

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of Western Area Water Supply Authority as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which collectively comprise Western Area Water Supply Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Western Area Water Supply Authority as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

As described in Note 16 to the financial statements, the 2016 financial statements have been restated to correct misstatements of expenses and accrued liabilities. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Western Area Water Supply Authority's basic financial statements. The supplementary information presented on pages 47 through 52 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



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

September 18, 2018

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016 (RESTATED)
Current assets:		
Cash and cash equivalents	\$ 9,311,867	\$ 10,596,438
Accounts receivable (net of allowance of \$109,784 in 2017 and \$112,425 in 2016)	4,654,121	2,718,891
Current portion of amount due from Member entities	1,085,587	10,201,080
Inventories	278,564	224,582
Prepays	51,771	56,338
Total current assets	<u>15,381,910</u>	<u>23,797,329</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	240,968,046	231,391,090
Intangible assets, net of accumulated amortization	98,071,277	98,266,102
Amount due from Member entities, net	8,539,705	9,370,243
Total noncurrent assets	<u>347,579,028</u>	<u>339,027,435</u>
 Total assets	 <u>362,960,938</u>	 <u>362,824,764</u>
 DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow - pension	<u>\$ 889,303</u>	<u>\$ 496,345</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF NET POSITION - CONTINUED
DECEMBER 31, 2017 AND 2016

LIABILITIES	2017	2016 (RESTATED)
Current liabilities:		
Accounts payable	\$ 2,209,844	\$ 9,113,105
Other current liabilities	546,719	141,033
Due to Member entities	929,902	607,452
Current portion of access and use liabilities	2,244,419	2,272,980
Current portion of notes payable	3,459,291	3,383,678
Total current liabilities	<u>9,390,175</u>	<u>15,518,248</u>
Noncurrent liabilities:		
Access and use liabilities	27,397,104	29,130,505
Notes payable	166,497,325	170,247,305
Interest payable	3,119,164	1,750,000
Unamortized loan origination fees	(68,769)	(74,273)
Net pension liability	1,548,918	985,503
Total noncurrent liabilities	<u>198,493,742</u>	<u>202,039,040</u>
Total liabilities	<u>207,883,917</u>	<u>217,557,288</u>
 DEFERRED INFLOW OF RESOURCES		
Deferred inflow - Member entities	18,500,000	19,333,333
Deferred inflow - pension	70,958	58,085
Total deferred inflows of resources	<u>18,570,958</u>	<u>19,391,418</u>
 NET POSITION		
Net investment in capital and intangible assets	128,491,169	115,883,601
Unrestricted	8,904,197	10,488,802
Total net position	<u>\$ 137,395,366</u>	<u>\$ 126,372,403</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 (RESTATED)
OPERATING REVENUE		
Water sales	\$ 22,225,260	\$ 18,450,125
Billing and invoicing	140,265	115,519
Bulk commercial water reimbursement	137,369	124,447
Total operating revenue	22,502,894	18,690,091
OPERATING EXPENSES		
Operating and maintenance	6,982,348	6,410,560
Professional fees	197,839	208,906
Purchase of water	1,436,377	1,216,894
Management fees	225,586	64,611
Administrative and general	279,019	428,753
Payroll and employee benefits	1,813,270	1,762,653
Communications and utilities	171,746	157,228
Transportation	105,135	69,544
Depreciation	6,609,643	5,004,504
Amortization	1,030,699	1,004,608
Total operating expenses	18,851,662	16,328,261
OPERATING INCOME (LOSS)	3,651,232	2,361,830
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	166,628	136,238
Rental income	18,863	102,980
Interest income	26,391	27,665
Interest expense	(3,998,296)	(3,970,121)
Access and use interest and admin fee	(884,170)	(946,423)
Grant revenue	11,204,628	44,482,264
Amortization of Member entities deferred inflows	833,333	666,667
Gain (loss) on disposal of capital assets	4,354	(3,417)
Total nonoperating revenues (expenses)	7,371,731	40,495,853
CHANGE IN NET POSITION	11,022,963	42,857,683
NET POSITION - JANUARY 1	126,372,403	83,514,720
NET POSITION - DECEMBER 31	\$ 137,395,366	\$ 126,372,403

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 (RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 20,567,664	\$ 18,389,759
Cash payments to suppliers	(15,977,351)	(4,121,784)
Cash payments to employees	(1,597,629)	(1,555,934)
Net cash provided by operating activities	2,992,684	12,712,041
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(16,194,413)	(58,215,222)
Acquisition of loan origination fees	(19,756)	(23,519)
Proceeds from sale of fixed assets	4,779	3,300
Acquisition of intangible assets	(407,051)	(2,558,451)
Proceeds from short-term notes payable	5,000,000	-
Payments on short-term notes payable	(5,000,000)	-
Proceeds from long-term notes payable	-	10,000,000
Payments on long-term notes payable	(3,674,367)	(3,318,179)
Payments on access and use liabilities	(2,183,396)	(2,302,013)
Advance payments received on member entities debt	607,452	607,452
Remittance of member entities debt	(285,002)	-
Collection of amount due from member entities	9,946,031	428,677
Cost-share income	166,628	136,238
Grant revenue	11,204,628	44,482,264
Cash paid for interest	(3,488,042)	(3,158,274)
Net cash used by capital and related financing activities	(4,322,509)	(13,917,727)
CASH FLOWS FROM INVESTING ACTIVITIES		
Rental income	18,863	102,980
Interest income	26,391	27,665
Net cash provided (used) by investing activities	45,254	130,645
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,284,571)	(1,075,041)
CASH AND CASH EQUIVALENTS - JANUARY 1	10,596,438	11,671,479
CASH AND CASH EQUIVALENTS - DECEMBER 31	\$ 9,311,867	\$ 10,596,438

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 (RESTATED)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 3,651,232	\$ 2,361,830
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,609,643	5,004,504
Amortization	1,030,699	1,004,608
Deferred outflow - pension	(392,958)	(203,360)
Deferred inflow - pension	12,873	(13,951)
Effects on operating cash flows due to changes in:		
Accounts receivable	(1,935,230)	(300,332)
Inventories	(53,982)	(76,796)
Prepaid expenses	4,567	(20,762)
Accounts payable	(6,903,261)	4,497,770
Other current liabilities	405,686	91,594
Net pension liability	563,415	366,936
	\$ 2,992,684	\$ 12,712,041

