

**STUTSMAN RURAL WATER DISTRICT
JAMESTOWN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Stutsman Rural Water District
Jamestown, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Stutsman Rural Water District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stutsman Rural Water District as of June 30, 2018 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

As discussion in Note 10 to the financial statements, the District has adjusted its net position to properly include accounts receivable and accrued vacation. The District also removed debt issue costs from their statement of net position due to the implementation of GASB 65, *Items Previously Reported as Assets and 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 on pages 4 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stutsman Rural Water District's basic financial statements. The accompanying schedules of expenses, schedule of water utility operations costs per 1,000 gallons sold and schedule of water utility operations – management basis are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of expenses, schedule of water utility operations costs per 1,000 gallons sold and schedule of water utility operations – management basis are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018 on our consideration of Stutsman Rural Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Stutsman Rural Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Stutsman Rural Water District's internal control over financial reporting and compliance.



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

November 29, 2018

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2018 and 2017.

Financial Highlights

- The District's net position increased by \$1,463,948 or 3.9% from \$37,468,486 to \$38,932,434.
- Operating revenues increased by \$157,434 or 4.0% from \$3,898,804 to \$4,056,238.
- Operating expenses increased by \$139,034 or 4.1% from \$3,360,477 to \$3,499,511.
- For the fiscal year ended June 30, 2018, the District delivered 166.6 million gallons of domestic water, 180.3 million gallons of industrial water, 145.5 million gallons transported to DSA and 54.4 million gallons of wastewater transported back to the City of Jamestown for treatment.

Overview of the Financial Statements

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America.

The statement of net position includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities).

The statement of revenues, expenses and changes in net position identifies the District's revenues and expenses for the fiscal year ended June 30, 2018. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The third statement is the statement of cash flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the statement of cash flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the last fiscal year.

Financial Analysis of the District

The statements of net position (page 9) and the statements of revenues, expenses and changes in net position (page 11) provide an indication of the District's financial condition and also indicates if the financial condition of the District improved during the last fiscal year. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018

NET POSITION

A summary of the District's Statements of Net Position is presented below:

TABLE I
CONDENSED STATEMENT OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets	\$ 3,822,952	\$ 3,718,619
Other assets	3,118,114	2,865,331
Net capital assets	60,110,389	60,601,839
Total assets	<u>67,051,455</u>	<u>67,185,789</u>
 DEFERRED OUTFLOWS	 <u>99,954</u>	 <u>106,618</u>
 LIABILITIES		
Current liabilities	1,416,275	1,713,586
Non-current liabilities	26,802,700	28,003,717
Total Liabilities	<u>28,218,975</u>	<u>29,717,303</u>
 NET POSITION		
Net investment in capital assets	32,197,496	31,410,863
Restricted for debt service	2,809,248	2,511,713
Unrestricted	3,925,690	3,545,910
Total Net Position	<u>\$ 38,932,434</u>	<u>\$ 37,468,486</u>

As the above table indicates, total assets decreased by \$134,334 during the fiscal year ended June 30, 2018. This is comprised of an increase in current assets of \$104,333, an increase in other assets of \$252,783 and a decrease in capital assets of \$491,450. Total assets increased by \$5,995,962 during the fiscal year ended June 30, 2017. This is comprised of an increase in current assets \$264,508, an increase in other assets of \$1,245,257 and an increase in capital assets of \$4,486,197. Deferred outflows decreased \$6,664 due to amortization of costs related to a bond issue in a previous year.

Total liabilities reflect a decrease of \$1,498,328 during the fiscal year ended June 30, 2018. This includes a decrease of \$1,201,017 in long-term liabilities as the District reduced its long-term debt obligations. There was also a decrease of \$297,311 in current liabilities reflected in a decrease in accounts payable of \$259,066 and a decrease in current loans payable and accrued interest payable of \$79,703, an increase of accrued compensated absences of \$41,083 and an increase in customer deposits of \$375. Total liabilities show an increase of \$1,604,707 during the fiscal year ended June 30, 2017. This includes an increase of \$4,910,616 in long-term debt as the District obtained additional financing for major improvements to the system and a decrease of \$3,305,909 in current liabilities reflecting conversion from interim financing to final financing on completed construction projects.

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018

Table I also indicates that total net position increased by \$1,463,948 during the fiscal year ended June 30, 2018. This increase is the result of operations, non-operating activity and a net increase in member capital. Total net position increased by \$4,391,255 during the fiscal year ended June 30, 2017. This increase is the result of operations, non-operating activity and a net increase in member capital.

