

STUTSMAN RURAL WATER DISTRICT
Stutsman County, North Dakota

REPORT ON FINANCIAL STATEMENTS
(with supplementary information)
Years Ended June 30, 2017 and 2016

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Schauer & Associates, P.C.

Certified Public Accountants

Ronald R. Fuchs, CPA
Duane R. Dunn, CPA
Robert A. Piatz, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors

STUTSMAN RURAL WATER DISTRICT

Jamestown, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of **STUTSMAN RURAL WATER DISTRICT** as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the **STUTSMAN RURAL WATER DISTRICT's** basic financial statements as listed in the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the business-type activities of the **STUTSMAN RURAL WATER DISTRICT**, as of June 30, 2017 and 2016 and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT - continued

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 through 9, 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 the **STUTSMAN RURAL WATER DISTRICT's** basic financial statements. The supplementary information as listed in the contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of **STUTSMAN RURAL WATER DISTRICT**.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are 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 10, 2017 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit

INDEPENDENT AUDITORS' REPORT - continued

performed in accordance with *Government Auditing Standards* in considering **STUTSMAN RURAL WATER DISTRICT's** internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Schauer & Associates, P.C." in a cursive style.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

Jamestown, North Dakota
November 10, 2017

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2017 and 2016

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, 2017 and 2016. This information is presented in conjunction with the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net position increased by \$4,391,255 or 13.3% from \$33,077,231 to \$37,468,486.
- Operating revenues increased by \$98,388 or 2.6% from \$3,800,416 to \$3,898,804.
- Operating expenses increased by \$536,273 or 19.0% from \$2,824,204 to \$3,360,477.
- For the fiscal year ended June 30, 2017, the District delivered 144.4 million gallons of domestic water, 172.8 million gallons of industrial water, 170 million gallons transported to DSA and 64.6 million gallons of wastewater transported back to the City of Jamestown for treatment.

Overview of the Financial Statements

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

Required Financial Statements

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

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

The statement of revenues, expenses and changes in net position identifies the District's revenues and expenses for the fiscal years ended June 30, 2017 and 2016. 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 (page 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 liabilities. An increase in net position over time typically indicates an improvement in financial condition.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2017 and 2016

NET POSITION

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

Table I
 CONDENSED STATEMENTS OF NET POSITION
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current assets	\$ 3,718,619	\$ 3,454,111	\$ 3,883,395
Other assets	2,865,331	1,620,074	1,016,423
Net capital assets	<u>60,601,839</u>	<u>56,115,642</u>	<u>48,707,586</u>
Total Assets	<u>\$67,185,789</u>	<u>\$61,189,827</u>	<u>\$53,607,404</u>
LIABILITIES			
Current liabilities	\$ 1,713,586	\$ 5,019,495	\$ 4,359,303
Non-current liabilities	<u>28,003,717</u>	<u>23,093,101</u>	<u>22,206,794</u>
Total Liabilities	<u>29,717,303</u>	<u>28,112,596</u>	<u>26,566,097</u>
NET POSITION			
Net investment in capital assets	31,164,397	28,327,040	22,385,814
Restricted for debt service	2,511,713	1,291,784	686,745
Unrestricted	<u>3,792,376</u>	<u>3,458,407</u>	<u>3,968,748</u>
Total Net Position	<u>37,468,486</u>	<u>33,077,231</u>	<u>27,041,307</u>
Total Liabilities and Net Position	<u>\$67,185,789</u>	<u>\$61,189,827</u>	<u>\$53,607,404</u>

As the above table indicates, total assets increased by \$5,995,962 during the fiscal year ended June 30, 2017. This is comprised of an increase in current assets of \$264,508, an increase in other assets of \$1,245,257 and an increase in capital assets of \$4,486,197. Total assets increased by \$7,582,423 during the fiscal year ended June 30, 2016. This is comprised of a decrease in current assets \$429,284, an increase in other assets of \$603,651 and an increase in capital assets of \$7,408,056.

Total liabilities reflect an increase of \$1,604,707 during the fiscal year ended June 30, 2017. This includes an increase of \$4,910,616 in long-term debt as the District obtained additional financing for major improvements to the system and final financing on completed projects and a decrease of \$3,305,909 in current liabilities reflecting conversion of interim financing to final financing on completed projects. Total liabilities show an increase of \$1,546,499 during the fiscal year ended June 30, 2016. This includes an increase of \$886,307 in long-term debt as the District obtained additional financing for major improvements to the system and an increase of \$660,192 in current liabilities reflecting a increase in current payables related to current construction projects.

