

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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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, 2020, 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, 2020 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 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 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 3, 2020 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 3, 2020

**STUTSMAN RURAL WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2020**

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, 2020 and 2019.

**Financial Highlights**

- The District's net position increased by \$1,476,569 or 3.6% from \$41,571,727 to \$43,048,296.
- Operating revenues increased by \$35,931 or .9% from \$4,018,669 to \$4,054,600.
- Operating expenses increased by \$144,482 or 4.1% from \$3,538,168 to \$3,682,650.
- For the fiscal year ended June 30, 2020, the District delivered 163.8 million gallons of domestic water, 155 million gallons of industrial water, 157 million gallons transported to DSA and 50 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, deferred outflows of resources and liabilities and provides information about the nature and amounts of investments in resources (assets) , deferred outflows of resources, 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, 2020 and 2019. 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 statements of net position (pages 9 & 10) 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 deferred outflows less liabilities and deferred inflows. 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, 2020**

**NET POSITION**

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

TABLE I  
CONDENSED STATEMENT OF NET POSITION  
JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
Current assets	\$ 4,849,838	\$ 4,836,339
Other assets	3,251,582	3,235,705
Net capital assets	61,951,085	61,674,390
Total assets	<u>70,052,505</u>	<u>69,746,434</u>
DEFERRED OUTFLOWS	<u>86,627</u>	<u>93,291</u>
<b>LIABILITIES</b>		
Current liabilities	1,685,377	2,274,748
Non-current liabilities	25,405,459	25,993,250
Total Liabilities	<u>27,090,836</u>	<u>28,267,998</u>
<b>NET POSITION</b>		
Net investment in capital assets	35,312,068	34,526,963
Restricted for debt service	2,927,346	2,900,986
Unrestricted	4,808,882	4,143,778
Total Net Position	<u>\$ 43,048,296</u>	<u>\$ 41,571,727</u>

As the above table indicates, total assets increased by \$306,071 during the fiscal year ended June 30, 2020. This is comprised of an increase in current assets of \$13,499, an increase in other assets of \$15,877 and an increase in capital assets of \$276,695. Total assets increased by \$2,694,979 during the fiscal year ended June 30, 2019. This is comprised of an increase in current assets \$1,013,387, an increase in other assets of \$117,591 and an increase in capital assets of \$1,564,001. Deferred outflows decreased \$6,664 due to amortization of costs related to a previous bond issue.

Total liabilities reflect a decrease of \$1,177,162 during the fiscal year ended June 30, 2020. This includes a decrease of \$587,791 in long-term liabilities as the District reduced its long-term debt obligations. There was a decrease of \$589,371 in current liabilities reflected in a decrease in accounts payable of \$643,680 and an increase in current loans payable of \$79,381 and a decrease in accrued interest payable of \$24,588, an increase of accrued compensated absences of \$27,210, a decrease in retainage payable of \$28,144 and an increase in customer deposits of \$450. Total liabilities show an increase of \$49,023 during the fiscal year ended June 30, 2019. This includes a decrease of \$770,905 in long-term debt and an increase of \$819,928 in current liabilities reflected in an increase in accounts payable of \$691,119, an increase in current loans payable and accrued interest payable of \$11,738, an increase of accrued compensated absences of \$17,821, an increase of \$99,850 in retainage and a decrease of customer deposits of \$600.

**STUTSMAN RURAL WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2020**

Table I also indicates that total net position increased by \$1,476,569 during the fiscal year ended June 30, 2020. This increase is the result of operations, non-operating activity and a net increase in member capital. 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.

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 2020 increased by \$35,931 or .9% to \$4,054,600 from \$4,018,669 in the prior year. Total operating expenses increased by \$144,482 or 4.1% from the prior year. Non-operating revenue decreased by \$985,872 primarily due to a decrease in State Water Commission grants. 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 an increase in State Water Commission grants.