The Condensed Statements of Revenues, Expenses and Changes in Net Position in Table II identify the various revenue and expense items which impact the change in net position.

Table II indicates that the District's total operating revenues in 2018 increased by \$157,434 or 4.0% to \$4,056,238 from \$3,898,804 in the prior year. Total operating expenses increased by \$139,034 or 4.1% from the prior year. Non-operating revenue decreased by \$2,985,726 primarily due to a reduction in State Water Commission grants. The District's total operating revenues in 2017 increased by \$98,388 or 2.6% to \$3,898,804 from \$3,800,416 in the prior year. Total operating expenses increased by \$536,273 or 19.0% from the prior year. Non-operating revenue decreased by \$1,146,734 primarily due to a reduction in State Water Commission grants.

TABLE II
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Water utility	\$ 2,178,541	\$ 2,079,697
Industrial utilities	1,877,697	1,819,107
Total operating revenues	<u>4,056,238</u>	<u>3,898,804</u>
Operating expenses		
Operations and maintenance	1,623,206	1,553,011
Administrative expenses	585,562	573,031
Interest expense	378,980	321,812
Industrial utilities expense	504,998	486,859
Industrial utilities interest expense	406,765	425,764
Total operating expenses	<u>3,499,511</u>	<u>3,360,477</u>
Operating income	556,727	538,327
Non-operating income	<u>841,652</u>	<u>3,827,378</u>
Income before contributions	1,398,379	4,365,705
Capital contributions	<u>16,050</u>	<u>25,550</u>
Change in net position	<u>1,414,429</u>	<u>4,391,255</u>
Total net position - beginning, as previously stated	37,468,486	33,077,231
Prior period adjustment	<u>49,519</u>	<u>-</u>
Total net position - beginning, as restated	<u>37,518,005</u>	<u>33,077,231</u>
Total net position - ending	<u>\$ 38,932,434</u>	<u>\$ 37,468,486</u>

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018

Net Capital Assets

As of June 30, 2018, the District's investment in net capital assets totaled \$60,110,389, which is a decrease of \$491,450 or 1.0% over the net capital asset balance of \$60,601,839 at June 30, 2017. A comparison of the District's net capital assets over the past two years is presented in Table III.

TABLE III
CAPITAL ASSETS
June 30, 2018 and 2017

	2018	2017	Dollar Change
Land	\$ 77,697	\$ 77,696	\$ 1
Office and shop building	535,490	537,432	(1,942)
Storage units	164,944	164,944	-
Lines and equipment	47,687,379	47,443,104	244,275
Reservoirs and equipment	14,777,283	13,455,157	1,322,126
Wells and equipment	350,399	356,899	(6,500)
Office equipment	105,791	127,885	(22,094)
Equipment and tools	306,638	339,371	(32,733)
GRE lines and equipment	6,282,331	6,282,331	-
Construction in progress	-	1,484,357	(1,484,357)
Total	70,287,952	70,269,176	18,776
Less accumulated depreciation	(10,177,563)	(9,667,337)	(510,226)
Net capital assets	<u>\$ 60,110,389</u>	<u>\$ 60,601,839</u>	<u>\$ (491,450)</u>

Capital assets include all of the District's major capital assets, including land, buildings, lines, reservoirs, wells, equipment, tools and vehicles. Included among the capital assets during the fiscal year was the completion of the Phase 2, Phase 2B and Phase 3 expansion lines and the completion of the west water tower. Projects started were the Phase 5 water tower, booster 3 storage, pipeline and an office addition.

Additional information on the District's net capital assets is provided in note 3 (pages 18) of the financial statements.

Long-Term Debt

As of June 30, 2018, the District had \$27,912,893 in outstanding long-term debt compared to \$29,128,528 as of June 30, 2017. The decrease of \$1,215,635 represents additional debt to finance the Phase 5 projects of \$215,664 and less principal payments of 1,431,299 made during the fiscal year.

Additional information on the District's long-term debt is provided in note 5 (pages 19 - 21) of the financial statements.

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2018

Economic Factors and Next Year's Budget and Rates

Construction of the Phase 5 Project is complete. Closing of the project was delayed due to the addition of pipeline to the Reservoir #5 area which increased flows to that service area. The Project upgraded the storage capacity at Reservoir #3 and the installation of additional pipeline increased flows between Reservoir #3 and #4 to meet seasonal water demands. The installation of additional pipeline to the Reservoir #7 area also increased flows to meet seasonal demands for more users. Additional pipeline was installed SW of Jamestown in the area of the Titan water tower to increase flows into the tower to meet future demands. The new water tower west of the SRWD treatment facility has also been completed. All segments of the project are in service to the water users. The project was constructed with a 75% grant from the ND State Water Commission and financed with the ND Health Department State Revolving Fund (SRF) Loan Program at 2% for 30 years.

