

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule of Expenses	25
Schedule of Water Utility Operations Costs per 1,000 Gallons Sold	27
Schedule of Water Utility Operations – Management Basis	28
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 <i>GOVERNMENT AUDITING STANDARDS</i>	29
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	31
Schedule of Expenditures of Federal Awards	34
Notes to the Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35
Schedule of Prior Year Findings and Responses	39
Corrective Action Plan	42

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, 2019, 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.

Opinion

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, 2019 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.

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 an opinion 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Coe of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of expenses, schedule of water utility operations costs per 1,000 gallons sold, schedule of water utility operations – management basis, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 1, 2019 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 1, 2019

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019 and 2018.

Financial Highlights

- The District's net position increased by \$2,639,293 or 6.8% from \$38,932,434 to \$41,571,727.
- Operating revenues decreased by \$37,569 or .9% from \$4,056,238 to \$4,018,669.
- Operating expenses increased by \$38,657 or 1.1% from \$3,499,511 to \$3,538,168.
- For the fiscal year ended June 30, 2019, the District delivered 158.9 million gallons of domestic water, 170 million gallons of industrial water, 159.6 million gallons transported to DSA and 50.9 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 years ended June 30, 2019 and 2018. This statement provides information on the District's operations over the past two fiscal years 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 comparative information on the source and use of cash and the change in the cash balance for each of the last two fiscal years.

Financial Analysis of the District

The statement of net position (pages 9-10) and the statement 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, 2019

NET POSITION

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

TABLE I
CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets	\$ 4,836,339	\$ 3,822,952
Other assets	3,235,705	3,118,114
Net capital assets	61,674,390	60,110,389
Total assets	<u>69,746,434</u>	<u>67,051,455</u>
DEFERRED OUTFLOWS	<u>93,291</u>	<u>99,954</u>
LIABILITIES		
Current liabilities	2,274,748	1,454,820
Non-current liabilities	25,993,250	26,764,155
Total Liabilities	<u>28,267,998</u>	<u>28,218,975</u>
NET POSITION		
Net investment in capital assets	34,526,963	32,197,496
Restricted for debt service	2,900,986	2,809,248
Unrestricted	4,143,778	3,925,690
Total Net Position	<u>\$ 41,571,727</u>	<u>\$ 38,932,434</u>

As the above table indicates, total assets increased by \$2,694,979 during the fiscal year ended June 30, 2019. This is comprised of an increase in current assets of \$1,013,387, an increase in other assets of \$117,591 and an increase in capital assets of \$1,564,001. Total assets decreased by \$134,334 during the fiscal year ended June 30, 2018. This is comprised of an increase in current assets \$104,333, an increase in other assets of \$252,783 and a decrease in capital assets of \$491,450. Deferred outflows decreased \$6,663 due to amortization of costs related to a bond issue in a previous year.

Total liabilities reflect an increase of \$49,023 during the fiscal year ended June 30, 2019. This includes a decrease of \$770,905 in long-term liabilities as the District reduced its long term debt obligations. There was an increase of \$819,928 in current liabilities reflected in an increase in accounts payable of \$691,119 and an increase in current loans payable and accrued interest payable of \$11,738, an increase of accrued compensated absences of \$17,821 and a decrease in customer deposits of \$600. Total liabilities show a decrease of \$1,498,328 during the fiscal year ended June 30, 2018. This includes a decrease of \$1,239,562 in long-term debt and a decrease of \$258,766 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, 2019

Table I also indicates that total net position increased by \$2,639,293 during the fiscal year ended June 30, 2019. This increase is the result of operations, non-operating activity and a net increase in member capital. 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.

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 2019 decreased by \$37,569 or .9% to \$4,018,669 from \$4,056,238 in the prior year. Total operating expenses increased by \$38,657 or 1.1% from the prior year. Non-operating revenue increased by \$1,247,240 primarily due to State Water Commission grants. 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.

