

FINANCIAL STATEMENTS
DAKOTA RURAL WATER DISTRICT
FINLEY, NORTH DAKOTA

For the Year Ended
DECEMBER 31, 2016

Prepared By

MORTENSON & RYGH
Certified Public Accountants
P.O. Box 287
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DAKOTA RURAL WATER DISTRICT
Finley, North Dakota

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December 31, 2016

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DAKOTA RURAL WATER DISTRICT
Finley, North Dakota

LIST OF OFFICIALS
December 31, 2016

Jason Rayner	President
Scott Syverson	Vice President
Marlene Halvorson	Secretary/Treasurer
Rodd Svenningsen	Board Member
Terry Koenig	Board Member
Robert Verwest	Board Member
Keith Coleman	Board Member

INDEPENDENT AUDITOR'S REPORT

Governing Board
Dakota Rural Water District
Finley, North Dakota

We have audited the accompanying financial statements of the business-type activities of Dakota Rural Water District, Finley, North Dakota as of and for the year ended December 31, 2016, 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 opinions 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 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 opinions.

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PARK RIVER

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Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Dakota Rural Water District as of December 31, 2016, and the respective changes in financial position, and, where applicable, 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 budgetary comparison information 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. As discussed in Note 1 of the notes to the financial statements, Dakota Rural Water District does not prepare an annual budget.

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

Other Reporting Required by *Government Auditing Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Dakota 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 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 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 Dakota Rural Water District's internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota
November 10, 2017

BASIC FINANCIAL STATEMENTS

DAKOTA RURAL WATER DISTRICT
Finley, North Dakota
STATEMENT OF NET POSITION
December 31, 2016

	Business-Type Activities - Enterprise Funds Water System 12/31/16
ASSETS	
Current assets:	
Cash & Cash Equivalents	\$ 851,910
Accounts Receivable	82,276
Grant Receivable	168,972
Inventory	9,593
Prepaid Expense	1,434
Total Current Assets	<u>1,114,185</u>
Noncurrent assets:	
Land	48,521
Capital Assets net of Accumulated Depreciation	<u>8,078,344</u>
Total noncurrent assets	<u>8,126,865</u>
Other assets:	
Certificates of Deposit Reserved for Debt Service	350,653
Capital Credits - Utility Co-op	<u>43,943</u>
Total Other Assets	<u>394,596</u>
Total assets	<u><u>\$ 9,635,647</u></u>
LIABILITIES:	
Current liabilities:	
Accounts Payable	\$ 19,421
Construction Payable	158,159
Interest Payable	4,802
Customer Deposits	101,581
Current Maturities LT Debt	<u>131,860</u>
Total current liabilities	<u>415,822</u>
Non-current liabilities	
Bonds Payable	5,459,672
Compensated Absences	8,008
Less: Current Maturities	<u>(131,860)</u>
Total non-current liabilities	<u>5,335,820</u>
Total liabilities	<u>5,751,642</u>
NET POSITION:	
Net investment in capital assets	2,509,035
Restricted for capital improvements	135,244
Restricted for debt service	494,418
Unrestricted	<u>745,309</u>
Total net position	<u>3,884,005</u>
Total liabilities and net position	<u><u>\$ 9,635,647</u></u>

See accompanying notes to the financial statements

DAKOTA RURAL WATER DISTRICT
Finley, North Dakota
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs:	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Capital Grants and Contributions	Revenue & Change in Net Position
				Total Business-Type Activities
<u>Primary Government:</u>				
<u>Business Type Activities:</u>				
Water System:				
Production	\$ 877,992	\$ 950,721	\$ -	\$ 72,729
Interest Expense	147,567	-	-	(147,567)
Bond Issuance Costs	50,453	-	-	(50,453)
Total Business-Type Activities	\$ 1,076,012	\$ 950,721	\$ -	\$ (125,291)
General Revenues:				
Earnings on Investments				\$ 1,592
New Memberships				33,250
Gain (Loss) on Disposal of Assets				22,796
Grant Revenue				874,474
Total General Revenues				932,112
Change in Net Position				806,821
Net Position - January 1				3,077,184
Net Positon - December 31				<u>\$ 3,884,005</u>

See accompanying notes to the financial statements

DAKOTA RURAL WATER DISTRICT
Finley, North Dakota
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2016