The Phase 6 – Pettibone Area Water Supply Project will be advertised for bids in August 2018. Bid opening is expected in early September with construction on the rural water lines between Woodworth and Pettibone to begin in early October 2018. The remainder of the project which involves individual homes being connected within the town of Pettibone and the installation of 5 miles of pipeline to Lake Williams will be completed during the 2019 construction season.

The Water District will be starting the installation of Automatic Meter Reading equipment for all water users the fall of 2018. The changeover in metering equipment and the addition of the endpoint readers will be installed in phases over a period of approximately 3 years. A water rate increase of \$3.00 per month takes effect July 1, 2018 for the original system users. In addition to end point readers; new water meters will also be installed for approximately 1200 users on the original water system which was constructed in 1985/86.

Industrial water sales and Industrial water and waste water transportation fees continue to have a positive impact on maintaining affordable residential water rates for our customers.

Additional Financial Information

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Stutsman Rural Water District's manager at 1812 Hwy 281 N, Jamestown, North Dakota 58401.

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 3,236,215
Accounts receivable, trade	353,795
Unbilled revenue	112,983
Supplies	113,817
Prepaid expenses	<u>6,142</u>
Total current assets	<u>3,822,952</u>
Other assets	
Investments restricted for debt service	3,015,370
Investments in cooperatives	<u>102,744</u>
Total other assets	<u>3,118,114</u>
Net capital assets	
Land	77,697
Office and shop building	535,490
Storage units	164,944
Lines and equipment	47,687,379
Reservoirs and equipment	14,777,283
Wells and equipment	350,399
Office equipment	105,791
Equipment and tools	306,638
GRE lines and equipment	6,282,331
Less accumulated depreciation	<u>(10,177,563)</u>
Net capital assets	<u>60,110,389</u>
Total assets	<u>67,051,455</u>
Deferred Outflows	
Amortized costs, net	<u>99,954</u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF NET POSITION - CONTINUED
JUNE 30, 2018

LIABILITIES AND NET POSITION

Current liabilities	
Accounts payable	\$ 16,882
Customer deposits	3,450
Accrued interest payable	206,122
Accrued compensated absences, current portion	41,083
Bonds, notes and loans payable, current portion	<u>1,148,738</u>
Total current liabilities	<u>1,416,275</u>
 Accrued compensated absences, net of current portion	38,545
Bonds, notes and loans payable, net of current portion	<u>26,764,155</u>
Total non-current liabilities	<u>26,802,700</u>
Total liabilities	<u>28,218,975</u>
 Net position	
Net investment in capital assets	32,197,496
Restricted for debt service	2,809,248
Unrestricted	<u>3,925,690</u>
Total net position	<u>\$ 38,932,434</u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Operating revenues:	
Water utility:	
Water revenue	<u>\$ 2,178,541</u>
Industrial utility	
GRE wastewater	354,122
DSA water transportation	204,373
SWS Spiritwood Station water supply	<u>1,319,202</u>
Total industrial utility	<u>1,877,697</u>
Total operating revenues	<u>4,056,238</u>
Operating expenses:	
Operation and maintenance expenses	1,623,206
Administrative	585,562
Interest	378,980
Industrial utilities	504,998
Industrial utilities interest	<u>406,765</u>
Total operating expenses	<u>3,499,511</u>
Operating gain(loss)	<u>556,727</u>
Non-operating revenues (expenses):	
Interest and investment	43,194
Gain (loss) on disposition of equipment	21,049
Grant income	778,489
Miscellaneous	<u>(1,080)</u>
Total non-operating revenues	<u>841,652</u>
Income before capital contributions	1,398,379
Net change in member fees	<u>16,050</u>
Change in net position	<u>1,414,429</u>
Total net position - beginning of year, originally stated	37,468,486
Prior period adjustment - see note 10	<u>49,519</u>
Total net position - beginning of year, restated	<u>37,518,005</u>
Total net position - end of year	<u><u>\$ 38,932,434</u></u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Receipts from utility customers	\$4,221,510
Payments to utility suppliers	(778,740)
Payments to employees	<u>(712,509)</u>
Cash provided (used) by operating activities	<u>2,730,261</u>
Cash flows from investing activities	
Proceeds from redemption of investments in cooperatives	1,470
Interest income	<u>28</u>
Cash provided (used) by investing activities	<u>1,498</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(986,711)
Increase in restricted cash	(503,657)
Grants and other income	778,489
Payments on long-term debt	(1,431,299)
Proceeds from issuance of long-term debt	215,664
Interest paid on borrowings	(785,745)
Net change in memberships	<u>16,050</u>
Cash provided (used) by capital and related financing activities	<u>(2,697,209)</u>
Change in cash and cash equivalents	34,550
Cash and cash equivalents, beginning of period	<u>3,201,665</u>
Cash and cash equivalents, end of period	<u><u>\$3,236,215</u></u>
Reconciliation of operating income to net cash provided (used)	
by operating activities:	
Operating income (loss)	\$ 556,727
Adjustments to reconcile operating gain (loss) to net cash	
provided (used) by operating activities:	
Depreciation and amortization	1,476,901
Interest	785,745
Effects on operating cash flows due to changes in:	
Accounts receivable	164,897
Prepaid expenses	4,682
Accounts payable	(259,066)
Customer deposits	<u>375</u>
Total adjustments	<u>2,173,534</u>
Net cash provided (used) by operating activities	<u><u>\$2,730,261</u></u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