Table I also indicates that total net position increased by \$4,391,255 during the fiscal year ended June 30, 2017. This increase is the result of operations, non-operating activity and a net increase in member capital. Total net position increased by \$6,035,924 during the fiscal year ended June 30, 2016. This increase is the result of operations, non-operating activity and a net increase in member capital.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2017 and 2016

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 2017 increased by \$98,388 or 2.6% to \$3,898,804 from \$3,800,416 in the prior year. Total operating expenses increased by \$536,273 or 19.0% from the prior year. Non-operating revenue decreased by \$1,146,734 primarily due to a reduction in State Water Commission grants. The District's total operating revenues in 2016 increased by \$935,388 or 32.6% to \$3,800,416 from \$2,865,028 in the prior year. Total operating expenses increased by \$613,421 or 27.7% from the prior year. Non-operating revenue decreased by \$2,132,050 primarily due to a reduction in State Water Commission grants and debt forgiveness.

Table II
CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Water utility	\$ 2,079,697	\$ 1,746,931	\$ 1,504,126
Industrial utilities	<u>1,819,107</u>	<u>2,053,485</u>	<u>1,360,902</u>
Total operating revenues	<u>3,898,804</u>	<u>3,800,416</u>	<u>2,865,028</u>
Operating expenses			
Operations and maintenance	1,553,011	1,260,710	948,447
Administrative expenses	573,031	578,061	576,679
Interest expense	321,812	188,092	112,749
Industrial utilities expense	486,859	380,018	185,062
Industrial utilities interest expense	<u>425,764</u>	<u>417,323</u>	<u>387,845</u>
Total operating expenses	<u>3,360,477</u>	<u>2,824,204</u>	<u>2,210,782</u>
Operating income	538,327	976,212	654,246
Non-operating revenue	<u>3,827,378</u>	<u>4,974,112</u>	<u>7,106,162</u>
Income before contributions	4,365,705	5,950,324	7,760,408
Capital contributions	<u>25,550</u>	<u>85,600</u>	<u>65,250</u>
Change in net position	4,391,255	6,035,924	7,825,658
Total net position – beginning	<u>33,077,231</u>	<u>27,041,307</u>	<u>19,215,649</u>
Total net position – ending	<u>\$ 37,468,486</u>	<u>\$ 33,077,231</u>	<u>\$27,041,307</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2017 and 2016

Net Capital Assets

As of June 30, 2017, the District's investment in net capital assets totaled \$60,601,839, which is an increase of \$4,486,197 or 8.0% over the net capital asset balance of \$56,115,642 at June 30, 2016. 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, 2017 and 2016

	2017	2016	Dollar Change
Land	\$ 77,696	\$ 77,696	\$
Office and shop building	537,432	294,106	243,326
Storage units	164,944	164,944	
Lines and equipment	47,443,104	43,137,966	4,305,138
Reservoirs and equipment	13,455,157	12,860,957	594,200
Wells and equipment	356,899	356,899	
Office equipment	127,885	117,896	9,989
Equipment and tools	339,371	309,833	29,538
GRE lines and equipment	6,282,331	6,282,331	
Construction in progress	1,484,357	875,430	608,927
Total	<u>70,269,176</u>	<u>64,478,058</u>	<u>5,791,118</u>
Less accumulated depreciation	<u>(9,667,337)</u>	<u>(8,362,416)</u>	<u>(1,304,921)</u>
Net Capital Assets	<u>\$ 60,601,839</u>	<u>\$ 56,115,642</u>	<u>\$ 4,486,197</u>

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

Additional information on the District's net capital assets is provided in note 6 (pages 18-19) of the financial statements.

Long-Term Debt

As of June 30, 2017, the District had \$29,190,976 in outstanding long-term debt compared to \$27,128,629 as of June 30, 2016. The increase of \$2,062,347 represents additional debt to finance the Phase 5 projects and final financing for projects less principal payments made during the fiscal year.