	Business-Type Activities - Enterprise Funds Water System 12/31/16
<u>Operating Revenues:</u>	
Water Sales	\$ 920,830
Fees and Penalties	9,805
Miscellaneous Income	20,087
Total Operating Revenue	950,721
<u>Operating Expenses:</u>	
Salaries & Wages	152,867
Employee Benefits	98,259
Repairs & Maintenance	77,596
Utilities	104,925
Chemicals	29,025
Vehicle Expense	11,731
Advertising & Printing	10,387
Directors Fees & Expenses	7,972
Insurance	8,606
Legal & Professional Fees	15,972
Memberships & Fees	12,602
Office Expense	14,691
Supplies	4,381
Testing Fees	1,119
Depreciation	324,168
Miscellaneous Expense	3,691
Total Operating Expenses	877,992
Operating Income (Loss)	\$ 72,729
<u>Non-operating Revenues (Expense)</u>	
Grant Revenue	874,474
Membership Additions	33,250
Interest Income	1,592
Interest Expense	(147,567)
Income (Loss) on Disposal of Assets	22,796
Bond Premium	21,630
Bond Issuance Costs	(72,083)
Total Non-operating Revenue (Expense)	734,092
Change in Net Assets	806,821
Total Net Assets - January 1	3,077,184
Total Net Assets -December 31	\$ 3,884,005

See accompanying notes to the financial statements

DAKOTA RURAL WATER DISTRICT
Finley, North Dakota
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Customers	\$ 937,288
Cash Paid to Employees	(203,414)
Cash Paid to Suppliers	(394,937)
Net Cash Provided (Used) by Operating Activities	<u>338,937</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCIAL ACTIVITIES:	
Purchase of capital assets	(2,136,304)
Proceeds from sale of capital assets	17,700
Loan proceeds received	1,651,630
Principal payments on bonds & notes payable	(177,428)
Interest payments on bonds & notes payable	(147,933)
Bond issuance costs	(72,083)
Grant proceeds received	705,501
Increase in contributed/donated capital	33,250
Collection of legal settlement	60,000
Net Cash Flows from Capital & Related Financial Activities	<u>(65,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	1,190
Dividends Received	1,306
Net Cash Flows from Investing Activities	<u>2,496</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	<u>275,765</u>
CASH & CASH EQUIVALENTS, JANUARY 1	<u>576,145</u>
CASH & CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 851,910</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 72,729
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Depreciation	324,168
(Increase) Decrease in Accounts Receivable	(9,765)
(Increase) Decrease in Prepaid Expenses	(25)
(Increase) Decrease in Inventory	(874)
Increase (Decrease) in Customer Deposits	186
Increase (Decrease) in Accounts Payable	(871)
Increase (Decrease) in Compensated Absences	(40,547)
Increase (Decrease) in Accrued Interest Payable	(366)
Book Gain on Sale of Capital Assets	(5,696)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 338,937</u></u>

See accompanying notes to the financial statements

DAKOTA RURAL WATER DISTRICT
Finley, North Dakota
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dakota Rural Water District operates as a governmental water district. The district provides water treatment and delivery of water to district members within the geographical boundaries of the district. The financial statements of the water district have been prepared on the accrual basis where revenues are recognized when earned and expenses when incurred. The *Governmental Accounting Standards Board (GASB)* is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the Dakota Rural Water District. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in *GASB Statement No. 14*. The basis, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential unit addressed defining the government's reporting entity:

Included within the reporting entity:

There are no component units meeting the criteria for inclusion.

B. Fund Financial Statements

The financial transactions of the entity are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Dakota Rural Water District reports the following major proprietary fund:

Water Fund – The water fund is used to account for operations of the water system, that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that

See accompanying notes to the financial statements

the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accrual basis of accounting is used by all business-like fund types. Under the accrual basis of accounting, revenues are recognized when the service or product is provided to the customer. Expenses are recorded when the related good or purchased service is utilized. Principal on general long-term debt is recorded as a fund liability when incurred. Fixed assets are capitalized and depreciated or amortized over the expected useful life of the asset.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

D. Budgets

Budgets are not required in North Dakota for an enterprise fund activity of a political subdivision.

E. Cash and Cash Equivalents

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less.

For purposes of the statement of cash flow, the enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Inventory

The District maintains an inventory of materials and supplies. Inventory items are stated at cost and are considered expenses when used.

G. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-40
Infrastructure	40
Distribution systems	40
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

H. Compensated Absences

Full-time employees are granted vacation benefits from 1 to 2 days per month depending on the years employed by the District. Upon termination of employment, retirement, or by obtaining approval from the governing board, employees will be paid for unused vacation days accrued.