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Amortization of Member Entities deferred inflows	\$ 833,333	\$ 666,667
Deferred inflow resulting from capital assets acquired through cost shared infrastructure agreement with member entities and future amounts due from member entities to reimburse WAWSA for infrastructure costs	-	20,000,000
Amortization of loan origination fees	9,012	8,270
Gain (loss) on disposal of capital assets	(4,354)	3,417
Gain (loss) on disposal of loan origination fees	16,248	-
Intangible assets acquired through issuance of access and use liability	421,434	-
Net book value of capital assets traded	118,487	46,088

SEE NOTES TO THE FINANCIAL STATEMENTS

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Nature of operations and history

The Western Area Water Supply Authority was formed to own, finance, construct and operate the Western Area Water Supply Project. The project is a comprehensive water supply project largely utilizing Missouri River water treated at the Williston Regional Water Treatment Plant and distributed to meet the municipal, rural and industrial water needs for all or parts of McKenzie, Williams, Divide, Burke and Mountrail counties. The member entities with which Western Area Water Supply Authority has agreements with include R & T Water Supply Commerce Authority, the City of Williston, McKenzie County Water Resource District, Williams Rural Water District, and BDW Water System Association. Effective May 20, 2011, the association was organized as a water Authority under North Dakota Century Code 61-35. It is exempt from federal income tax under section 501(C) 1 of the Internal Revenue Code. The Authority is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed or operated in a manner similar to the private sector, where the intent is that cost of providing services to the general public on a continuous basis be financed or recovered primarily through user charges.

Reporting entity

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

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Basis of accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

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

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

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

Cash and cash equivalents

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

Investment policy

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Accounts receivable

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

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using principally the first-in, first-out method.

Capital assets

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

The Authority has established the following useful lives:

Structures and improvements	20-40 years
Pipelines and pipeline equipment	30 years
Distribution reservoirs	40 years
Pump stations	40 years
Meters	20 years
Office furniture and equipment	5-10 years
Tools and shop equipment	5 years
Vehicles	5 years

Intangible assets

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

Compensated absences

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 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 Authority has one item that qualifies for reporting in the category named *Deferred outflow – pension*, 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category named *Deferred inflow – pension*, which represents actuarial differences within NDPERS pension plans and *Deferred inflow – Member entities*, which represents cost shared infrastructure in which the Member entities have agreed to pay for. These amounts are deferred and recognized as an inflow of resources over the period that the amounts benefit the Authority.

Net pension liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position

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

Net 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.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Use of estimates

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

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purpose to conform to the presentation in the current year financial statements. Such reclassification has no effect on net earnings as previously reported.

NOTE 2 CUSTODIAL CREDIT RISK

This is the risk that, in the event a financial institution fails, the Authority is unable to recover the value of its deposits, investment or collateral securities in the possession of the institution. As of December 31, 2017, all of the Authority's bank balances were fully covered by federal depository insurance and pledged securities.

NOTE 3 GRANT REVENUE

The Authority received \$705,963 and \$818,450 in grant revenue from the State Water Commission during the years ended December 31, 2017 and 2016, respectively. These grant dollars were received through SWC Project No. 1973/02 under the State Water Supply Program. The Authority received \$8,692,799 and \$43,663,814 in grant revenue from the State Water Commission during the years ended December 31, 2017 and 2016, respectively, through SWC Project No. 1973/05 under the State Water Supply Program. The Authority also received \$1,805,866 and \$0 in grant revenue from the State Water Commission during the years ended December 31, 2017 and 2016, respectively, through SWC Project No. 1973/06.

NOTE 4 WATER SALES

Water sales for the years ending December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Industrial	\$ 14,481,417	\$ 11,395,638
Domestic	7,042,513	6,476,895
Commercial	701,330	577,592
	<u>\$ 22,225,260</u>	<u>\$ 18,450,125</u>

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 were as follows:

	Balance 1/1/2017	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 9,297,861	\$ 1,329,420	\$ -	\$ 10,627,281
Construction in progress	23,255,636	4,457,469	23,213,870	4,499,235
Total	<u>32,553,497</u>	<u>5,786,889</u>	<u>23,213,870</u>	<u>15,126,516</u>
Capital assets, being depreciated:				
Buildings and infrastructure/pipelines	211,181,801	33,424,867	-	244,606,668
Machinery and equipment	656,369	252,436	115,411	793,394
Vehicles	500,282	50,880	49,727	501,435
Furniture and fixtures	238,727	11,698	-	250,425
Total	<u>212,577,179</u>	<u>33,739,881</u>	<u>165,138</u>	<u>246,151,922</u>
Less accumulated depreciation:				
Buildings and infrastructure/pipelines	13,583,969	6,397,611	-	19,981,580
Machinery and equipment	157,413	82,954	16,390	223,977
Vehicles	198,045	100,903	29,836	269,112
Furniture and fixtures	50,539	28,175	-	78,714
Total	<u>13,989,966</u>	<u>6,609,643</u>	<u>46,226</u>	<u>20,553,383</u>
Total capital assets being depreciated, net	<u>198,587,213</u>	<u>27,130,238</u>	<u>118,912</u>	<u>225,598,539</u>
Amortizable assets, being amortized:				
Interest	269,244	-	-	269,244
Leasehold Improvements	9,870	-	-	9,870
Total	<u>279,114</u>	<u>-</u>	<u>-</u>	<u>279,114</u>
Less amortization				
Interest	26,924	6,731	-	33,655
Leasehold Improvements	1,810	658	-	2,468
Total	<u>28,734</u>	<u>7,389</u>	<u>-</u>	<u>36,123</u>
Total capital assets being amortized, net	<u>250,380</u>	<u>(7,389)</u>	<u>-</u>	<u>242,991</u>
Capital assets, net	<u>\$231,391,090</u>	<u>\$ 32,909,738</u>	<u>\$23,332,782</u>	<u>\$ 240,968,046</u>