TABLE II
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating revenues		
Water utility	\$ 2,188,461	\$ 2,178,541
Industrial utilities	1,830,208	1,877,697
Total operating revenues	<u>4,018,669</u>	<u>4,056,238</u>
Operating expenses		
Operations and maintenance	1,568,626	1,572,157
Administrative expenses	693,059	636,611
Interest expense	385,655	378,980
Industrial utilities expense	492,552	504,998
Industrial utilities interest expense	398,276	406,765
Total operating expenses	<u>3,538,168</u>	<u>3,499,511</u>
Operating income	480,501	556,727
Non-operating income	<u>2,088,892</u>	<u>841,652</u>
Income before contributions	2,569,393	1,398,379
Capital contributions	<u>69,900</u>	<u>16,050</u>
Change in net position	<u>2,639,293</u>	<u>1,414,429</u>
Total net position - beginning	38,932,434	37,518,005
Total net position - ending	<u>\$ 41,571,727</u>	<u>\$ 38,932,434</u>

STUTSMAN RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019

Net Capital Assets

As of June 30, 2019, the District's investment in net capital assets totaled \$61,674,390, which is an increase of \$1,564,001 or 2.6% over the net capital asset balance of \$60,110,389 at June 30, 2018. 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, 2019 AND 2018

	2019	2018	Dollar Change
Land	\$ 103,472	\$ 77,697	\$ 25,775
Office and shop building	535,490	535,490	-
Storage units	139,169	164,944	(25,775)
Lines and equipment	48,449,151	47,687,379	761,772
Reservoirs and equipment	14,776,858	14,777,283	(425)
Wells and equipment	350,399	350,399	-
Office equipment	112,792	105,791	7,001
Equipment and tools	313,212	306,638	6,574
GRE lines and equipment	6,282,331	6,282,331	-
Construction in progress	2,300,815	-	2,300,815
Total	<u>73,363,689</u>	<u>70,287,952</u>	<u>3,075,737</u>
Less: accumulated depreciation	(11,689,299)	(10,177,563)	(1,511,736)
Total capital assets, net	<u>\$ 61,674,390</u>	<u>\$ 60,110,389</u>	<u>\$ 1,564,001</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 5 pipeline and water storage project, and the Phase 6 water supply project to the Pettibone area.

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

Long-Term Debt

As of June 30, 2019, the District had \$27,147,427 in outstanding long-term debt compared to \$27,912,893 as of June 30, 2018. The decrease of \$765,466 represents additional debt to finance the Phase 5 and Phase 6 projects of \$774,051 and less principal payments of 1,539,517 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, 2019

Economic Factors and Next Year's Budget and Rates

Construction of the Phase 5 Project is complete. The construction contract has been closed out as well as the financing on the project. The project was constructed with a 75% grant from the ND State Water Commission and financed with the ND Department of Environmental Quality State Revolving Fund (SRF) Loan Program at 2% interest for 30 years.

Construction has been completed on the Phase 6 Pettibone Area Water Supply Project with the addition of 99 new water users in the town of Pettibone and the Lake Williams and surrounding rural areas. The construction contract will be closed out and the financing completed in the 2019/2020 fiscal year. The project was constructed with a 75% grant from the ND State Water Commission and financed with the ND Department of Environmental Quality State Revolving Fund (SRF) Loan Program at 2% interest for 30 years.

The Phase 7 Project which is a water supply pipeline project to increase pressures and flows to the West and Northwest areas of the water system held its bid opening July 18, 2019. Construction began in late August 2019 with the final completion scheduled for July 2020. This project will install approximately 21 miles of pipeline to that area.

The Water District has commenced to install Automatic Meter Reading equipment for all water users the fall of 2019. The changeover in metering equipment and the addition of the endpoint readers will be installed in phases over a period of approximately 3 years. This upgrade will benefit the users and will enable the water district to better track water usage and water loss.

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.

Management does not anticipate a rate increase will be necessary for the 2019/2020 fiscal year.