Full-time employees are also granted sick leave of one day per month. Upon termination of employment or retirement, employees will be paid for 50% of any unused sick leave.

I. Net Position

Government-wide Financial Statements

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories, invested in capital assets net of related debt, restricted and unrestricted. Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories:

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 – Restrictions of net position shown in the statement of net positions are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net positions – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

J. Use of Estimates in Preparing Financial Statements

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

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

See accompanying notes to the financial statements

In accordance with North Dakota statutes, the District maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the District to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress,
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above,
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or pledge of governmental securities,
- d) Obligations of the state.

Custodial Credit Risk – This is the risk that deposits would be lost in the event of a bank failure. Deposits that exceed federal agency insurance limits are collateralized as stated above in accordance with state law. The District requires depository banks to furnish the District with periodic assurance of collateral coverage of district deposits.

The District's deposits at balance sheet date were entirely covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the District's agent in the District's name (Category II assets).

B. Investments

Concentration of credit risk – The risk of loss due to the magnitude of investments in a single issuer. The District only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

Interest rate risk – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District only invests in Certificates of Deposit which are always purchased and redeemable at face value.

At year ended December 31, 2016, the District's carrying amount of deposits totaled \$1,202,563 and the bank balances totaled \$1,321,300. Of the bank balances, \$625,984 was covered by Federal Depository Insurance. The remaining bank balances totaling \$695,316 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 3 PENSION PLAN

The water district contributes to a SEP IRA plan for the benefit of its employees. The plan is administered by Security Benefit of Topeka, Kansas.

DESCRIPTION OF PLAN:

Current terms of the plan provide that the organization will contribute, as determined by the governing board, up to 6% of eligible employee salaries to the plan. There is no employee match requirement as it is the District's policy to be the sole contributor to the plan. Employees are immediately 100% vested. The plan is a defined contribution plan and the district is only liable for current contributions. For the year ended December 31, 2016, 2015, and 2014, the district contributed \$6,794, \$11,486, and \$10,886, respectively to this plan.

NOTE 4 CAPITAL ASSETS

Following is a summary of property and equipment and related depreciation for the fiscal year ended December 31, 2016.

Business-Type Activities	Balance 1/1/2016	Additions	(Deletions)	Balance 12/31/2016
Non-depreciated assets				
Land	\$ 48,521	\$ -	\$ -	\$ 48,521
Construction in Progress	275,436	-	(275,436)	-
Total non-depreciated assets	323,957	-	(275,436)	48,521
Depreciable assets				
Utility Plant	\$ 4,216,124	\$ -	\$ -	\$ 4,216,124
DRDW System Expansion	6,324,069	2,407,894	-	8,731,963
Reservoir Modifications	243,705	-	-	243,705
Buildings	366,002	-	(9,267)	356,735
Equipment & Tools	135,734	-	(975)	134,759
Vehicles	111,939	-	(27,840)	84,100
Office Furniture & Fixtures	42,964	-	-	42,964
Total depreciable assets	11,440,537	2,407,894	(38,082)	13,810,349
Less: accumulated depreciation				
Utility Plant	\$ (3,076,028)	\$ (105,114)	\$ -	\$ (3,181,142)
DRDW System Expansion	(1,832,835)	(176,841)	-	(2,009,676)
Reservoir Modifications	(219,883)	(6,963)	-	(226,846)
Buildings	(91,903)	(10,255)	4,528	(97,630)
Equipment & Tools	(107,998)	(8,094)	975	(115,117)
Vehicles	(71,689)	(15,929)	27,675	(59,943)
Office Furniture & Fixtures	(40,675)	(968)	-	(41,643)
Total accumulated depreciation	(5,441,011)	(324,168)	33,179	(5,731,998)
Net depreciable assets	5,999,526	2,083,726	(4,903)	8,078,351
Net business-type activities	\$ 6,323,479	\$ 2,083,726	\$ (280,339)	\$ 8,126,865

Total depreciation expense for the year was \$324,168. Depreciation was all charged as a production expense. Fixed assets are presented at historical cost less depreciation. The District has a capitalization policy of capitalizing all assets having an expected life or usage of five years or more.