TABLE II  
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating revenues		
Water utility	\$ 2,301,869	\$ 2,188,461
Industrial utilities	1,752,731	1,830,208
Total operating revenues	<u>4,054,600</u>	<u>4,018,669</u>
Operating expenses		
Operations and maintenance	1,632,591	1,568,626
Administrative expenses	774,360	693,059
Interest expense	352,990	385,655
Industrial utilities expense	530,768	492,552
Industrial utilities interest expense	391,941	398,276
Total operating expenses	<u>3,682,650</u>	<u>3,538,168</u>
Operating income	371,950	480,501
Non-operating income	<u>1,092,019</u>	<u>2,088,892</u>
Income before contributions	1,463,969	2,569,393
Capital contributions	<u>12,600</u>	<u>69,900</u>
Change in net position	1,476,569	2,639,293
Total net position - beginning	<u>41,571,727</u>	<u>38,932,434</u>
Total net position - ending	<u>\$ 43,048,296</u>	<u>\$ 41,571,727</u>



**STUTSMAN RURAL WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2020**

**Net Capital Assets**

As of June 30, 2020, the District's investment in net capital assets totaled \$61,951,085, which is an increase of \$276,695 or .4% over the net capital asset balance of \$61,674,390 at June 30, 2019. 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, 2020 AND 2019**

	2020	2019	Dollar Change
Land	\$ 103,472	\$ 103,472	\$ -
Office and shop building	535,490	535,490	-
Storage units	139,169	139,169	-
Lines and equipment	51,514,699	48,449,151	3,065,548
Reservoirs and equipment	14,776,858	14,776,858	-
Wells and equipment	350,399	350,399	-
Office equipment	119,509	112,792	6,717
Equipment and tools	390,138	313,212	76,926
GRE lines and equipment	6,282,331	6,282,331	-
Construction in progress	956,954	2,300,815	(1,343,861)
Total	<u>75,169,019</u>	<u>73,363,689</u>	<u>1,805,330</u>
Less: accumulated depreciation	<u>(13,217,934)</u>	<u>(11,689,299)</u>	<u>(1,528,635)</u>
Total capital assets, net	<u>\$ 61,951,085</u>	<u>\$ 61,674,390</u>	<u>\$ 276,695</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, 2020, the District had \$26,639,017 in outstanding long-term debt compared to \$27,147,427 as of June 30, 2019. The decrease of \$508,410 represents additional debt to finance the Phase 5 and Phase 6 projects of \$3,664,014 and less principal payments of \$4,172,424 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, 2020

**Economic Factors and Next Year's Budget and Rates**

The Phase 7 Project which is a \$2.8 million water supply pipeline project to increase pressures and flows to the West and Northwest areas of the water system will be completed by December 31, 2020. This project has installed approximately 21 miles of pipeline to that area. Weather delays and the addition of 30 new water users in the Reule Lake Subdivision has necessitated a time extension for the contractor. The contract will be closed out prior to June 30, 2021. The project was constructed with a 65% 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 Water District is nearing completion of the installation of Automatic Meter Reading (AMR) equipment for all water users within the water system. The timeline was accelerated from a 3-year project to approximately 15 months due to the positive response from the water users and the benefits received by Stutsman Rural Water District in tracking water usage and water loss. This project was self-funded by the Water District; using funds placed in reserve for this purpose. The approximate cost of the project is \$450,000 with the Water District providing the necessary labor to keep installation costs down.

The Water District has seen a very minimal increase in expenses specific to the Covid-19 pandemic. There has not been an increase in collections or bad debts in accounts receivable.

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 2020/2021 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 North, Jamestown, North Dakota 58401.