Depreciation and amortization expense on capital assets for the year ended December 31, 2017 totaled \$6,609,643 and \$7,389, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	Balance 1/1/2016	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 7,767,432	\$ 1,530,429	\$ -	\$ 9,297,861
Construction in progress	27,068,845	22,241,934	26,055,143	23,255,636
Total	<u>34,836,277</u>	<u>23,772,363</u>	<u>26,055,143</u>	<u>32,553,497</u>
Capital assets, being depreciated:				
Buildings and infrastructure/pipelines	150,855,661	60,326,140	-	211,181,801
Machinery and equipment	571,957	144,818	60,406	656,369
Vehicles	500,282	-	-	500,282
Furniture and fixtures	165,595	73,132	-	238,727
Total	<u>152,093,495</u>	<u>60,544,090</u>	<u>60,406</u>	<u>212,577,179</u>
Less accumulated depreciation:				
Buildings and infrastructure/pipelines	8,774,834	4,809,135	-	13,583,969
Machinery and equipment	91,894	73,120	7,601	157,413
Vehicles	97,989	100,056	-	198,045
Furniture and fixtures	28,346	22,193	-	50,539
Total	<u>8,993,063</u>	<u>5,004,504</u>	<u>7,601</u>	<u>13,989,966</u>
Total capital assets being depreciated, net	<u>143,100,432</u>	<u>55,539,586</u>	<u>52,805</u>	<u>198,587,213</u>
Amortizable assets, being amortized:				
Interest	269,244	-	-	269,244
Leashold Improvements	9,870	-	-	9,870
Total	<u>279,114</u>	<u>-</u>	<u>-</u>	<u>279,114</u>
Less amortization				
Interest	20,193	6,731	-	26,924
Leasehold improvements	1,152	658	-	1,810
Total	<u>21,345</u>	<u>7,389</u>	<u>-</u>	<u>28,734</u>
Total capital assets being amortized, net	<u>257,769</u>	<u>(7,389)</u>	<u>-</u>	<u>250,380</u>
Capital assets, net	<u>\$178,194,478</u>	<u>\$ 79,304,560</u>	<u>\$26,107,948</u>	<u>\$231,391,090</u>

Depreciation and amortization expense on capital assets for the year ended December 31, 2016 totaled \$5,004,504 and \$7,389, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

NOTE 6 INTANGIBLE ASSETS

The Authority has entered into service concession arrangements with R & T Water Supply Commerce Authority, the City of Williston, McKenzie County Water Resource District, and BDW Water System Association. The Authority has made infrastructure upgrades to facilities that they do not have title to. They have also signed access and use payment agreements with the entities that have debt on their facilities to help them pay for their debt. Under the service concession arrangement, these are recorded as intangible assets by the Authority and amortized over the life of the agreement, which is 99 years. The access and use payment agreements recorded as intangible assets have a corresponding liability. Intangible asset activity for the years ended December 31, 2017 and 2016 were as follows:

	Balance 1/1/2017	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2017
Intangible assets				
City of Williston	\$ 75,362,906	\$ 216,891	\$ -	\$ 75,579,797
BDW Water System Association	151,108	-	-	151,108
R & T Water Supply Commerce Authority	11,735,872	42,958	-	11,778,830
McKenzie County Water Resource District	13,785,825	421,434	-	14,207,259
Direct Connections	27,404	147,202	-	174,606
Total	<u>101,063,115</u>	<u>828,485</u>	<u>-</u>	<u>101,891,600</u>
Less amortization				
City of Williston	1,868,062	761,424	-	2,629,486
BDW Water System Association	7,122	1,526	-	8,648
R & T Water Supply Commerce Authority	387,942	118,580	-	506,522
McKenzie County Water Resource District	533,795	141,379	-	675,174
Direct Connections	92	401	-	493
Total	<u>2,797,013</u>	<u>1,023,310</u>	<u>-</u>	<u>3,820,323</u>
Total intangible assets, net	<u>\$ 98,266,102</u>	<u>\$ (194,825)</u>	<u>\$ -</u>	<u>\$ 98,071,277</u>

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	Balance 1/1/2016	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2016
Intangible assets				
City of Williston	\$ 73,033,006	\$ 2,329,900	\$ -	\$ 75,362,906
BDW Water System Association	151,108	-	-	151,108
R & T Water Supply Commerce Authority	11,534,725	201,147	-	11,735,872
McKenzie County Water Resource District	13,785,825	-	-	13,785,825
Direct Connections	-	27,404	-	27,404
Total	98,504,664	2,558,451	-	101,063,115
Less amortization				
City of Williston	1,128,394	739,668	-	1,868,062
BDW Water System Association	5,596	1,526	-	7,122
R & T Water Supply Commerce Authority	271,260	116,682	-	387,942
McKenzie County Water Resource District	394,544	139,251	-	533,795
Direct Connections	-	92	-	92
Total	1,799,794	997,219	-	2,797,013
Total intangible assets, net	\$ 96,704,870	\$ 1,561,232	\$ -	\$ 98,266,102

Amortization expense on intangible assets for the years ended December 31, 2017 and 2016 totaled \$1,023,310 and \$997,219, respectively.

NOTE 7 LONG-TERM NOTES PAYABLE

The following is a summary of long-term debt transactions of the Authority for the years ended December 31, 2017 and 2016:

	1/1/17 Balance	Additions	Repayments	12/31/17 Balance	Unamortized Loan Fees	Interest Payable
0% note to the Bank of North Dakota, maturing June 30, 2036, payable in monthly installments starting on July 31, 2031, secured by revenues and equipment.	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ 8,536	\$ -