Future principal and interest requirements on the above issues are as follows:

<u>REVENUE BONDS</u>			
	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2017	131,860	151,440	283,300
2018	163,266	177,799	341,065
2019	164,715	173,853	338,568
2020	171,207	169,376	340,583
2021	172,743	164,744	337,488
2022 - 2026	883,427	745,871	1,629,298
2027 - 2031	899,375	594,567	1,493,943
2032 - 2036	1,057,647	422,146	1,479,793
2037 - 2041	720,095	252,114	972,210
2042 - 2046	768,212	124,343	892,555
2047 - 2051	327,125	24,892	352,017
	<u>\$ 5,459,672</u>	<u>\$ 3,001,145</u>	<u>\$ 8,460,817</u>

NOTE 6 RISK MANAGEMENT

The Dakota Rural Water 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 water district carries general liability, board member liability, auto, inland marine, property damage to buildings and personal property insurance. Liability insurance coverage is limited to two million dollars per occurrence. Vehicles and personal property is insured for actual cash value. Buildings, pumping and treatment facilities are insured for appraised value. The Dakota Rural Water District also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 7 CONTRIBUTED CAPITAL – CHANGE IN STRUCTURE

The Water District was formed July 1, 1999 as a re-organization of Dakota Rural Water Users, Inc., a non-profit corporation that was operating a rural water system. The entity provided water to rural users in a three county area. The Water District was formed under North Dakota law as a political subdivision. The district is not a taxing district but controls water distribution within the legal boundaries of the district with the exception of existing municipal water systems within its boundaries. Existing depreciation and amortization was carried forward with no changes in asset carrying values.

The primary debt issues of the prior entity were refinanced with revenue bonds to lower the interest rate and debt service. Costs of refinancing are being amortized over the remaining life of the old debt issues.

NOTE 8 CONCENTRATION OF CREDIT

The Water District sells most of its water to farmers and rural dwellings within the geographical boundaries of the district. Almost all of its customers are farmers that raise essentially the same type of crops and are subject to the same weather patterns. Accounts receivable is therefore concentrated within

See accompanying notes to the financial statements

one industry. The Water District has not suffered significant bad debt losses in the past. They do not anticipate any significant losses in the future even if the farm economy suffers economic decline because of the essential nature of the product the Water District sells.

NOTE 9 LITIGATION SETTLEMENT

Litigation concerning Dakota Rural Water District had been settled favorably for the District. Dakota Rural Water District will receive the following monies:

November 1, 1984	\$ 75,000
November 1, 1985	75,000
November 1, 1986	75,000
November 1, 1987 through November 1, 1996	
\$40,000 per year	400,000
November 1, 1997 through November 1 2006	
\$50,000 per year	500,000
November 1, 2007 through November 1 2016	
\$60,000 per year	<u>600,000</u>
Total Litigation Settlement	<u><u>\$ 1,725,000</u></u>

The District was also released from payment on disputed construction accounts payable.

NOTE 10 GRANTS

In January of 2016, the District was awarded a grant from the North Dakota State Water Commission to construct a new reservoir and upsize transmission pipelines near the city of Finley, ND to address the continued population growth. The grant provides for cost share, not to exceed \$901,500, for eligible costs for 35% of pre-construction engineering and 75% of construction engineering and construction costs.

The project costs were estimated at \$1,266,000. Construction was completed in September, 2016 and actual project costs totaled \$1,243,245. The district will receive grant proceeds of approximately \$874,474 from the ND State Water Commission.

**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***

Governing Board
Dakota Rural Water District
Finley, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities of Dakota Rural Water District, Finley, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Dakota Rural Water District's basic financial statements and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dakota 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Dakota 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness: 2015-1.

CAVALIER

206 Dakota Street West
P.O. BOX 33
Cavalier, ND 58220
(701) 265-8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dakota 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 are required to be reported under *Government Auditing Standards*.

Dakota Rural Water District's Response to Findings

Dakota Rural Water District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Dakota 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

November 10, 2017

**Dakota Rural Water District,
Finley, North Dakota**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2016**

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2015-1 Segregation of Duties

Condition:

The Dakota Rural Water District has primarily one individual responsible for most accounting functions and general ledger maintenance.

Effect:

Without adequate fraud risk programs and controls the District exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Cause:

There is no segregation of duties as primarily one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the District's financial condition.

Criteria:

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the District.

Recommendation:

Due to the size and funding limitations of the District, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the District do so. We further recommend that the District implement any controls possible to separate the functions of approval posting of transactions, reconciliation, and custody of assets.

Client Response:

The District is aware of the deficiency in internal control and has segregated duties as efficiently as possible given the limitations of staff. There will be no further administrative employees added at this time.