**STUTSMAN RURAL WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**ASSETS AND DEFERRED OUTFLOWS**

Current assets	
Cash and cash equivalents	\$ 4,271,679
Accounts receivable, trade	402,977
Unbilled revenue	56,930
Supplies	113,817
Prepaid expenses	<u>4,435</u>
Total current assets	<u>4,849,838</u>
Other assets	
Cash reserves restricted for debt service	3,115,179
Investments in cooperatives	<u>136,403</u>
Total other assets	<u>3,251,582</u>
Capital assets not depreciated:	
Land	103,472
Construction in progress	956,954
Capital assets being depreciated:	
Office and shop building	535,490
Storage units	139,169
Lines and equipment	51,514,699
Reservoirs and equipment	14,776,858
Wells and equipment	350,399
Office equipment	119,509
Equipment and tools	390,138
GRE lines and equipment	6,282,331
Less: accumulated depreciation	<u>(13,217,934)</u>
Total capital assets, net	<u>61,951,085</u>
Total assets	<u>70,052,505</u>
Deferred Outflows	
Amortized costs, net	<u>86,627</u>

See Notes to the Financial Statements

**STUTSMAN RURAL WATER DISTRICT**  
**STATEMENT OF NET POSITION - CONTINUED**  
**JUNE 30, 2020**

**LIABILITIES AND NET POSITION**

Current liabilities	
Accounts payable	\$ 64,321
Retainage payable	71,706
Customer deposits	3,300
Accrued interest payable	187,833
Accrued compensated absences	124,659
Bonds, notes and loans payable, current portion	<u>1,233,558</u>
Total current liabilities	<u>1,685,377</u>
Bonds, notes and loans payable, net of current portion	<u>25,405,459</u>
Total non-current liabilities	<u>25,405,459</u>
Total liabilities	<u>27,090,836</u>
Net position	
Net investment in capital assets	35,312,068
Restricted for debt service	2,927,346
Unrestricted	<u>4,808,882</u>
Total net position	<u>\$ 43,048,296</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, 2020**

Operating revenues:	
Water utility:	
Water revenue	<u>\$ 2,301,869</u>
Industrial utility	
GRE wastewater	361,661
DSA water transportation	196,866
SWS Spiritwood Station water supply	<u>1,194,204</u>
Total industrial utility	<u>1,752,731</u>
Total operating revenues	<u>4,054,600</u>
Operating expenses:	
Operation and maintenance expenses	1,632,591
Administrative	774,360
Interest	352,990
Industrial utilities	530,768
Industrial utilities interest	<u>391,941</u>
Total operating expenses	<u>3,682,650</u>
Operating income (loss)	<u>371,950</u>
Non-operating revenues (expenses):	
Interest and investment	63,508
Grant income	1,030,136
Other income	7,965
Miscellaneous	<u>(9,590)</u>
Total non-operating revenues (expenses)	<u>1,092,019</u>
Income before capital contributions	1,463,969
Net change in capital contributions	<u>12,600</u>
Change in net position	1,476,569
Total net position - beginning of year	<u>41,571,727</u>
Total net position - end of year	<u><u>\$ 43,048,296</u></u>

See Notes to the Financial Statements

**STUTSMAN RURAL WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Cash flows from operating activities:	
Receipts from utility customers	\$ 4,204,955
Payments to utility suppliers	(1,282,705)
Payments to employees	(739,042)
	<hr/>
Cash provided (used) by operating activities	2,183,208
	<hr/>
Cash flows from investing activities	
Proceeds from redemption of investments in cooperatives	1,775
Investment in cooperatives	(15,880)
Grants and other income	1,562,570
Interest income	63,508
	<hr/>
Cash provided (used) by investing activities	1,611,973
	<hr/>
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,833,474)
Payments on long-term debt	(4,172,424)
Proceeds from issuance of long-term debt	3,664,014
Interest paid on borrowings	(769,519)
Net change in capital contributions	12,600
	<hr/>
Cash provided (used) by capital and related financing activities	(3,098,803)
	<hr/>
Change in cash and cash equivalents	696,378
Cash and cash equivalents, beginning of period	6,690,480
	<hr/>
Cash and cash equivalents, end of period	<u>\$ 7,386,858</u>
Cash and cash equivalents consist of:	
Cash and cash equivalents	\$ 4,271,679
Cash reserves restricted for debt service	3,115,179
Total cash and cash equivalents	<u>\$ 7,386,858</u>
Reconciliation of operating income to net cash provided (used)	
by operating activities:	
Operating income (loss)	\$ 371,950
Adjustments to reconcile operating gain (loss) to net cash	
provided (used) by operating activities:	
Depreciation and amortization	1,528,635
Interest	744,931
Effects on operating cash flows due to changes in:	
Accounts receivable	149,905
Prepaid expenses	3,807
Accounts payable	(643,680)
Customer deposits	450
Accrued compensated absences	27,210
	<hr/>
Total adjustments	1,811,258
	<hr/>
Net cash provided (used) by operating activities	<u>\$ 2,183,208</u>