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	<u>1/1/17</u> <u>Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>12/31/17</u> <u>Balance</u>	<u>Unamortized</u> <u>Loan Fees</u>	<u>Interest</u> <u>Payable</u>
Variable rate note to the Bank of North Dakota, maturing January 31, 2021, principal and interest payments starting on July 31, 2017. Variable rate at 1.50% over 30 day LIBOR rate, adjustable each quarter, with a 2% floor, secured by revenues and equipment. Note was refinanced in June 2017. Balance at time of refinance was \$28,035,760.	28,244,299	-	28,244,299	-	-	-
5% fixed rate note to the Bank of North Dakota, maturing June 30, 2029, monthly interest only payments from July 31, 2017 to June 30, 2021, followed by monthly principal and interest payments starting on July 31, 2021, secured by revenues and equipment. Note was refinanced in June 2017. Balance at time of refinance was \$25,000,000.	25,000,000	-	25,000,000	-	-	1,873,288
5% fixed rate note to the Bank of North Dakota, maturing June 30, 2031, monthly interest only payments from July 31, 2017 to June 30, 2029, followed by monthly principal and interest payments starting on July 31, 2029, secured by revenues and equipment. Interest is suspended during the period from January 2016 to June 2018 and is payable in June 2031.	10,000,000	-	-	10,000,000	5,058	834,418
Variable rate note to the Bank of North Dakota, maturing June 30, 2028, interest only payment due July 31, 2015 followed by monthly principal and interest payments starting on August 31, 2015. Variable rate at 1.50% over 30 day LIBOR rate, adjustable each quarter, with a 1.75% floor, secured by revenues and equipment. Note was refinanced in June 2017. Balance at time of refinance was \$34,712,251.	36,070,410	-	36,070,410	-	-	-

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	1/1/17 Balance	Additions	Repayments	12/31/17 Balance	Unamortized Loan Fees	Interest Payable
2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from January 31, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036.	20,000,000	-	-	20,000,000	6,952	208,333
2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from September 30, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment. Interest is suspended during the period from August 2017 to June 2018 and is payable in June 2036.	19,500,000	-	-	19,500,000	8,024	203,125
1.5% fixed rate note to Bank of North Dakota, maturing January 25, 2036, interest only payments from February 25, 2016 to July 25, 2016, followed by monthly principal and interest payments starting August 25, 2016, secured by revenues and equipment.	9,816,274	-	447,238	9,369,036	20,690	-
Variable rate note to the Bank of North Dakota, maturing July 1, 2037, monthly principal and interest payments starting on August 1, 2017. Variable rate at 1.50% over 30 day LIBOR rate, adjustable monthly, with a 2.00% floor, secured by revenues and equipment. Interest rate at 12/31/17 was 2.88%.	-	87,748,012	1,660,432	86,087,580	19,509	-
Total	\$ 173,630,983	\$ 87,748,012	\$91,422,379	\$169,956,616	\$ 68,769	\$3,119,164

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	1/1/16 Balance	Additions	Repayments	12/31/16 Balance	Unamortized Loan Fees	Interest Payable
0% note to the Bank of North Dakota, maturing June 30, 2036, payable in monthly installments starting on July 31, 2031, secured by revenues and equipment.	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ 8,993	\$ -
Variable rate note to the Bank of North Dakota, maturing January 31, 2021, principal and interest payments starting on July 31, 2017. Variable rate at 1.50% over 30 day LIBOR rate, adjustable each quarter, with a 2% floor, secured by revenues and equipment. Interest rate for 2016 was 2.48%.	28,602,246	-	357,947	28,244,299	5,509	-
5% fixed rate note to the Bank of North Dakota, maturing June 30, 2029, monthly interest only payments from July 31, 2017 to June 30, 2021, followed by monthly principal and interest payments starting on July 31, 2021, secured by revenues and equipment. Interest was suspended for all of 2016 and is payable in June 2029.	25,000,000	-	-	25,000,000	6,327	1,250,000
5% fixed rate note to the Bank of North Dakota, maturing June 30, 2031, monthly interest only payments from July 31, 2017 to June 30, 2029, followed by monthly principal and interest payments starting on July 31, 2029, secured by revenues and equipment. Interest was suspended for all of 2016 and is payable in June 2031.	10,000,000	-	-	10,000,000	6,312	500,000

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

	1/1/16 Balance	Additions	Repayments	12/31/16 Balance	Unamortized Loan Fees	Interest Payable
Variable rate note to the Bank of North Dakota, maturing June 30, 2028, interest only payment due July 31, 2015 followed by monthly principal and interest payments starting on August 31, 2015. Variable rate at 1.50% over 30 day LIBOR rate, adjustable each quarter, with a 1.75% floor, secured by revenues and equipment. Interest rate for 2016 was 2.48%.	38,846,916	-	2,776,506	36,070,410	6,324	-
2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from January 31, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment.	20,000,000	-	-	20,000,000	8,216	-
2.5% fixed rate note to the Bank of North Dakota, maturing June 30, 2036, interest only payments from September 30, 2015 to June 30, 2022, followed by monthly principal and interest payments starting on July 31, 2022, secured by revenues and equipment.	19,500,000	-	-	19,500,000	9,291	-
1.5% fixed rate note to Bank of North Dakota, maturing January 25, 2036, interest only payments from February 25, 2016 to July 25, 2016, followed by monthly principal and interest payments starting August 25, 2016, secured by revenues and equipment.	-	10,000,000	183,726	9,816,274	23,301	-
Total	<u>\$ 166,949,162</u>	<u>\$ 10,000,000</u>	<u>\$ 3,318,179</u>	<u>\$ 173,630,983</u>	<u>\$ 74,273</u>	<u>\$ 1,750,000</u>

Loan Covenants and Collateral

Substantially all of the Authority's assets are pledged as collateral. The Authority complied with all covenants on their loans as of December 31, 2017 and 2016.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

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

Year ending December 31,	Principal	Interest	Total
2018	\$ 3,459,291	\$ 3,344,538	\$ 6,803,829
2019	3,387,039	4,140,871	7,527,910
2020	3,494,427	4,033,482	7,527,909
2021	3,605,371	3,922,539	7,527,910
2022	4,905,814	3,801,759	8,707,573
2023-2027	33,166,194	16,270,003	49,436,197
2028-2032	55,849,764	13,306,636	69,156,400
2033-2037	62,088,716	4,716,592	66,805,308
Total	<u>\$ 169,956,616</u>	<u>\$53,536,420</u>	<u>\$223,493,036</u>