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, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 3,577,073
Accounts receivable, trade	500,771
Unbilled revenue	102,377
Grant receivable	534,059
Supplies	113,817
Prepaid expenses	<u>8,242</u>
Total current assets	<u>4,836,339</u>
Other assets	
Investments restricted for debt service	3,113,407
Investments in cooperatives	<u>122,298</u>
Total other assets	<u>3,235,705</u>
Capital assets not depreciated:	
Land	103,472
Construction in progress	2,300,815
Capital assets being depreciated:	
Office and shop building	535,490
Storage units	139,169
Lines and equipment	48,449,151
Reservoirs and equipment	14,776,858
Wells and equipment	350,399
Office equipment	112,792
Equipment and tools	313,212
GRE lines and equipment	6,282,331
Less: accumulated depreciation	<u>(11,689,299)</u>
Total capital assets, net	<u>61,674,390</u>
Total assets	<u>69,746,434</u>
Deferred Outflows	
Amortized costs, net	<u>93,291</u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF NET POSITION - CONTINUED
JUNE 30, 2019

LIABILITIES AND NET POSITION

Current liabilities	
Accounts payable	\$ 708,001
Retainage payable	99,850
Customer deposits	2,850
Accrued interest payable	212,421
Accrued compensated absences	97,449
Bonds, notes and loans payable, current portion	<u>1,154,177</u>
Total current liabilities	<u>2,274,748</u>
Bonds, notes and loans payable, net of current portion	<u>25,993,250</u>
Total non-current liabilities	<u>25,993,250</u>
Total liabilities	<u>28,267,998</u>
Net position	
Net investment in capital assets	34,526,963
Restricted for debt service	2,900,986
Unrestricted	<u>4,143,778</u>
Total net position	<u><u>\$ 41,571,727</u></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, 2019

Operating revenues:	
Water utility:	
Water revenue	<u>\$ 2,188,461</u>
Industrial utility	
GRE wastewater	365,242
DSA water transportation	212,982
SWS Spiritwood Station water supply	<u>1,251,984</u>
Total industrial utility	<u>1,830,208</u>
Total operating revenues	<u>4,018,669</u>
Operating expenses:	
Operation and maintenance expenses	1,568,626
Administrative	693,059
Interest	385,655
Industrial utilities	492,552
Industrial utilities interest	<u>398,276</u>
Total operating expenses	<u>3,538,168</u>
Operating income (loss)	<u>480,501</u>
Non-operating revenues (expenses):	
Interest and investment	65,674
Gain (loss) on trade of equipment	6,400
Grant income	2,017,795
Other income	7,910
Miscellaneous	<u>(8,887)</u>
Total non-operating revenues (expenses)	<u>2,088,892</u>
Income before capital contributions	2,569,393
Net change in capital contributions	<u>69,900</u>
Change in net position	<u>2,639,293</u>
Total net position - beginning of year	<u>38,932,434</u>
Total net position - end of year	<u><u>\$ 41,571,727</u></u>

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Receipts from utility customers	\$ 3,888,362
Payments to utility suppliers	(541,230)
Payments to employees	(660,669)
	<hr/>
Cash provided (used) by operating activities	2,686,463
	<hr/>
Cash flows from investing activities	
Proceeds from redemption of investments in cooperatives	23,441
Investment in cooperatives	(42,995)
Grants and other income	1,482,758
Interest income	65,674
	<hr/>
Cash provided (used) by investing activities	1,528,878
	<hr/>
Cash flows from capital and related financing activities	
Purchase of capital assets	(2,303,248)
Increase in restricted cash	(98,037)
Payments on long-term debt	(1,539,517)
Proceeds from issuance of long-term debt	774,051
Interest paid on borrowings	(777,632)
Net change in capital contributions	69,900
	<hr/>
Cash provided (used) by capital and related financing activities	(3,874,483)
	<hr/>
Change in cash and cash equivalents	340,858
Cash and cash equivalents, beginning of period	3,236,215
	<hr/>
Cash and cash equivalents, end of period	<u>\$ 3,577,073</u>
	<hr/>
Reconciliation of operating income to net cash provided (used)	
by operating activities:	
Operating income (loss)	\$ 480,501
Adjustments to reconcile operating gain (loss) to net cash	
provided (used) by operating activities:	
Depreciation and amortization	1,525,683
Interest	783,931
Effects on operating cash flows due to changes in:	
Accounts receivable	(129,707)
Prepaid expenses	(2,100)
Accounts payable	10,934
Customer deposits	(600)
Accrued compensated absences	17,821
	<hr/>
Total adjustments	2,205,962
	<hr/>
Net cash provided (used) by operating activities	<u>\$ 2,686,463</u>
	<hr/>
Schedule of Noncash Investing and Financing Transactions	
Gain on trade of equipment	\$ 6,400

See Notes to the Financial Statements

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2019

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 year ended June 30, 2019. 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, 2019

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, 2019

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, 2019.