Stutsman Rural Water District ("The District") was incorporated as a non-profit organization for the purpose of providing a rural water system, including distribution lines, water wells, water storage tanks and water conditioning facilities for the residents of rural Stutsman County. Effective September 1, 1999, it was reorganized as a political subdivision.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. These financial statements represent the financial position, results of operations and cash flows of the District for fiscal years ended June 30, 2018 and 2017. The more significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by Governmental Accounting Standards Board. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District. Based upon the application of these criteria, the District is not includable as a component unit within another reporting entity and the District does not have a component unit.

Fund Accounting

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

The following fund type is used by the District:

Proprietary Fund Type

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

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

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

Basis of Accounting

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

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

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of the operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary Fund equity is classified as net position. Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are water utility sales and industrial utility sales. Operating expenses include chemicals, consumer confidence report, operating supplies, power for pumping, repairs and maintenance, water purchases, and water testing. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses

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

Budget – Legal Compliance

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The District adopts a flexible annual operating budget. Annually, management submits a proposed budget to the Board of Directors for approval. During the year management is authorized to transfer budgeted amounts between line items. The current operating budget details the District's plan to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

All unexpended and unencumbered appropriations in the operating budget lapse at the end of the fiscal year.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Cash and Cash Equivalents

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

Receivables and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the billing date.

Unpaid trade receivables with dates over 30 days old are considered late, and interest is assessed on these unpaid balances that remain unpaid as of the 10th of each month. Payments on trade receivables are allocated to the oldest outstanding unpaid billings. The carrying amount of trade receivables are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade receivable balances periodically to ensure the allowance account is adequate based on current economic conditions and past experience. The District did not have an allowance for doubtful accounts for the year ended June 30, 2018.

Unbilled Revenue

Unbilled revenue is an estimated amount of receivable for the final month billing, which is billed subsequent to year-end. This estimate is calculated assuming the meter readings are made at the time the previous bill is paid by taking the four weeks of subsequent billing period and allocating the receivable accordingly.

Supplies and Prepaid Items

Supplies are valued at the lower of cost or net realizable value and consist of chemicals, operating supplies and parts.

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

Investments

Investments restricted for debt service consist of savings accounts that are held by the District for various reasons, including debt covenants. Accordingly, these investments are listed as other assets on the Statement of Net Position.

Investments in cooperatives are stated at cost. Equities received in the form of qualified and non-qualified patronage distributions are recorded at their state value when received. Non-qualified patronage distributions are not recorded as income since redemption is uncertain. Cooperative equities are not transferrable, thereby precluding any market value, but they may be used as collateral for securing loans. The District does not recognize any impairment of equities until formal notification is received. Redemption of these equities is at the discretion of the various cooperatives.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Property and Equipment

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

The District's capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$750 and a useful life of at least two years.