NOTE 8 ACCESS AND USE LIABILITIES

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

	Balance 1/1/17	Additions	Repayments	Balance 12/31/17	Due Within One Year	Maturity Date	Interest Rate	Annual Installment
City of Williston								
1999 bond	\$ 1,170,000	\$ -	\$ 220,000	\$ 950,000	\$ 230,000	9/1/2021	2.50%	230,000 - 245,000
2003 bond	1,505,000	-	200,000	1,305,000	205,000	9/1/2023	2.50%	205,000 - 230,000
2006 bond	9,910,000	-	885,000	9,025,000	905,000	9/1/2026	2.50%	905,000 - 1,105,000
R & T Water Supply Commerce Authority								
2008 bond	370,000	-	25,000	345,000	25,000	9/1/2028	2.50%	25,000 - 35,000
2012 bond	6,729,789	-	344,789	6,385,000	360,000	9/1/2030	2.00%	360,000 - 500,000
McKenzie County Water Resource District								
McKenzie County Loan	3,799,760	-	191,834	3,607,926	198,505	4/16/2033	2.50%	199,000 - 280,000
USDA System Loan	2,161,265	-	30,763	2,130,502	31,647	7/30/2055	2.875%	32,000 - 91,000
USDA System Loan	1,281,846	-	18,751	1,263,095	19,267	7/30/2055	2.75%	20,000 - 53,000
ND Public Finance Loan	4,475,825	421,434	267,259	4,630,000	270,000	9/1/2031	2.50%	270,000 - 390,000
Total	<u>\$31,403,485</u>	<u>\$421,434</u>	<u>\$2,183,396</u>	<u>\$29,641,523</u>	<u>\$2,244,419</u>			

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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	Balance 1/1/16	Additions	Repayments	Balance 12/31/16	Due Within One Year	Maturity Date	Interest Rate	Annual Installment
City of Williston								
1999 bond	\$ 1,385,000	\$ -	\$ 215,000	\$ 1,170,000	\$ 220,000	9/1/2021	2.50%	220,000 - 245,000
2003 bond	1,700,000	-	195,000	1,505,000	200,000	9/1/2023	2.50%	200,000 - 230,000
2006 bond	10,775,000	-	865,000	9,910,000	885,000	9/1/2026	2.50%	885,000 - 1,105,000
R & T Water Supply Commerce Authority								
2008 bond	395,000	-	25,000	370,000	25,000	9/1/2028	2.50%	25,000 - 35,000
2012 bond	7,149,789	-	420,000	6,729,789	344,789	9/1/2030	2.00%	345,000 - 500,000
McKenzie County Water Resource District								
McKenzie County Loan	3,988,884	-	189,124	3,799,760	193,677	4/16/2033	2.50%	194,000 - 280,000
USDA System Loan	2,191,000	-	29,735	2,161,265	30,763	7/30/2055	2.875%	31,000 - 91,000
USDA System Loan	1,300,000	-	18,154	1,281,846	18,751	7/30/2055	2.75%	19,000 - 53,000
ND Public Finance Loan	4,820,825	-	345,000	4,475,825	355,000	9/1/2031	2.50%	270,000 - 390,000
Total	\$33,705,498	\$ -	\$ 2,302,013	\$31,403,485	\$2,272,980			

Payments on access and use liabilities totaled \$2,183,396 and \$2,302,013 for the years ended December 31, 2017 and 2016, respectively.

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

Year Ending December 31,	
2018	\$ 2,244,419
2019	2,305,822
2020	2,372,134
2021	2,424,117
2022	2,236,028
2023-2027	9,974,905
2028-2032	5,575,943
2033-2037	457,504
2038-2042	470,176
2043-2047	540,571
2048-2052	621,468
2053-2055	418,436
	<u>\$ 29,641,523</u>

NOTE 9 OPERATING LEASE

The Authority had a lease for office space in Williston, ND that required monthly payment of \$11,788, entered into on January 1, 2014. This lease was then amended to call for monthly payments of \$10,841 beginning May 1, 2014. This lease expired December 31, 2016. Total rent expense incurred for the office space lease totaled \$0 and \$119,256 for the years ended December 31, 2017 and 2016, respectively.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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NOTE 10 PENSION PLAN

2017

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At December 31, 2017, the Authority reported a liability of \$1,548,918 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the Employer's proportion was 0.096366 percent, which was a decrease of 0.004753 percent from its proportion measured as of June 30, 2016.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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For the year ended December 31, 2017, the Authority recognized pension expense of \$183,330. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,207	\$ (7,547)
Changes of assumptions	635,161	(34,935)
Net difference between projected and actual earnings on pension plan investments	20,832	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	189,125	(28,476)
Employer contributions subsequent to the measurement date	<u>34,978</u>	<u>-</u>
Total	<u>\$ 889,303</u>	<u>\$ (70,958)</u>

\$34,978 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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:

2018	\$ 188,884
2019	217,467
2020	194,851
2021	121,301
2022	60,864

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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 rates apply for employees with three or more years of service

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
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

WESTERN AREA WATER SUPPLY AUTHORITY
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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 Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	<u>1% Decrease (5.44%)</u>	<u>Current Discount Rate (6.44%)</u>	<u>1% Increase (7.44%)</u>
Employer's proportionate share of the net pension liability	<u>\$ 2,102,703</u>	<u>\$ 1,548,918</u>	<u>\$ 1,088,191</u>

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

Payables to the pension plan

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

2016

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.

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Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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.

WESTERN AREA WATER SUPPLY AUTHORITY
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Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At December 31, 2016, the Authority reported a liability of \$985,503 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016 the Employer's proportion was 0.101119 percent, which was an increase of 0.010151 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Authority recognized pension expense of \$149,625. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,804	\$ (9,125)
Changes of assumptions	90,851	(48,960)
Net difference between projected and actual earnings on pension plan investments	137,492	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	249,031	-
Employer contributions subsequent to the measurement date	4,167	-
Total	\$ 496,345	\$ (58,085)

\$4,167 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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	\$ 93,253
2018	93,253
2019	123,246
2020	99,561
2021	24,780

Actuarial assumptions. The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, 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

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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 actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent; as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

WESTERN AREA WATER SUPPLY AUTHORITY
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	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 1,397,917	\$ 985,503	\$ 638,023

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

Payables to the pension plan

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

NOTE 11 CONCENTRATION OF CREDIT RISK

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

NOTE 12 RISK MANAGEMENT

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

The Authority also participates in the North Dakota Fire and Tornado Fund. The Authority pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimated replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the Authority with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The Authority also has an additional employee dishonesty policy with Liberty Mutual which covers losses up to \$3,000,000.