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, 2019

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 \$2,500 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	10 to 50 years
Equipment and tools	5 to 10 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.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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 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.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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.

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, 2019, 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, 2019:

	July 1, 2018	Additions	Deletions	June 30, 2019
Capital assets not being depreciated				
Land	\$ 103,472	\$ -	\$ -	\$ 103,472
Construction in progress	-	2,300,815	-	2,300,815
Total capital assets not being depreciated	<u>103,472</u>	<u>2,300,815</u>	<u>-</u>	<u>2,404,287</u>
Capital assets being depreciated:				
Office and shop building	535,490	-	-	535,490
Storage units	139,169	-	-	139,169
Lines and equipment	47,687,379	766,207	(4,435)	48,449,151
Reservoirs and equipment	14,777,283	-	(425)	14,776,858
Wells and equipment	350,399	-	-	350,399
Office equipment	105,791	8,461	(1,460)	112,792
Equipment and tools	306,638	14,201	(7,627)	313,212
GRE lines and equipment	6,282,331	-	-	6,282,331
Total capital assets being depreciated	<u>70,184,480</u>	<u>788,869</u>	<u>(13,947)</u>	<u>70,959,402</u>
Less accumulated depreciation	<u>10,177,563</u>	<u>1,525,683</u>	<u>(13,947)</u>	<u>11,689,299</u>
Total capital assets being depreciated, net	<u>60,006,917</u>	<u>(736,814)</u>	<u>-</u>	<u>59,270,103</u>
Net capital assets	<u>\$ 60,110,389</u>	<u>\$ 1,564,001</u>	<u>\$ -</u>	<u>\$ 61,674,390</u>

Depreciation expense for the year ended June 30, 2019 totaled \$1,525,683. Operation and maintenance expenses included \$1,300,455, administrative expenses included \$133,773, industrial utilities expenses included \$84,483 and miscellaneous expense included \$6,972.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 4 DEFERRED OUTFLOWS

Deferred outflows as of the year ended June 30, 2019 are as follows:

Underwriter's discount	\$ 133,272
Less amortization	<u>(39,981)</u>
Net Deferred Outflows	<u>\$ 93,291</u>

NOTE 5 LONG-TERM DEBT

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

	<u>June 30, 2019</u>
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.	\$ 445,000
 \$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.	2,539,999
 \$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.	755,911
 \$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.	7,348,889
 \$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.	3,289,997
 \$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.	1,740,002

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

<p>\$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.</p>	<p>\$ 1,501,373</p>
<p>\$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.</p>	<p>1,469,667</p>
<p>\$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.</p>	<p>1,476,946</p>
<p>\$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.</p>	<p>581,471</p>
<p>\$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.</p>	<p>1,241,924</p>
<p>\$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.</p>	<p>320,196</p>
<p>\$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.</p>	<p>321,782</p>
<p>\$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.</p>	<p>653,904</p>
<p>\$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.</p>	<p>1,535,985</p>

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

\$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. \$ 1,533,820

\$800,000 Series 2018 Water Revenue Bonds dated September 1, 2019 to finance water treatment and distribution system improvement. The bonds are payable in variable annual principal and semi-annual interest payments at a fixed interest rate of 1.500% beginning September 1, 2019 through September 1, 2048. 390,561

\$ 27,147,427

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, 2019, the following changes occurred in liabilities reported in the Statement of Net Position:

	Balance 7/1/18	Additions	Reductions	Balance 6/30/19	Due Within One Year
Compensated absences	\$ 79,629	\$ 38,924	\$ 21,104	97,449	\$ 97,449
Bonds and notes payable					
Revenue bonds payable	27,475,841	774,051	1,102,465	27,147,427	1,154,177
Notes payable	437,052	-	437,052	-	-
Total bonds and notes payable	<u>27,912,893</u>	<u>774,051</u>	<u>1,539,517</u>	<u>27,147,427</u>	<u>1,154,177</u>
Total long-term liabilities	<u>\$ 27,992,522</u>	<u>\$ 812,975</u>	<u>\$ 1,560,621</u>	<u>\$ 27,244,876</u>	<u>\$ 1,251,626</u>

Future Obligations

Annual requirements for payment of outstanding debt at June 30, 2019 are as follows:

Year	Revenue Bonds Payable	
	Principal	Interest
2020	\$ 1,154,177	\$ 731,651
2021	1,175,409	711,860
2022	1,216,924	685,421
2023	1,242,419	656,303
2024	1,273,916	626,448
2025-2029	6,590,664	2,648,446
2030-2034	6,530,617	1,708,115
2035-2039	1,986,389	960,220
2040-2044	1,657,902	747,147
2045-2049	1,618,727	520,499
2050-2054	1,659,897	289,347
2055-2059	1,040,386	59,494
	<u>\$ 27,147,427</u>	<u>\$ 10,285,457</u>

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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 2019. Additional catch up contributions may be made and age-related limitations also may apply. Total pension expense for 2019 was \$15,000.

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, 2019, the District has an outstanding commitment with an original contract price of \$1,994,488 with a construction contractor for the Phase 6 project. As of June 30, 2019, there are \$174,918 of charges left until completion.

NOTE 9 GRANT PROGRAMS

The District participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related amounts due to the District at June 30, 2019, may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 10 MAJOR CUSTOMERS

During the year ended June 30, 2019, the District had one major customer. This customer accounted for 31.2% of operating revenue and 34.8% and accounts receivables during and as of the year ended June 30, 2019, respectively.

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 11 FUTURE GASB PRONOUNCEMENTS

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

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

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

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

STUTSMAN RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through November 1, 2019, 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, 2019

OPERATION AND MAINTENANCE EXPENSES

Chemicals	\$ 39,182
Consumer confidence report	1,980
Depreciation	1,300,455
Mobile and site telephone	6,375
Operating supplies	17,992
Power for pumping	71,405
Repairs and maintenance	63,180
Small tools expense	589
Vehicle and travel expense	14,872
Water purchase, City of Carrington	47,554
Water purchase, JMST	70
Water testing	4,972
Total operation and maintenance expenses	<u><u>\$ 1,568,626</u></u>

INDUSTRIAL UTILITIES EXPENSES

GRE expenses	\$ 3,072
SWS expenses	33,274
DSA expenses	49,859
Salary, benefits, payroll taxes	231,743
Industrial expenses	21,038
Administration costs	19,293
RRVWS costs	500
Depreciation	133,773
Total industrial expenses	<u><u>\$ 492,552</u></u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

ADMINISTRATIVE EXPENSES

Salaries	\$ 292,219
Payroll taxes	23,939
Insurance, general	19,542
Insurance, group	60,720
Board and employee training	4,875
On-call pay	63,319
Vehicle, GPS	1,638
Office supplies and expense	8,237
Employee uniforms	461
Advertising	2,646
Postage	8,564
Telephone	2,916
Professional services	32,112
Licenses, fees and permits	8,566
Directors' fees	12,603
Repairs and maintenance	3,877
Dues and subscriptions	4,634
Travel and meetings	569
Bad debts	355
Utilities	4,403
Pension expense	10,853
Depreciation	84,483
Amortization	6,664
Administrative fees	34,604
Miscellaneous	260
Total administrative expenses	<u>\$ 693,059</u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF WATER UTILITY OPERATIONS COSTS PER 1,000 GALLONS SOLD
FOR THE YEAR ENDED JUNE 30, 2019

Gallons Sold	157,300,000	
		Per 1,000 Gallons Sold
	<u>Total</u>	<u>Sold</u>
Operation and maintenance expenses (less depreciation)	\$ 268,171	\$ 1.70
Administrative expenses	693,059	4.41
Interest expense	385,655	2.45
Depreciation expense	<u>1,300,455</u>	<u>8.27</u>
	<u>\$ 2,647,340</u>	<u>\$ 16.83</u>

