 109,347</u>

Capital assets being depreciated:

Buildings, improvements and equipment	
Balance - January 1, 2016	\$7,697,974
Additions	325,928
Deletions	<u>(65,754)</u>
Balance - December 31, 2016	7,958,148
Additions	610,964
Deletions	<u>(274,995)</u>
Balance - December 31, 2017	<u>\$8,294,117</u>

Accumulated Depreciation

Buildings, improvements and equipment	
Balance - January 1, 2016	\$2,134,346
Additions	516,113
Deletions	<u>(62,985)</u>
Balance - December 31, 2016	2,587,474
Additions	544,838
Deletions	<u>(254,062)</u>
Balance - December 31, 2017	<u>\$2,878,250</u>

Land, structures and equipment, net	<u>\$5,525,214</u>
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**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

**NOTE 6 COMPENSATED ABSENCES**

The Authority's liability for accumulated unpaid leave as of December 31, 2017 and 2016 was \$249,835 and \$238,009 respectively. A summary of compensated absences follows:

	<u>2017</u>	<u>2016</u>
Balance - January 1	\$238,009	\$ 203,958
Additions	190,800	208,729
Reductions	<u>(178,974)</u>	<u>(174,678)</u>
Balance - December 31	<u>\$249,835</u>	<u>\$ 238,009</u>
Amounts Due Within One Year	<u>\$178,974</u>	<u>\$ 174,679</u>

**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.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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

At December 31, 2017, the Southwest Water Authority reported a liability of \$4,597,103 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the Authority's proportion was 0.286009 percent, which was an increase of 0.01373 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized pension expense of \$775,371. At December 31, 2017 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	\$27,325	(22,398)
Changes of assumptions	1,885,123	(103,686)
Net difference between projected and actual earnings on pension plan investments	61,827	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	295,812	—
Employer contributions subsequent to the measurement date (see below)	<u>104,709</u>	<u>—</u>
Total	<u>\$2,374,796</u>	<u>(\$126,084)</u>

\$104,709 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, 2017.

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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:**

2017	\$ 480,278
2018	565,113
2019	500,360
2020	398,393
2021	199,859

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

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

\*Age-based salary increase 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:

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	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).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**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 (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Authority's proportionate share of the net pension liability	\$6,240,708	\$4,597,103	\$3,229,692

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

***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 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 9 RECLASSIFICATION**

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

**NOTE 10 FUTURE GASB PRONOUNCEMENTS**

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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



**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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. 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. 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.

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

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2017 AND 2016**

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.

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

**SOUTHWEST WATER AUTHORITY**  
**SCHEDULE OF THE 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
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

**SOUTHWEST WATER AUTHORITY**  
**SCHEDULE OF THE EMPLOYER'S CONTRIBUTIONS**  
**LAST 10 FISCAL YEARS\***

	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution in deficiency (excess)</u>	<u>Employer's covered- employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2017	\$ 211,714	\$ (207,051)	\$ 4,663	2,919,708	7.09%
2016	198,656	(196,491)	2,165	2,743,931	7.16%
2015	164,216	(175,694)	(11,478)	2,161,934	8.13%

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

**SOUTHWEST WATER AUTHORITY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**AS OF DECEMBER 31, 2017 AND 2016**

**NOTE 1    NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

***Changes of assumptions***

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 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, 2017**

Trans- mission	Distri- bution	Board of Directors	Admin- istration	Easement	Sign-up	Customer Service	Treatment	Total
Salaries	\$ 1,241,155	\$ 49,914	\$ 517,863	\$ 89,237	\$ 89,237	\$ 54,181	\$ 771,896	\$ 3,285,053
Benefits	618,046	121	250,441	60,695	60,695	38,576	434,433	1,748,998
Payroll taxes	92,241	4,393	32,596	6,608	6,607	4,040	62,472	244,474
Professional fees	144,574	53,610	98,608	937	57,745	4,675	23,985	394,097
Supplies	7,932	32	9,119	1,740	1,741	3,549	2,891	29,055
Utilities	1,110,266	-	-	-	-	-	127,579	1,317,174
Repairs	563,923	-	6,691	914	914	4,347	81,248	1,128,548
Travel	91,124	28,744	4,952	360	360	-	15,197	174,078
Telephone	34,830	4,153	1,176	1,208	1,273	388	7,449	51,414
Capital repayment	2,287,105	-	-	-	-	-	-	5,163,983
Insurance	54,183	15,138	4,293	-	-	-	21,293	94,907
Maintenance	631,587	-	-	-	-	-	-	631,587
Printing and promotion	46,112	15,853	26,236	-	99	24,085	-	112,405
Postage	1,643	66	3,101	402	684	41,102	1,796	49,765
Dues and subscriptions	250	65	25,664	420	150	-	70	52,936
Development and education	531	265	1,121	403	403	45	618	14,861
Water testing	-	25,223	-	-	-	-	26,206	51,429
Chemicals	-	-	-	-	-	-	517,106	517,106
Bad Debts	1,392	-	-	-	-	1,987	-	3,379
Rent	6,000	-	-	-	-	-	-	6,000
Depreciation	274,060	614	8,421	3,335	3,335	7,911	43,000	544,839
Miscellaneous	7,612	3,954	705	117	117	4,289	328	17,248
	<u>\$ 7,214,566</u>	<u>\$ 214,384</u>	<u>\$ 990,987</u>	<u>\$ 166,376</u>	<u>\$ 223,360</u>	<u>\$ 189,175</u>	<u>\$ 2,137,567</u>	<u>\$ 15,633,336</u>