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

WESTERN AREA WATER SUPPLY AUTHORITY
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NOTE 13 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 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.

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.

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

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

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

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

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

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

NOTE 14 JOINT AGREEMENTS

Access and use agreements

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

Infrastructure operating agreements

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

Output agreements

The Authority has entered into output agreements with R&T Water Supply Commerce Authority, the City of Williston, and BDW Water System Association. These agreements set forth the terms and conditions upon which these members will sell the output of their facilities to the Authority. As consideration for the entire output of the treated water, the Authority will make payments equal to the debt service paid by the members during the term, approved operation and maintenance costs, capital expenditure reimbursements, and baseline 2010 industrial water sales revenue. Effective March 15, 2018, the agreement was amended to remove the requirement for WAWSA to accrue baseline sales if they do not have sufficient free cash flows to make the payments. The amendment also discharges WAWSA's requirement to pay past accrued amounts.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Water supply agreements

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

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

Under the above agreements, the Authority has agreed to reimburse the member entities \$1,436,377 and \$1,216,894 for the purchase of water along with \$6,203,164 and \$5,932,614 for operations and maintenance, and \$0 and \$74,333 for capital expenditures during the years ended December 31, 2017 and 2016, respectively. There were no baseline sales reimbursements made during the years ended December 31, 2017 and 2016. During the years ended December 31, 2017 and 2016, debt payment reimbursements totaled \$3,067,566 and \$3,248,436 respectively, of which \$2,183,396 and \$2,302,013 was for principal. Of the above amounts \$1,264,585 and \$308,793 was payable to the members for other operating reimbursements and is included in accounts payable as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the Authority has net intangible assets representing the organization's right to use infrastructure owned by member entities of \$98,071,277 and \$98,266,102, respectively, which were originally valued at the present value of the future debt payments to be made to the member entities, as well as capital expenditure reimbursements. Intangible assets are amortized over the remaining period of 99 years from the effective date of the infrastructure operating agreements. Amortization for the years ended December 31, 2017 and 2016 was \$1,023,310 and \$997,219, respectively. The Authority also has access and use liabilities of \$29,641,523 and \$31,403,485 as of December 31, 2017 and 2016, respectively, which is the present value of future debt payments remaining to be made to the member entities.

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Cost Shared Infrastructure

Effective January 1, 2016, the members agreed to share in the cost of a \$20,000,000 project to further build out the infrastructure. The members share in the cost based on the portion of the project that is within their service area. The Authority funded the entire project in 2016 by taking out a note payable from BND for \$10,000,000 and using \$10,000,000 of its own funds. Two of the members, R & T Water Supply Commerce Authority and Williams Rural Water District, have agreed to each take out \$5,000,000 loans in their names. The proceeds from those loans, when received in 2017, will go to pay back the Authority.

Initially, it was anticipated that the Authority would borrow the entire \$20,000,000 from BND. Therefore, the Authority started collecting from the members in January 2016 based on the entire \$20,000,000. Funds collected from the members for the notes to be held in R & T Water Supply Commerce Authority and Williams Rural Water District's name that have yet to be remitted to those two entities totaled \$929,902 and \$607,452 as of December 31, 2017 and 2016, respectively, and are recorded in the due to member entities account. The remaining receivable as of December 31, 2017 and 2016 was \$9,625,292 and \$19,571,323, respectively, and is recorded in the amount due from member entities account. Of this amount, \$1,085,587 is current with anticipated reimbursement of \$500,000 upon receipt of the final member loan proceeds and \$585,587 as the current portion of BND note reimbursement.

The deferred inflows – member entities represents the unamortized portion of the future interest that the Authority has in the \$20,000,000 of cost shared infrastructure. The deferred inflow is amortized into income over a period of 20 to 30 years based on the life of the loans attached to the infrastructure. The Authority amortized \$833,333 and \$666,667 into income during the years ended December 31, 2017 and 2016, respectively, leaving deferred inflows – member entities of \$18,500,000 and \$19,333,333 as of December 31, 2017 and 2016, respectively.

NOTE 15 COMMITMENTS

The Authority has entered into various contracts for infrastructure construction and improvements. The total cost to complete these projects is estimated to be approximately \$103,945,000 as of December 31, 2017. The Authority has used loans and grants to pay for the projects. As of December 31, 2017, the Authority had incurred and capitalized approximately \$97,427,000 in costs related to the projects. Estimated costs to complete the projects as of December 31, 2017 are \$6,518,000.

Engineering services – Effective September 29, 2011, the Authority entered into a contract with Advanced Engineering and Environmental Services, Inc. for professional services. The fee for the agreement will be hourly for basic engineering services and negotiated separately for each task order. The agreement is effective and applicable to task orders issued through December 31, 2018.

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

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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NOTE 16 PRIOR PERIOD ADJUSTMENTS

Effective March 15, 2018, the agreements with the member entities were amended to remove the requirement for WAWSA to accrue baseline sales if they do not have sufficient free cash flows to make the payments. The amendment also discharges WAWSA's requirement to pay past accrued amounts. As a result, the baseline sales payable and member entities operating reimbursement of \$4,799,780 that was reported in the December 31, 2016 financial statements has been removed.

Subsequent to issuing the December 31, 2016 financial statements it was discovered that the Authority also failed to accrue \$1,750,000 in interest payable. As a result, we have increased the interest payable and interest expense by \$1,750,000 for the year ended December 31, 2016.

The net effect of these two prior period adjustments is a decrease in liabilities of \$3,049,780 and an increase in net position of \$3,049,780.

NOTE 17 SUBSEQUENT EVENTS

Change orders totaling approximately \$664,000 were approved on the outstanding construction contracts. The Authority has also entered into new construction contracts totaling approximately \$2,231,000 in 2018.

As described in Note 14, effective March 15, 2018, the agreements were amended to remove the requirement for WAWSA to accrue baseline sales if they do not have sufficient free cash flows to make the payments. The amendment also discharges WAWSA's requirement to pay past accrued amounts.

No other significant events occurred subsequent to the Authority's year end. Subsequent events have been evaluated through September 18, 2018, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

SEE NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN 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	0.096366%	\$ 1,548,918	\$ 983,750	157.45%	61.98%
2016	0.101119%	985,503	1,019,044	96.71%	70.46%
2015	0.090968%	618,567	810,415	76.33%	77.15%

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

SEE NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

WESTERN AREA WATER SUPPLY AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017 AND 2016

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.