	2017	2016
Bank of North Dakota	\$ 484,755	\$ 531,075
Bank of North Dakota	41,165	44,284
ND Public Finance Authority	160,000	200,000
ND Public Finance Authority	93,000	103,000
ND Public Finance Authority	581,000	646,000
ND Public Finance Authority	2,970,000	3,185,000
ND Public Finance Authority	8,072,578	8,417,142
ND Public Finance Authority	830,325	742,252
ND Public Finance Authority	1,069,680	1,109,680

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ND Public Finance Authority	3,616,197	2,961,646
Unison Bank		21,924
USDA Rural Development	780,309	791,914
BND/Unison Bank interim financing		1,516,500
RD/USDA		1,516,500
USDA interim financing		1,281,500
USDA interim financing		455,591
USDA interim financing		1,557,143
USDA interim financing		490,335
BND interim financing		1,557,143
USDA Rural Development	1,575,000	
Bank of North Dakota	1,575,000	
USDA Rural Development	1,516,500	
Bank of North Dakota	1,516,500	
Bank of North Dakota	721,000	
USDA Rural Development	600,000	
USDA Rural Development	330,400	
Bank of North Dakota	330,400	
North Dakota Public Finance Authority	1,045,667	
USDA Rural Development	1,281,500	
	<u>\$ 29,190,976</u>	<u>\$ 27,128,629</u>

Additional information on the District's long-term debt is provided in note 7 (pages 19 - 25) of the financial statements.

Economic Factors and Next Year's Budget and Rates

Construction on the Phase 5 Project is nearing completion. The Project upgraded the storage capacity at Reservoir #3 and the installation of additional pipeline increased flows between Reservoir #3 and #4 to meet seasonal water demands, as well as in the Reservoir #7 area. Additional pipeline will be installed southwest of Jamestown in the area of the Titan water tower to increase flows into the tower prior to the end of the 2017 construction season. Construction of a new water tower west of the SRWD treatment facility is complete and the tower has been placed into service. Contractors are currently working on punch list items. The Phase 5 project loan is a 20 year bond through the ND State Revolving Fund. Complete project closeout for the Phase 5 project is expected to take place prior to the start of the 2018 construction season.

The Phase 3 Residential Expansion Project and loans were closed out in March 2017, with 40 year financing from USDA Rural Development, Bank of North Dakota Rural Utility Service loan, and a 20 year ND State Water Commission Revolving Fund loan.

The Water District completed a 1500 sq. foot addition to its office building in December of 2016 in order to meet the future needs of the Water District and its employees.

The second year of operations for industrial water sales and industrial water and waste water transportation fees have progressed as expected. These industrial projects have had a positive impact on maintaining affordable residential water rates for our customers. A water rate increase is not anticipated through the 2017/2018 fiscal year which ends June 30, 2018.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2017 and 2016

Additional Financial Information

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

**STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF NET POSITION**

ASSETS

	June 30	
	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 3,176,665	\$ 3,191,729
Accounts receivable, trade	170,847	151,178
Accounts receivable, other	246,466	860
Inventories	56,756	50,245
Inventories - GRE	36,326	36,326
Inventories - DSA	20,735	20,735
Prepaid expenses	10,824	3,038
	<hr/>	<hr/>
Total Current Assets	3,718,619	3,454,111
	<hr/>	<hr/>
Other Assets:		
Investments restricted for debt service	2,511,713	1,291,784
Investments in cooperatives	91,962	77,713
Debt issuance costs (net of accumulated amortization of \$44,163 and \$30,242 as of June 30, 2017 and 2016)	261,656	250,577
	<hr/>	<hr/>
Total Other Assets	2,865,331	1,620,074
	<hr/>	<hr/>
Net Capital Assets:		
Land	77,696	77,696
Office and shop building	537,432	294,106
Storage units	164,944	164,944
Lines and equipment	47,443,104	43,137,966
Reservoirs and equipment	13,455,157	12,860,957
Wells and equipment	356,899	356,899
Office equipment	127,885	117,896
Equipment and tools	339,371	309,833
GRE lines and equipment	6,282,331	6,282,331
Construction in progress	1,484,357	875,430
Less accumulated depreciation	(9,667,337)	(8,362,416)
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Net Capital Assets	60,601,839	56,115,642
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Total Assets	\$ 67,185,789	\$ 61,189,827
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The accompanying notes are an integral part of these financial statements

LIABILITIES AND NET POSITION

	June 30	
	2017	2016
Current Liabilities:		
Accounts payable	\$ 275,948	\$ 690,886
Customer deposits	3,075	3,075
Accrued interest payable	247,304	290,006
Bonds, notes and loans payable	1,187,259	4,035,528
Total Current Liabilities	1,713,586	5,019,495
Non-Current Liabilities:		
Bonds, notes and loans payable	28,003,717	23,093,101
Total Liabilities	29,717,303	28,112,596
Net Position:		
Net investment in capital assets	31,164,397	28,327,040
Restricted for debt service	2,511,713	1,291,784
Unrestricted	3,792,376	3,458,407
Total Net Position	37,468,486	33,077,231
Total Liabilities and Net Position	\$ 67,185,789	\$ 61,189,827