**SOUTHWEST WATER AUTHORITY**  
**SCHEDULE OF EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Trans- mission	Distri- bution	Board of Directors	Admin- istration	Easement	Sign-up	Customer Service	Treatment	Total
Salaries	\$ 1,196,901	\$ 497,802	\$ 49,330	\$ 507,843	\$ 93,414	\$ 93,399	\$ 51,925	\$ 795,380	\$ 3,285,994
Benefits	557,925	253,600	200	189,081	53,001	53,001	33,480	382,640	1,522,928
Payroll taxes	92,642	35,624	4,398	32,313	7,095	7,095	3,898	63,987	247,052
Professional fees	117,268	13,809	49,975	111,821	12,112	38,098	2,102	22,359	367,544
Supplies	9,317	2,588	11	10,740	2,008	1,308	4,674	2,634	33,280
Utilities	1,132,775	80,809	-	-	-	-	-	123,796	1,337,380
Repairs	569,699	526,362	-	6,502	881	882	4,313	69,784	1,178,423
Travel	89,256	32,675	31,802	10,695	2,173	2,789	-	11,457	180,847
Telephone	31,789	1,008	6,692	1,627	1,361	1,187	427	7,531	51,622
Capital repayment	2,329,857	2,622,508	-	-	-	-	-	-	4,952,365
Insurance	42,506	-	12,163	3,500	-	-	-	18,956	77,125
Maintenance	673,602	-	-	-	-	-	-	-	673,602
Printing and promotion	47,886	117	12,726	25,929	50	50	32,717	-	119,475
Postage	2,405	1,191	184	3,127	704	376	38,433	1,966	48,386
Dues and subscriptions	70	-	23,328	23,840	718	138	-	215	48,309
Development and education	435	323	3,695	1,055	2	2	-	1,010	6,522
Water testing	-	5,919	-	-	-	-	-	14,233	20,152
Chemicals	-	-	-	-	-	-	-	489,020	489,020
Bad Debts	1,380	-	-	-	-	-	1,967	-	3,347
Rent	6,000	-	-	-	-	-	-	-	6,000
Depreciation	272,643	163,970	3,807	9,555	3,496	3,496	8,152	50,994	516,113
Miscellaneous	12,328	193	3,570	823	-	-	3,956	174	21,044
	<u>\$ 7,186,684</u>	<u>\$ 4,238,498</u>	<u>\$ 201,881</u>	<u>\$ 938,451</u>	<u>\$ 177,015</u>	<u>\$ 201,821</u>	<u>\$ 186,044</u>	<u>\$ 2,056,136</u>	<u>\$ 15,186,530</u>

**SOUTHWEST WATER AUTHORITY**  
**SCHEDULE OF PERCENTAGE CHANGE**  
**FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>	<u>Percent Change</u>
Salaries	\$ 3,285,053	\$ 3,285,994	-0.03%
Benefits	1,748,998	1,522,928	14.84%
Payroll taxes	244,474	247,052	-1.04%
Professional fees	394,097	367,544	7.22%
Supplies	29,055	33,280	-12.70%
Utilities	1,317,174	1,337,380	-1.51%
Repairs	1,128,548	1,178,423	-4.23%
Travel	174,078	180,847	-3.74%
Telephone	51,414	51,622	-0.40%
Capital repayment	5,163,983	4,952,365	4.27%
Insurance	94,907	77,125	23.06%
Maintenance	631,587	673,602	-6.24%
Printing and promotion	112,405	119,475	-5.92%
Postage	49,765	48,386	2.85%
Dues and subscriptions	52,936	48,309	9.58%
Development and education	14,861	6,522	127.86%
Water testing	51,429	20,152	155.21%
Chemicals	517,106	489,020	5.74%
Bad Debts	3,379	3,347	0.96%
Rent	6,000	6,000	0.00%
Depreciation	544,839	516,113	5.57%
Miscellaneous	17,248	21,044	-18.04%
	<u>\$ 15,633,336</u>	<u>\$ 15,186,530</u>	2.94%





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**

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 the business-type activities of Southwest Water Authority as of and for the year ended December 31, 2017, 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 21, 2018.

**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 opinions 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 & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

March 21, 2018