See Notes to the Financial Statements

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2020

**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, 2020. 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, deferred outflows, 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  
JUNE 30, 2020

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  
JUNE 30, 2020

**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.

**Restricted Cash and Cash Equivalents**

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

**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 10<sup>th</sup> 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, 2020.

**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 using a percentage of current year days included in the subsequent year's billing.

**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 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**  
**JUNE 30, 2020**

**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
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 a 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 years 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 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.

**STUTSMAN RURAL WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2020

**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 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**  
**JUNE 30, 2020**

**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, 2020, none of the District's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$7,162,629 of the District's deposits are covered by pledged securities held in the District's name. The total securities pledged exceed 110% of the uninsured balance.

**NOTE 3 LAND, STRUCTURES AND EQUIPMENT**

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	July 1, 2019	Additions	Deletions	June 30, 2020
Capital assets not being depreciated				
Land	\$ 103,472	\$ -	\$ -	\$ 103,472
Construction in progress	2,300,815	1,450,127	(2,793,988)	956,954
Total capital assets not being depreciated	<u>2,404,287</u>	<u>1,450,127</u>	<u>(2,793,988)</u>	<u>1,060,426</u>
Capital assets being depreciated:				
Office and shop building	535,490	-	-	535,490
Storage units	139,169	-	-	139,169
Lines and equipment	48,449,151	3,065,548	-	51,514,699
Reservoirs and equipment	14,776,858	-	-	14,776,858
Wells and equipment	350,399	-	-	350,399
Office equipment	112,792	6,717	-	119,509
Equipment and tools	313,212	76,926	-	390,138
GRE lines and equipment	6,282,331	-	-	6,282,331
Total capital assets being depreciated	<u>70,959,402</u>	<u>3,149,191</u>	<u>-</u>	<u>74,108,593</u>
Less accumulated depreciation	<u>11,689,299</u>	<u>1,528,635</u>	<u>-</u>	<u>13,217,934</u>
Total capital assets being depreciated, net	<u>59,270,103</u>	<u>1,620,556</u>	<u>-</u>	<u>60,890,659</u>
Net capital assets	<u>\$ 61,674,390</u>	<u>\$ 3,070,683</u>	<u>\$ (2,793,988)</u>	<u>\$ 61,951,085</u>

Depreciation expense for the year ended June 30, 2020 totaled \$1,528,635. Operation and maintenance expenses included \$1,319,272, administrative expenses included \$76,772, industrial utilities expenses included \$125,647 and miscellaneous expense included \$6,944.

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

**NOTE 4 DEFERRED OUTFLOWS**

Deferred outflows as of the year ended June 30, 2020 are as follows:

Amortized costs	\$ 133,272
Less amortization	<u>(46,645)</u>
Net deferred outflows	<u><u>\$ 86,627</u></u>

**NOTE 5 LONG-TERM DEBT**

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

	<u>Outstanding June 30, 2020</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.	 \$ 375,000
 \$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.	 2,319,999
 \$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.	 743,091
 \$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.	 6,978,888
 \$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.	 3,121,709
 \$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.	 1,655,002
 \$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.	 1,461,373

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

<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>\$ 1,445,413</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>1,458,169</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>571,875</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>1,221,428</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>314,912</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>317,691</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>619,892</p>
<p>\$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.</p>	<p>703,450</p>
<p>\$1,000,000 Series 2019 Water Revenue Bonds dated December 15, 2019 to finance Phase 7 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, 2049. Not fully funded.</p>	<p>304,125</p>
<p>\$3,027,000 Series 2020 Water Revenue Refunding Bonds dated June 29, 2020 to refinance debt originally issued for the 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, 2049.</p>	<p><u>3,027,000</u></p>
	<p><u>\$ 26,639,017</u></p>