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF WATER UTILITY OPERATIONS – MANAGEMENT BASIS
FOR THE YEAR ENDED JUNE 30, 2019

Operating Revenue	
Water Utility	\$ 2,188,461
Operations and maintenance expenses	
Chemicals	39,182
Consumer confidence report	1,980
Depreciation	1,300,455
Mobile and site telephone	6,375
Operating supplies	17,992
Power for pumping	71,405
Repairs and maintenance	63,180
Small tools expense	589
Vehicle and travel expense	14,872
Water purchase, City of Carrington	47,554
Water purchase, JMST	70
Water testing	4,972
	<u>1,568,626</u>
Administrative expenses	
Salaries	292,219
Payroll taxes	23,939
Insurance, general	19,542
Insurance, group	60,720
Board and employee training	4,875
On-call pay	63,319
Vehicle, GPS	1,638
Office supplies and expense	8,237
Employee uniforms	461
Advertising	2,646
Postage	8,564
Telephone	2,916
Professional services	32,112
Licenses, fees and permits	8,566
Directors' fees	12,603
Repairs and maintenance	3,877
Dues and subscriptions	4,634
Travel and meetings	569
Utilities	4,403
Pension expense	10,853
Depreciation	84,483
Amortization	6,664
Administrative fees	34,604
Miscellaneous	260
Total administrative expenses	<u>693,059</u>
Interest expense	<u>385,655</u>
Total expenses	<u>2,647,340</u>
Loss from water utility operations	<u>\$ (458,879)</u>

**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, 2019, 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 1, 2019.

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. 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 questioned costs, 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 questioned costs as 2019-001 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 questioned costs as items 2019-002 and 2019-003 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 questioned costs. 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 1, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Stutsman Rural Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Stutsman Rural Water District's major federal program for the year ended June 30, 2019. The Stutsman Rural Water District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Stutsman Rural Water District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Stutsman Rural Water District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis of our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Stutsman Rural Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Stutsman Rural Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Stutsman Rural Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Stutsman Rural Water District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a significant deficiency.

The District's response to internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no such opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

November 1, 2019

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Pass-Through Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY			
Passed through ND Department of Health:			
Drinking Water State Revolving Fund Cluster:			
Capitalization Grants for Drinking Water			
State Revolving Funds	4701303-05		
	4701303-06	66.468	\$ 861,889
Total Federal Expenditures			\$ 861,889

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 INDIRECT COST RATE

The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Stutsman Rural Water District under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Stutsman Rural Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Stutsman Rural Water District.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001: Preparation of Financial Statements and Adjusting Journal Entries by Auditor

Criteria

An appropriate system of internal controls requires that the District make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the cash basis of accounting. This also requires the District's personnel to maintain a working 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 the District. However, the District does not have the internal resources to prepare full disclosure financial statements for external reporting. In addition, during our audit adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause

The personnel of the client do not maintain the knowledge and expertise to prepare full disclosure financial statements. The District's internal controls have not been designed to address the specific items that are required to maintain the general ledger accounts in accordance with GAAP.

Effect

The District is unable to prepare full disclosure financial statements without assistance from the auditor. An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation

We recommend 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 reconcile all accounts timely and document the review of the annual financial statements with a disclosure checklist.

Indication of Repeat Finding

This is a repeat finding from 2018-001 and 2018-002 from the prior year.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with this finding and has planned corrective action to address this finding.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

2019-002: 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.

Indication of Repeat Finding

This is a repeat finding of 2018-003 from the prior year.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with this finding and has planned corrective action to address this finding.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-003: CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds

Criteria:

The District should have a formal written policy for procurement.

Condition:

The District follows North Dakota Century Code and federal regulations, but does not have a formal policy for procurement.

Cause:

There is no formal policy in place for procurement.

Effect:

District may not be in compliance with Uniform Guidance or ND Century Code procurement policies.

Recommendation:

The District should draft and the Board approve a procurement policy that complies with ND Century Code and the Uniform Guidance.