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
WATER UTILITY		
Water sales	\$ 692,206	\$ 626,533
Service charges	1,302,237	1,032,804
Other charges	85,254	87,594
Total Water Utility	2,079,697	1,746,931
INDUSTRIAL UTILITIES		
GRE wastewater	356,815	396,165
DSA water transportation	226,297	240,786
SWS Spiritwood Station water supply	1,235,995	1,416,534
Total Industrial Utilities	1,819,107	2,053,485
OPERATING EXPENSES		
Operation and maintenance expenses	1,553,011	1,260,710
Administrative expenses	573,031	578,061
Interest expense	321,812	188,092
Industrial utilities expenses	486,859	380,018
Industrial utilities interest expense	425,764	417,323
Total Operating Expenses	3,360,477	2,824,204
Operating Income	538,327	976,212
NON-OPERATING REVENUES		
Interest and investment revenue	17,217	21,535
Gain (loss) on disposition of equipment	(1,042)	139
Grant income	3,781,717	4,950,896
Miscellaneous revenue	29,486	1,542
Total Non-Operating Revenues	3,827,378	4,974,112
Income before capital contributions	4,365,705	5,950,324
CAPITAL CONTRIBUTIONS		
Net change in member fees	25,550	85,600
Total Capital Contributions	25,550	85,600
Change in Net Position	4,391,255	6,035,924
Total Net Position - Beginning	33,077,231	27,041,307
Total Net Position - Ending	\$ 37,468,486	\$ 33,077,231

The accompanying notes are an integral part of these financial statements

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Cash received from water utility customers	\$ 2,060,028	\$ 1,719,200
Cash received from industrial utility customers	1,819,107	2,053,485
Cash paid to suppliers and employees water utility customers	(842,951)	(892,372)
Cash paid to suppliers and employees industrial customers	(361,211)	(262,246)
Net Cash Provided by Operating Activities	2,674,973	2,618,067
 Cash Flows From Investing Activities		
Proceeds from redemption of investments in cooperatives	282	547
Grants and other income	3,635,017	5,723,778
Interest income	2,685	8,455
Net Cash Provided by Investing Activities	3,637,984	5,732,780
 Cash Flows From Capital and Related Financing Activities		
Purchase/construction of capital assets	(6,253,440)	(7,716,643)
Sale of capital assets		139
Debt issue costs	(25,000)	
Increase in restricted cash	(1,219,929)	(605,039)
Payments on long-term debt	(997,968)	(1,146,878)
Proceeds from issuance of long-term debt	3,002,431	1,993,759
Interest paid on borrowings	(859,665)	(679,678)
Net change in memberships	25,550	85,600
Net Cash Used in Capital and Related Financing Activities	(6,328,021)	(8,068,740)
 Increase in Cash and Cash Equivalents	(15,064)	282,107
 Cash and Cash Equivalents at Beginning of Year	3,191,729	2,909,622
 Cash and Cash Equivalents at End of Year	\$ 3,176,665	\$ 3,191,729

The accompanying notes are an integral part of these financial statements

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 538,327	\$ 976,212
Adjustments		
Depreciation and amortization	1,426,612	1,088,397
Interest	747,430	605,415
Changes in Assets and Liabilities		
Receivables	(19,669)	(27,731)
Inventories	(6,511)	(24,740)
Prepaid expenses	(7,786)	(508)
Accounts payable	(3,431)	872
Customer deposits		150
Net Cash Provided by Operating Activities	<u>\$ 2,674,973</u>	<u>\$ 2,618,067</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

STUTSMAN RURAL WATER 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.

A. Reporting Entity

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. **STUTSMAN RURAL WATER DISTRICT** is governed by an elected seven-member board of directors. It is not a component unit of any other government and does not have any component units under it.

B. Basis of Presentation and Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (1) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted for debt service; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

C. Budgetary Accounting

The District adopts a flexible annual operating budget. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans 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 year.

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.

D. Deposits and Investments

The District maintains deposits at depository banks that are members of the Federal Reserve System. North Dakota laws require all public deposits to be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body, and bonds issued by any other state of the United States or such other securities approved by the banking board.

Interest rate risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. North Dakota State Statute limits political subdivisions to invest their surpluses in:

1. Bonds, treasury bills and notes, 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.
2. 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.
3. Certificates of deposit fully insured by the federal deposit insurance corporation or the state.
4. Obligations of the state.