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
Western Area Water Supply Authority
Williston, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Area Water Supply Authority as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Western Area Water Supply Authority's basic financial statements, and have issued our report thereon dated September 18, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, 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 deficiency described in the accompanying schedule of findings and responses as item 2017-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-001 and 2017-003 to be significant deficiencies.

Compliance and Other Matters

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

Western Area Water Supply Authority's Responses to Findings

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

Purpose of this Report

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



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

September 18, 2018

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

I. Findings Relating to Financial Statements

2017-001 *Preparation of Financial Statements – Significant Deficiency*

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

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

Cause: It is currently not cost effective for the Authority to maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

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

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

2017-002 *Significant Adjusting Entries – Material Weakness*

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

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

WESTERN AREA WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2017

2017-002 – (Continued)

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

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

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

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

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

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

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

Effect: Under the current system, one individual has the ability to enter receipts, prepare and post payments, and reconcile the Authority's bank accounts.

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

View of responsible officials and corrective actions: The Board will review the accounting functions and will strive to improve in areas that are economically feasible.

II. Schedule of Prior Year Findings

Findings 2017-001, 2017-002, and 2017-003 are repeat findings from the December 31, 2016 issued financial statements.

SUPPLEMENTARY INFORMATION

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND
DECEMBER 31, 2017

ASSETS

	Industrial	Domestic	Intercompany Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 559,793	\$ 8,752,074	\$ -	\$ 9,311,867
Accounts receivable (net of allowance of \$100,000 industrial and \$9,784 domestic)	3,359,880	2,047,187	(752,946)	4,654,121
Current portion of amount due from Member entities		1,085,587	-	1,085,587
Inventories	-	278,564	-	278,564
Prepays	-	51,771	-	51,771
Total current assets	<u>3,919,673</u>	<u>12,215,183</u>	<u>(752,946)</u>	<u>15,381,910</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	240,968,046	-	240,968,046
Intangible assets, net of accumulated amortization	-	98,071,277	-	98,071,277
Amount due from Member entities, net	-	8,539,705	-	8,539,705
Total noncurrent assets	<u>-</u>	<u>347,579,028</u>	<u>-</u>	<u>347,579,028</u>
Total assets	<u>3,919,673</u>	<u>359,794,211</u>	<u>(752,946)</u>	<u>362,960,938</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred outflow - pension	<u>\$ -</u>	<u>\$ 889,303</u>	<u>\$ -</u>	<u>\$ 889,303</u>

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND - CONTINUED
DECEMBER 31, 2017

LIABILITIES

	Industrial	Domestic	Intercompany Eliminations	Total
Current liabilities:				
Accounts payable	\$ 752,946	\$ 2,209,844	\$ (752,946)	\$ 2,209,844
Other current liabilities	-	546,719	-	546,719
Due to Member entities	-	929,902	-	929,902
Current portion of access and use liabilities	-	2,244,419	-	2,244,419
Current portion of notes payable	-	3,459,291	-	3,459,291
Total current liabilities	<u>752,946</u>	<u>9,390,175</u>	<u>(752,946)</u>	<u>9,390,175</u>
Noncurrent liabilities:				
Access and use liabilities	-	27,397,104	-	27,397,104
Notes payable	-	166,497,325	-	166,497,325
Interest payable	3,119,164	-	-	3,119,164
Unamortized loan origination fees	-	(68,769)	-	(68,769)
Net pension liability	-	1,548,918	-	1,548,918
Total noncurrent liabilities	<u>3,119,164</u>	<u>195,374,578</u>	<u>-</u>	<u>198,493,742</u>
Total liabilities	<u>3,872,110</u>	<u>204,764,753</u>	<u>(752,946)</u>	<u>207,883,917</u>
DEFERRED INFLOW OF RESOURCES				
Deferred inflow - Member entities	-	18,500,000	-	18,500,000
Deferred inflow - pension	-	70,958	-	70,958
Total deferred inflows of resources	<u>-</u>	<u>18,570,958</u>	<u>-</u>	<u>18,570,958</u>
NET POSITION				
Net investment in capital and intangible assets	-	128,491,169	-	128,491,169
Unrestricted	47,563	8,856,634	-	8,904,197
Total net position	<u>\$ 47,563</u>	<u>\$ 137,347,803</u>	<u>\$ -</u>	<u>\$ 137,395,366</u>

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND
DECEMBER 31, 2016

ASSETS

	Industrial	Domestic	Intercompany Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 275,876	\$ 10,320,562	\$ -	\$ 10,596,438
Accounts receivable (net of allowance of \$112,425 industrial and \$0 domestic)	2,150,933	1,139,807	(571,849)	2,718,891
Current portion of amount due from Member entities	-	10,201,080	-	10,201,080
Inventories	-	224,582	-	224,582
Prepays	-	56,338	-	56,338
Total current assets	<u>2,426,809</u>	<u>21,942,369</u>	<u>(571,849)</u>	<u>23,797,329</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	231,391,090	-	231,391,090
Intangible assets, net of accumulated amortization	-	98,266,102	-	98,266,102
Amount due from Member entities, net	-	9,370,243	-	9,370,243
Total noncurrent assets	<u>-</u>	<u>339,027,435</u>	<u>-</u>	<u>339,027,435</u>
Total assets	<u>2,426,809</u>	<u>360,969,804</u>	<u>(571,849)</u>	<u>362,824,764</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred outflow - pension	<u>\$ -</u>	<u>\$ 496,345</u>	<u>\$ -</u>	<u>\$ 496,345</u>

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION BY FUND - CONTINUED
DECEMBER 31, 2016