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

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 year ended June 30, 2020, the following changes occurred in liabilities reported in the Statement of Net Position:

	Balance 7/1/19	Additions	Reductions	Balance 6/30/20	Due Within One Year
Compensated absences	\$ 97,449	\$ 64,499	\$ 37,289	\$ 124,659	\$ 124,659
Revenue bonds payable	27,147,427	3,664,014	4,172,424	26,639,017	1,233,558
Total long-term liabilities	<u>\$ 27,244,876</u>	<u>\$ 3,728,513</u>	<u>\$ 4,209,713</u>	<u>\$ 26,763,676</u>	<u>\$ 1,358,217</u>

**Future Obligations**

Annual requirements for payment of outstanding debt at June 30, 2020 are as follows:

Year	Revenue Bonds Payable	
	Principal	Interest
2021	\$ 1,233,558	\$ 653,743
2022	1,271,670	642,396
2023	1,300,714	613,190
2024	1,330,836	583,136
2025	1,363,899	553,623
2026-2030	6,986,048	2,255,558
2031-2035	6,045,776	1,285,960
2036-2040	1,855,189	716,326
2041-2045	2,006,296	515,335
2046-2050	1,741,332	309,655
2051-2055	1,066,739	139,372
2056-2060	436,960	17,019
	<u>\$ 26,639,017</u>	<u>\$ 8,285,313</u>

**Bond Refunding**

The District issued \$3,027,000 Series 2020 Water Revenue Refunding Bonds on June 11, 2020. The bonds were issued to advance refund the \$1,575,000 Series 2017B Water Revenue Bonds and \$1,575,000 2017C Water Revenue Bonds issued to finance the Phase 3 expansion project. The transaction resulted in an economic gain of \$1,027,785 and a reduction of \$1,349,246 in future debt service payments.

**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.



**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

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 \$19,500 in 2020. Additional catch up contributions may be made and age-related limitations also may apply. Total pension expense for 2020 was \$18,000.

**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, 2020, the District has an outstanding commitment with a total contract price of approximately \$1,641,000 for the Phase 7 project. As of June 30, 2020, there are approximately \$757,000 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, 2020, 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, 2020, the District had one major customer. This customer accounted for 28.9% of operating revenue and 19.4% of accounts receivables during and as of the year ended June 30, 2020, respectively.

**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



**STUTSMAN RURAL WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2020

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, 2019. 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 June 15, 2021. Earlier application is encouraged.

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, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that

**STUTSMAN RURAL WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2020**

meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined what effect these statements will have on the District'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 3, 2020, 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, 2020**

**OPERATION AND MAINTENANCE EXPENSES**

Chemicals	\$ 36,971
AMR fee expense	8,681
Consumer confidence report	2,271
Depreciation	1,319,272
Mobile and site telephone	5,417
Operating supplies	45,548
Power for pumping	131,022
Repairs and maintenance	43,501
Small tools expense	705
Vehicle and travel expense	11,855
Water purchase, City of Carrington	23,063
Water purchase, Ramsey Rural Water	9
Water purchase, JMST	71
Water testing	4,205
Total operation and maintenance expenses	\$ 1,632,591

**INDUSTRIAL UTILITIES EXPENSES**

GRE expenses	\$ 3,261
SWS expenses	29,175
DSA expenses	53,105
Salary, benefits, payroll taxes	276,546
Industrial expenses	28,294
Administration costs	14,740
Depreciation	125,647
Total industrial expenses	\$ 530,768

**STUTSMAN RURAL WATER DISTRICT**  
**SCHEDULE OF EXPENSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**ADMINISTRATIVE EXPENSES**