The District's estimated useful lives of the assets are as follows:

Office and shop building	40 years
Storage units	20 years
Reservoirs and equipment	20 to 50 years
Equipment and tools	5 to 10 years
Reservoirs and equipment	10 to 50 years
Wells and equipment	20 to 40 years
Office equipment	5 to 10 years
Equipment and tools	5 to 10 years
GRE lines and equipment	50 years

The District was the recipient (grantee) of a grant to aid in the construction of the water system. Under the terms of the grant, the grantee has title to the real property as long as they continue to use it for the purposes under the grant. If no longer needed for the original grant purpose, the grantee must receive approval for use in projects under other federal programs that have purposes consistent with those authorized by the grantor. When no longer needed under the above terms, the grantee shall request disposition instructions from the grantor agency.

Deferred Outflows

Deferred outflows relate to an underwriter discount that was given during a bond issuance in previous years. This discount is being amortized over the life of the bond.

Compensated Absences

Employees who have worked more than five years can received up to 15 days of vacation. Employees who have worked more than ten year can receive 15 days of vacation plus one day for each year worked after that up to a maximum of 20 days. When a holiday falls on a vacation day, one additional day of vacation shall be granted. Vacation credits do not vest until the employee has completed six months of employment. Vacation shall not accrue during a leave of absence. Vacation is calculated on the calendar year and computed on December 31 of each year and employees are encouraged to use all vacation days earned within the next calendar year, but the Board recognizes that special circumstances may occur that could prevent that and makes special allowances. Unused vacation days may be carried over for a period of three months into the next calendar year. Any unused vacations days would be lost.

Employees earn one sick day per calendar month up to a maximum of 90 working days. Accumulated sick leave is not paid in cash except when an employee leaves the District. The

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

employee will receive 1% times the hours of sick leave accrued times the number of years of service the employee was employed. All other sick leave hours will be lost.

Long-Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance refunding and defeasances are deferred and amortized over the life of the bonds. Bond issue costs are expensed in the period incurred.

Contributed Capital

Capital contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include grants in support of system improvements and member fees.

Equity Classifications

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

- Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted net position - All other net position that do not meet the definitions of "net investment in capital assets" or "restricted."

Revenues and Rate Structure

Revenues from water are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide operating and maintenance costs, capital outlay, reserves and debt service coverage.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The District has a group concentration of credit risk comprised of its member accounts receivable. The District has no policy requiring collateral.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 2 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the District would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The District has a formal policy regarding deposits. In addition, according to North Dakota Century Code, the fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds.

The District maintains cash on deposit at various financial institutions. The amounts on deposit are insured by FDIC up to \$250,000 per financial institution. As of June 30, 2018 and 2017, the District's deposits were covered by FDIC coverage or pledged collateral.

NOTE 3 LAND, STRUCTURES AND EQUIPMENT

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	July 1, 2017	Additions	Deletions	June 30, 2018
Capital assets not being depreciated				
Land	\$ 77,697	\$ -	\$ -	\$ 77,697
Construction in progress	1,484,357	-	(1,484,357)	-
Total capital assets not being depreciated	1,562,054	-	(1,484,357)	77,697
Capital assets being depreciated:				
Office and shop building	537,432	-	(1,942)	535,490
Storage units	164,944	-	-	164,944
Lines and equipment	47,443,104	471,898	(227,623)	47,687,379
Reservoirs and equipment	13,455,157	1,940,266	(618,140)	14,777,283
Wells and equipment	356,899	-	(6,500)	350,399
Office equipment	127,885	-	(22,094)	105,791
Equipment and tools	339,371	58,902	(91,635)	306,638
GRE lines and equipment	6,282,331	-	-	6,282,331
Total capital assets being depreciated	68,707,123	2,471,066	(967,934)	70,210,255
Less accumulated depreciation	9,667,337	1,477,209	(966,983)	10,177,563
Total capital assets being depreciated, net	59,039,786	993,857	(951)	60,032,692
Net capital assets	<u>\$ 60,601,840</u>	<u>\$ 993,857</u>	<u>\$(1,485,308)</u>	<u>\$ 60,110,389</u>

Depreciation expense for the year ended June 30, 2018 totaled \$1,477,209. Operation and maintenance expenses included \$1,310,816, administrative expenses included \$33,775, industrial utilities expenses included \$125,647 and miscellaneous expense included \$6,971.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 4 DEFERRED OUTFLOWS

Deferred outflows as of the year ended June 30, 2018 are as follows:

Underwriter's discount	\$ 133,272
Less amortization	<u>(33,318)</u>
Net Deferred Outflows	<u>\$ 99,954</u>

NOTE 5 LONG-TERM DEBT

The obligations under notes payable and revenue bonds payable are scheduled as follows:

Notes Payable:

\$1,400,000 mortgage note payable dated October 8, 1985. Note is payable in variable annual principal and interest payments at a fixed interest rate of 3.000% beginning October 8, 1985 through October 8, 2025. \$ 437,052

Revenue Bonds Payable:

\$1,095,020 Water Revenue Bonds dated January 23, 2006 to finance water system improvement. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.500% beginning September 1, 2008 through September 1, 2024. \$ 514,000

\$3,813,386 Water Revenue Bonds dated June 27, 2009 to finance Great River Energy water supply project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 0.500% beginning September 1, 2013 through September 1, 2029. 2,754,999

\$9,000,000 Series 2014B Water Revenue Bonds dated April 22, 2014 to finance water treatment plant and service expansion. The bonds are payable in variable annual principal and semi-annual interest payments at a variable interest rate from 2.000% to 4.500% beginning June 1, 2014 through December 31, 2034. 7,713,452

\$3,455,000 Series 2014C Water Revenue Bonds dated June 23, 2014 to finance water treatment plant and service expansion. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.000% beginning September 1, 2018 through September 1, 2034. 3,454,997

\$1,900,004 Series 2014D Water Revenue Bonds dated June 23, 2014 to finance water treatment plant and service expansion. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 3.000% beginning September 1, 2017 through September 1, 2034. 1,820,002

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

\$814,000 Series 2012 Water Revenue Bonds dated May 1, 2012 to finance Phase 1 expansion project. The bonds are payable in variable annual principal and interest payments at a fixed interest rate of 3.375% through May 1, 2052.	\$ 768,312
\$1,516,500 Series 2016A Water Revenue Bonds dated October 17, 2016 to finance Phase 2 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.375% through October 17, 2056.	1,493,358
\$1,516,500 Series 2016B Water Revenue Bonds dated October 17, 2016 to finance Phase 2 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 3.000% through October 17, 2056.	1,497,019
\$600,000 Series 2016C Water Revenue Bonds dated October 17, 2016 to finance Phase 2 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.375% through October 17, 2056.	590,844
\$1,281,500 Series 2016D Water Revenue Bonds dated October 17, 2016 to finance Phase 2B expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.375% through October 17, 2056.	1,261,944
\$330,400 Series 2016E Water Revenue Bonds dated October 17, 2016 to finance Phase 2B expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.375% through October 17, 2056.	325,358
\$330,400 Series 2016F Water Revenue Bonds dated October 17, 2016 to finance Phase 2B expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 3.000% through October 17, 2056.	326,156
\$1,706,000 Series 2016G Water Revenue Bonds dated October 3, 2016 to finance Phase 5 expansion project (not fully funded). The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 2.000% through October 3, 2046.	1,157,883
\$721,000 Series 2017 Water Revenue Bonds dated February 1, 2017 to finance Phase 3 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 1.500% through September 1, 2036.	687,415
\$1,575,000 Series 2017B Water Revenue Bonds dated March 28, 2017 to finance Phase 3 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 3.375% through March 28, 2057.	1,555,816

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

\$1,575,000 Series 2017C Water Revenue Bonds dated March 28, 2017 to finance Phase 3 expansion project. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 3.375% through March 28, 2057.

\$ 1,554,286

\$ 27,475,841

All notes payable and revenue bonds payable of the District are secured by the net revenues of the District's water distribution system.

Changes in Long-Term Liabilities

During the years ended June 30, 2018, the following changes occurred in liabilities reported in the Statement of Net Position:

	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Due Within One Year
Compensated absences	\$ 72,253	\$ 48,459	\$ 41,083	79,629	\$ 41,083
Bonds and notes payable					
Revenue bonds payable	28,602,608	215,664	1,342,431	27,475,841	1,099,600
Notes payable	525,920	-	88,868	437,052	49,138
Total bonds and notes payable	<u>29,128,528</u>	<u>215,664</u>	<u>1,431,299</u>	<u>27,912,893</u>	<u>1,148,738</u>
Total long-term liabilities	<u>\$ 29,200,781</u>	<u>\$ 264,123</u>	<u>\$ 1,472,382</u>	<u>\$ 27,992,522</u>	<u>\$ 1,189,821</u>

Future Obligations

Annual requirements for payment of outstanding debt at June 30, 2018 are as follows:

YEAR	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2019	\$ 1,099,600	\$ 758,708	\$ 49,138	\$ 13,107
2020	1,134,177	728,415	50,612	11,632
2021	1,155,409	708,924	52,130	10,114
2022	1,196,924	682,785	53,694	8,550
2023	1,222,419	653,967	55,305	6,939
2024-2028	6,367,590	2,803,109	176,173	10,662
2029-2033	6,436,253	1,910,516	-	-
2034-2038	2,966,469	1,054,262	-	-
2039-2043	1,611,432	802,878	-	-
2044-2048	1,668,946	573,491	-	-
2049-2053	1,438,394	336,917	-	-
2054-2058	1,178,228	98,295	-	-
	<u>\$ 27,475,841</u>	<u>\$ 11,013,972</u>	<u>\$ 437,052</u>	<u>\$ 61,004</u>

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 6 DEFINED CONTRIBUTION PLAN

Effective January 1, 2017, the District adopted a 457(b) plan, covering all employees who have completed one year of service and 1,820 hours (35 hours per week) as an eligible employee.

Employees may elect to reduce their compensation and contribute to the plan that can be from 1% up to 100% of compensation. The District may elect to make matching contributions up to \$3,000. Additional catchup contributions may be made and age-related limitations also may apply. Total employee contributions cannot exceed \$18,500 in 2018. Additional catch up contributions may be made and age-related limitations also may apply. Total pension expense for 2018 was \$13,093.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District's risk for worker's compensation is covered by premiums paid to the North Dakota Workforce Safety. The District's risk for property coverage, liability coverage and fidelity bonds are covered by premiums paid for commercial insurance coverage.

For insured programs, there have been no significant reductions in insurance coverage. Settled claims from these risks have not exceeded commercial coverage for the past three years.

NOTE 8 COMMITMENTS

As of June 30, 2018, the District had an outstanding commitment of up to \$75,000 with an engineering firm for services related to the Phase 6 project. This project is expected to commence during the fiscal year ending June 30, 2019.

NOTE 9 MAJOR CUSTOMERS

During the year ended June 30, 2018, the District had one major customer. This customer accounted for 32.5% of water revenue and 24.4% and accounts receivables during and as of the year ended June 30, 2018, respectively.

NOTE 10 PRIOR PERIOD ADJUSTMENTS

The District recorded prior period adjustments to the June 30, 2017 financial statements for the following:

- Accounts receivable was adjusted to include an estimated year-end billing for amounts earned as of year-end but not yet billed. This increased accounts receivable and net position \$276,810 for the year ended June 30, 2017.
- The District adopted the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities*, which requires bond issue costs that were previously being amortized over the life of the bonds to be expensed in the period incurred. This decreased other assets and net position \$155,038 for the year ended June 30, 2017.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

- Accrued liabilities are paid out to the employee upon termination or separation of employment, however, these liabilities were not recorded on the Statement of Net Position. To record these, accrued compensated absences was increased by \$72,253 and net position was decreased by \$72,253 for the year ended June 30, 2017.

The net effect of the prior period adjustments to net position is as follows:

<u>Adjustment</u>	<u>Effect on Net Position</u>
Accounts receivable	\$ 276,810
Debt issuance costs	(155,038)
Accrued liabilities	<u>(72,253)</u>
Total adjustment	<u>\$ 49,519</u>

NOTE 11 NEW GASB PRONOUNCEMENTS

The District implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which 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.

NOTE 12 FUTURE GASB PRONOUNCEMENTS

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

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through November 29, 2018, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

OPERATION AND MAINTENANCE EXPENSES

Chemicals	\$ 37,027
Consumer confidence report	1,949
Depreciation	1,310,816
Mobile and site telephone	4,472
Operating supplies	10,241
Power for pumping	101,868
Repairs and maintenance	56,256
Small tools expense	406
Vehicle and travel expense	11,228
Water purchase, City of Carrington	84,268
Water purchase, Ramsey Rural Water	97
Water purchase, JMST	113
Water testing	4,465
Total operation and maintenance expenses	<u>\$ 1,623,206</u>

INDUSTRIAL UTILITIES EXPENSES

GRE expenses	\$ 3,012
SWS expenses	95,035
DSA expenses	44,744
Salary, benefits, payroll taxes	197,617
Industrial expenses	21,380
Administration costs	16,563
RRWS costs	1,000
Depreciation	125,647
Total industrial expenses	<u>\$ 504,998</u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