LIABILITIES

	Industrial	Domestic	Intercompany Eliminations	Total
Current liabilities:				
Accounts payable	\$ 646,849	\$ 9,038,105	\$ (571,849)	\$ 9,113,105
Other current liabilities	-	141,033	-	141,033
Due to Member entities	-	607,452	-	607,452
Current portion of access and use liabilities	-	2,272,980	-	2,272,980
Current portion of notes payable	-	3,383,678	-	3,383,678
Total current liabilities	<u>646,849</u>	<u>15,443,248</u>	<u>(571,849)</u>	<u>15,518,248</u>
Noncurrent liabilities:				
Access and use liabilities	-	29,130,505	-	29,130,505
Notes payable	-	170,247,305	-	170,247,305
Interest payable	1,750,000	-	-	1,750,000
Unamortized loan origination fees	-	(74,273)	-	(74,273)
Net pension liability	-	985,503	-	985,503
Total noncurrent liabilities	<u>1,750,000</u>	<u>200,289,040</u>	<u>-</u>	<u>202,039,040</u>
Total liabilities	<u>2,396,849</u>	<u>215,732,288</u>	<u>(571,849)</u>	<u>217,557,288</u>
DEFERRED INFLOW OF RESOURCES				
Deferred inflow - Member entities	-	19,333,333	-	19,333,333
Deferred inflow - pension	-	58,085	-	58,085
Total deferred inflows of resources	<u>-</u>	<u>19,391,418</u>	<u>-</u>	<u>19,391,418</u>
NET POSITION				
Net investment in capital and intangible assets	-	115,883,601	-	115,883,601
Unrestricted	29,960	10,458,842	-	10,488,802
Total net position	<u>\$ 29,960</u>	<u>\$ 126,342,443</u>	<u>\$ -</u>	<u>\$ 126,372,403</u>

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Industrial</u>	<u>Domestic</u>	<u>Total</u>
OPERATING REVENUE			
Water sales	\$ 14,481,417	\$ 7,743,843	\$ 22,225,260
Billing and invoicing	-	140,265	140,265
Bulk commercial water reimbursement	-	137,369	137,369
Industrial water reimbursement	<u>(4,182,098)</u>	<u>4,182,098</u>	<u>-</u>
Total operating revenue	<u>10,299,319</u>	<u>12,203,575</u>	<u>22,502,894</u>
OPERATING EXPENSES			
Operating and maintenance	-	6,982,348	6,982,348
Professional fees	-	197,839	197,839
Purchase of water	-	1,436,377	1,436,377
Management fees	-	225,586	225,586
Administrative and general	33,093	245,926	279,019
Payroll and employee benefits	75,000	1,738,270	1,813,270
Communications and utilities	-	171,746	171,746
Transportation	-	105,135	105,135
Depreciation	-	6,609,643	6,609,643
Amortization	-	1,030,699	1,030,699
Total operating expenses	<u>108,093</u>	<u>18,743,569</u>	<u>18,851,662</u>
OPERATING INCOME (LOSS)	<u>10,191,226</u>	<u>(6,539,994)</u>	<u>3,651,232</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous income (expense)	(590)	167,218	166,628
Rental income	-	18,863	18,863
Interest income	20,133	6,258	26,391
Notes payable principal reimbursement	(3,227,130)	3,227,130	-
Interest expense	(3,898,470)	(99,826)	(3,998,296)
Access and use principal payment reimbursement	(2,183,396)	2,183,396	-
Access and use interest and admin fee	(884,170)	-	(884,170)
Grant revenue	-	11,204,628	11,204,628
Amortization of Member entities deferred inflows	-	833,333	833,333
Gain (loss) on disposal of capital assets	-	4,354	4,354
Total nonoperating revenues (expenses)	<u>(10,173,623)</u>	<u>17,545,354</u>	<u>7,371,731</u>
CHANGE IN NET POSITION	<u>17,603</u>	<u>11,005,360</u>	<u>11,022,963</u>
NET POSITION - JANUARY 1	<u>29,960</u>	<u>126,342,443</u>	<u>126,372,403</u>
NET POSITION - DECEMBER 31	<u>\$ 47,563</u>	<u>\$ 137,347,803</u>	<u>\$ 137,395,366</u>

WESTERN AREA WATER SUPPLY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Industrial	Domestic	Total
OPERATING REVENUE			
Water sales	\$ 11,395,638	\$ 7,054,487	\$ 18,450,125
Billing and invoicing	-	115,519	115,519
Bulk commercial water reimbursement	-	124,447	124,447
Industrial water reimbursement	(2,732,248)	2,732,248	-
Total operating revenue	<u>8,663,390</u>	<u>10,026,701</u>	<u>18,690,091</u>
OPERATING EXPENSES			
Operating and maintenance	-	6,410,560	6,410,560
Professional fees	-	208,906	208,906
Purchase of water	-	1,216,894	1,216,894
Management fees	-	64,611	64,611
Administrative and general	24,682	404,071	428,753
Payroll and employee benefits	75,000	1,687,653	1,762,653
Communications and utilities	-	157,228	157,228
Transportation	-	69,544	69,544
Depreciation	-	5,004,504	5,004,504
Amortization	-	1,004,608	1,004,608
Total operating expenses	<u>99,682</u>	<u>16,228,579</u>	<u>16,328,261</u>
OPERATING INCOME (LOSS)	<u>8,563,708</u>	<u>(6,201,878)</u>	<u>2,361,830</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous income (expense)	10,534	125,704	136,238
Rental income	-	102,980	102,980
Interest income	21,326	6,339	27,665
Notes payable principal reimbursement	(3,134,450)	3,134,450	-
Interest expense	(4,036,410)	66,289	(3,970,121)
Access and use principal payment reimbursement	(2,302,013)	2,302,013	-
Access and use interest and admin fee	(946,423)	-	(946,423)
Grant revenue	-	44,482,264	44,482,264
Amortization of Member entities deferred inflows	-	666,667	666,667
Capital project reimbursements	(74,330)	74,330	-
Gain (loss) on disposal of capital assets	-	(3,417)	(3,417)
Total nonoperating revenues (expenses)	<u>(10,461,766)</u>	<u>50,957,619</u>	<u>40,495,853</u>
CHANGE IN NET POSITION	<u>(1,898,058)</u>	<u>44,755,741</u>	<u>42,857,683</u>
NET POSITION - JANUARY 1	<u>1,928,018</u>	<u>81,586,702</u>	<u>83,514,720</u>
NET POSITION - DECEMBER 31	<u>\$ 29,960</u>	<u>\$ 126,342,443</u>	<u>\$ 126,372,403</u>