Salaries	\$ 318,755
Payroll taxes	29,791
Salary distribution manager (Phil)	32,186
Insurance, general	18,222
Insurance, group	72,579
Board and employee training	5,188
On-call pay	67,475
Vehicle, GPS	1,506
Office supplies and expense	4,748
Employee uniforms	817
Advertising	3,110
Postage	10,007
Telephone	2,566
Professional services	19,833
Licenses, fees and permits	8,783
Directors' fees	9,872
Repairs and maintenance	8,188
Dues and subscriptions	5,541
Travel and meetings	868
Bad debts	413
Utilities	4,720
Pension expense	11,438
Depreciation	76,772
Amortization	6,664
Administrative fees	50,672
Miscellaneous	3,646
Total administrative expenses	<u><u>\$ 774,360</u></u>

**STUTSMAN RURAL WATER DISTRICT**  
**SCHEDULE OF WATER UTILITY OPERATIONS COSTS PER 1,000 GALLONS SOLD**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Gallons Sold	157,300,000	
		Per 1,000 Gallons Sold
	<u>Total</u>	<u>Sold</u>
Operation and maintenance expenses (less depreciation)	\$ 313,319	\$ 1.99
Administrative expenses	774,360	4.92
Interest expense	352,990	2.24
Depreciation expense	<u>1,319,272</u>	<u>8.39</u>
	<u>\$ 2,759,941</u>	<u>\$ 17.54</u>

**STUTSMAN RURAL WATER DISTRICT**  
**SCHEDULE OF WATER UTILITY OPERATIONS – MANAGEMENT BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Operating Revenue	
Water Utility	\$ 2,301,869
Operations and maintenance expenses	
Chemicals	36,971
AMR fee expense	8,681
Consumer confidence report	2,271
Depreciation	1,319,272
Mobile and site telephone	5,417
Operating supplies	45,548
Power for pumping	131,022
Repairs and maintenance	43,501
Small tools expense	705
Vehicle and travel expense	11,855
Water purchase, City of Carrington	23,063
Water purchase, Ramsey Rural Water	9
Water purchase, JMST	71
Water testing	4,205
	<u>1,632,591</u>
Administrative expenses	
Salaries	318,755
Payroll taxes	29,791
Salary distribution manager (Phil)	32,186
Insurance, general	18,222
Insurance, group	72,579
Board and employee training	5,188
On-call pay	67,475
Vehicle, GPS	1,506
Office supplies and expense	4,748
Employee uniforms	817
Advertising	3,110
Postage	10,007
Telephone	2,566
Professional services	19,833
Licenses, fees and permits	8,783
Directors' fees	9,872
Repairs and maintenance	8,188
Dues and subscriptions	5,541
Travel and meetings	868
Bad debts	413
Utilities	4,720
Pension expense	11,438
Depreciation	76,772
Amortization	6,664
Administrative fees	50,672
Miscellaneous	3,646
Total administrative expenses	<u>774,360</u>
Interest expense	<u>352,990</u>
Total expenses	<u>2,759,941</u>
Loss from water utility operations	<u>\$ (458,072)</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, 2020, 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 3, 2020.

## **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) as a basis for designing 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2020-001 that we consider to be a material weakness.

## **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 financial statements. 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 Response to Finding**

Stutsman Rural Water District's response to the finding identified in our audit is described in the accompanying schedule of finding and response. Stutsman Rural Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 3, 2020

**STUTSMAN RURAL WATER DISTRICT**  
**SCHEDULE OF FINDING AND RESPONSE**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**2020-001: Preparation of Financial Statements – Material Weakness**

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 U.S. generally accepted accounting principles. This also requires the District's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition

The District has engaged its auditors to prepare the financial statements including all disclosures.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. 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

District personnel prepare and provide the Board of Directors with financial statements and updated cost per 1,000 gallons report prior to each monthly Board of Director's meeting. The District's outstanding debt and reserves are reviewed on an ongoing basis during the fiscal year. 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.

In order to fully correct this finding, the District would need to hire another individual and provide additional training. The cost of hiring and training another individual must be weighed with the potential benefit to the District's Members. This plan may be implemented when the work load warrants the hiring of another individual and it becomes cost effective for the District. Until that time, the District will consider increasing the duties of the independent accounting firm that currently reviews its bank statements, accounts receivable and member accounts to include these duties. The District will also consider additional training for its current employees.