ADMINISTRATIVE EXPENSES

Salaries	\$ 258,950
Payroll taxes	28,545
Insurance, general	14,695
Insurance, group	74,239
Board and employee training	7,964
On-call pay	61,527
Vehicle, GPS	1,884
Office supplies and expense	4,101
Employee uniforms	214
Advertising	4,378
Postage	8,233
Telephone	2,365
Professional services	26,437
Licenses, fees and permits	8,531
Directors' fees	7,468
Repairs and maintenance	7,241
Dues and subscriptions	5,913
Travel and meetings	734
Utilities	4,551
Pension expense	13,093
Depreciation	33,775
Amortization	6,664
Miscellaneous	4,060
Total administrative expenses	<u><u>\$ 585,562</u></u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF WATER UTILITY OPERATIONS COSTS PER 1,000 GALLONS SOLD
FOR THE YEAR ENDED JUNE 30, 2018

Gallons Sold		166,600,000
		Per 1,000 Gallons Sold
	Total	
Operation and maintenance expenses (without depreciation)	\$ 312,390	\$ 1.88
Administrative expenses	585,562	3.51
Interest expense	378,980	2.27
Depreciation expense	<u>1,477,209</u>	<u>8.87</u>
	<u>\$2,754,141</u>	<u>\$ 16.53</u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF WATER UTILITY OPERATIONS – MANAGEMENT BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Operating Revenue	
Water Utility	<u>\$2,178,541</u>
Operations and maintenance expenses	
Chemicals	37,027
Consumer confidence report	1,949
Depreciation	1,310,816
Mobile and site telephone	4,472
Operating supplies	10,241
Power for pumping	101,868
Repairs and maintenance	56,256
Small tools expense	406
Vehicle and travel expense	11,228
Water purchase, City of Carrington	84,268
Water purchase, Ramsey Rural Water	97
Water purchase, JMST	113
Water testing	4,465
	<u>1,623,206</u>
Administrative expenses	
Salaries	258,950
Payroll taxes	28,545
Insurance, general	14,695
Insurance, group	74,239
Board and employee training	7,964
On-call pay	61,527
Vehicle, GPS	1,884
Office supplies and expense	4,101
Employee uniforms	214
Advertising	4,378
Postage	8,233
Telephone	2,365
Professional services	26,437
Licenses, fees and permits	8,531
Directors' fees	7,468
Repairs and maintenance	7,241
Dues and subscriptions	5,913
Travel and meetings	734
Utilities	4,551
Pension expense	13,093
Depreciation	33,775
Miscellaneous	4,060
Total administrative expenses	<u>585,562</u>
Interest expense	<u>378,980</u>
Total expenses	<u>2,587,748</u>
Loss from water utility operations	<u><u>\$ (409,207)</u></u>



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
Stutsman Rural Water District
Jamestown, 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 Stutsman Rural Water District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Stutsman Rural Water District's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stutsman Rural Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stutsman Rural Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Stutsman Rural Water District'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 a material weakness 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 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-002 and 2018-003 to be significant deficiencies.

Compliance and Other Matters

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

District's Responses to Findings

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

Purpose of this Report

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



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

November 29, 2018

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-001: Material Weakness – Journal Entries

Criteria

The District is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The District's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis.

Effect

An appropriate system of internal controls is not present to determine that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the District reviews its current training system to determine if it is cost effective for the District to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions

Stutsman Rural Water District's internal controls have been established and applied in the context of our organizational structure and resources. Management believes there are adequate internal control measures present to assure board members that the integrity of the District's general ledger accounts are properly reflected on a GAAP basis. The internal controls are also designed to provide reasonable assurance that financial transactions are executed with management's general authorization.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

2018-002: Significant Deficiency - Preparation of Financial Statements

Criteria

An appropriate system of internal control requires the District to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the District's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The District's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to determine that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the District is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the District review its current training system to determine if it is cost effective for the District to obtain this knowledge internally. As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Stutsman Rural Water District's internal controls have been established and applied in the context of our organizational structure and resources. Management believes there are adequate internal control measures present to assure Members of the integrity of the District's accounting practices and procedures. The internal controls are also designed to provide reasonable assurance that financial transactions are executed with management's general authorization.

In light of the auditor's comments regarding the cause of deficiencies in our internal controls, no planned corrective actions are recommended at this time.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

2018-003: Significant Deficiency – Segregation of Duties

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limiting the number of personnel within the accounting department are the causes of this significant deficiency.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The District's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials and Planned Corrective Actions

The District has segregated the accounting duties to the appropriate individuals to the extent possible. Because of the very limited number of staff available for the District, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative available to the District would be the hiring of additional staff, and current cash flows do not justify it. The District has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.