Indication of Repeat Finding:

This is a new finding in the current year.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with this finding and has planned corrective action to address this finding.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2018-001: Adjusting 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.

Status

This is repeated as finding 2019-001 in the current year.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

2018-002: 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.

Status

This is repeated as finding 2019-001 in the current year.

STUTSMAN RURAL WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

2018-003: 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

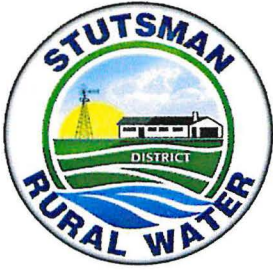
The District's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight 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.

Status

This is repeated as finding 2019-002 in the current year.



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Jamestown, ND

Darrell Patzer
Vice-President
Jamestown, ND

Mardee Heinrich
Secretary -Treasurer
Adrian, ND

Joel Lees
Director
Buchanan, ND

Nathan Hochhalter
Director
Cleveland, ND

Dane Bollingberg
Director
Courtenay, ND

Ron Wanzek
Director
Jamestown, ND

Corrective Action Plan – June 30, 2019

2019-001

Contact Person

Geneva Kaiser, General Manager

Corrective Action Plan

Stutsman Rural Water District's internal controls have been established and applied in the context of our organization structure and resources.

District personnel prepare and provide the Board of Directors with financial statements and a monthly cost per 1,000 gallons report for each monthly Board of Directors meeting. The District's outstanding debt and reserves are reviewed on an ongoing basis. Management believes that the Board is fully informed on the financial position of the District and that adequate internal controls exist to assure the Members of the integrity of the District's accounting practices and financial transactions.

Completion Date

In order to fully correct this finding, the District would need to hire another individual with the additional training. The cost of hiring another individual must be weighed with the potential benefit to the District's members. This plan will be implemented when the work load warrants the hiring of another individual and it becomes cost effective for the District.

2019-002

Contact Person

Geneva Kaiser, General Manager

Corrective Action Plan

Stutsman Rural Water District has segregated the accounting duties to the appropriate individuals to the extent possible with a limited number of staff. In addition to staff, the District also hires an independent accounting firm to review financial statements and bank statement reconciliations monthly. The District believes it has adequate procedures in place, some of which are:

1. Accounts Payable – 3 employees and 1 Board member review and approve expenses prior to payment on a biweekly basis. Two of these individuals are signatories on the checking account and two are not.

2. Payroll - 2 individuals approve employee payroll submissions prior to processing. Payroll is processed and sent to the bank using the bank's encrypted ACH files. A maximum dollar amount per payroll period is set with the bank annually to deter/prevent fraud. The District's software allows a maximum of 1 payroll to be processed within a two week period only. In addition, an employee that is not involved in the bi-weekly payroll process completes the Federal and State quarterly reports and the annual W-2 forms.



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Director
Jamestown, ND

3. Software – All of the District’s accounting programs and other software are written and maintained by an off site IT individual that is not affiliated with the District. The District employees have no ability to change or manipulate any of the accounting programs or software for calculations.

Accounts Receivable - Currently the same employee that performs the billing on the member accounts also posts the member payments, enters the meter readings for the next month’s billing and makes the deposits to the bank. This employee is not allowed to reconcile bank statements. The General Manager spot checks member accounts and daily deposits for accuracy.

Completion Date

A corrective action for accounts receivable will be made during fiscal year 2019/2020. The independent accounting firm that reviews the District’s bank statements will take a random sampling of the member’s accounts on a monthly basis; reviewing the billing and member payment stubs submitted, and meter readings submitted. Those will be traced to the accounts receivable hard copy run daily and traced to the General Ledger. Any adjustments made to the member accounts will also be reviewed. The District is currently in the process of installing automatic meter reading which will eliminate physically entering a meter reading for billing purposes.

2019-003

Contact Person

Geneva Kaiser, General Manager

Corrective Action Plan

The District was unaware of the new requirement to have a written Federal Procurement policy in place. The District has always strived to adhere to federal and state procurement policies and regulations.

Completion Date

A written Federal Procurement policy will be adopted by the District in fiscal year 2019/2020.