The District has no investments other than demand and time deposits.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, the District's deposits were not fully insured or collateralized with securities held by the financial institutions in the District's name. (See Note 2)

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

D. Deposits and Investments - continued

As of June 30, 2016, the District's deposits were fully insured or collateralized with securities held by the financial institutions in the District's name or guaranteed by the FDIC.

E. Cash Flow Information

For purposes of the statements of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents

F. Inventories

Inventories are stated at cost and include chemicals, operating supplies and parts.

G. Capital Assets

Capital assets are carried at cost. The District defines capital assets as assets with an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation. Infrastructure assets are capitalized along with other assets. Depreciation is calculated using straight line methods.

The estimated useful lives of the assets are as follows:

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

Major additions are capitalized and depreciated; maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Upon disposal of fixed properties the cost and related accumulated depreciation are removed from the accounts. The adjusted basis on an item traded is applied to the property accounts, and the gain or loss of items otherwise disposed of is reflected in income.

Stutsman Rural Water 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.

Nonexpendable personal property shall be used for the project. If no longer needed for the project, first preference is given to other activities sponsored by FmHA and then to activities sponsored by other federal agencies. Property with an acquisition cost of less than \$1,000 can be used for other activities or sold. Property with a cost of more than \$1,000 can be used for other purposes as long as compensation is made to the grantor. If the grantee no longer has use for the property and it still has value, disposition instructions shall be requested from the grantor agency.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

H. Long-Term Obligations and Costs

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

I. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

J. 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.

K. Capital Contributions

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

L. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components:

Net Investment in capital assets - consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

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 - consists of all other net position not included in the above categories.

2. Cash and Cash Equivalents

Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (statements of net position) amounts were \$5,688,378 and \$4,483,513 for June 30, 2017 and 2016, respectively. The bank balances were \$5,787,472 and \$4,581,612 for June 30, 2017 and 2016, respectively. All Certificates of Deposit held and some of the savings at June 30, 2017 and 2016 are considered restricted for debt service and are not available for current operations.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

2. Cash and Cash Equivalents - continued

The following reconciles deposits to cash and cash equivalents as presented in the statements of net position:

	<u>2017</u>	<u>2016</u>
Disclosures regarding deposits		
Cash on hand	\$ 166	\$ 104
Deposits	5,624,708	4,419,905
Certificates of deposit	63,504	63,504
Total	<u>\$ 5,688,378</u>	<u>\$ 4,483,513</u>
Statements of net position and cash flow amounts		
Cash and cash equivalents - unrestricted	\$ 3,176,665	\$ 3,191,729
Investments restricted for debt service		
Savings	2,448,209	1,228,280
Certificates of deposit – over 3 months	63,504	63,504
Total	<u>\$ 5,688,378</u>	<u>\$ 4,483,513</u>

The following table presents the amount of the District's deposits which are fully insured or collateralized with securities held by the District or its agent in the District's name (category 1), those deposits which are collateralized with securities held by the pledging financial institutions trust department or agent in the District's name (category 2), and those deposits which are not collateralized (category 3) at June 30, 2017. The District's cash on hand of \$166 has been excluded from the amounts shown below.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash deposits	\$ 236,496	\$ 5,110,435	\$ 377,037	\$ 5,723,968
Certificates of deposit	63,504			63,504
	<u>\$ 300,000</u>	<u>\$ 5,110,435</u>	<u>\$ 377,037</u>	<u>\$ 5,787,472</u>

3. Accounts Receivable, Trade

The District extends credit to customers, substantially all of whom are local residents. Management has elected to record bad debts using the write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially difference from the results that would have been obtained had the allowance method been followed. Accounts written off as uncollectible were \$605 and \$131 in 2017 and 2016, respectively.

4. Accounts Receivable, Other

Accounts receivable, other consists of the following as of June 30, 2017 and 2016 :

	<u>2017</u>	<u>2016</u>
VanBedaf Dairy, 3% interest, 5 years	\$	\$ 860
State Water Commission grant	184,018	
North Dakota Department of Health loan	62,448	
	<u>\$ 246,466</u>	<u>\$ 860</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

5. Investments in Cooperatives

Investments are stated at cost. Equities received in the form of qualified and non-qualified patronage distributions are recorded at their stated value when they are received. Non-qualified patronage distributions are not recorded as income since redemption is uncertain.

Cooperative equities are not transferable, 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.

6. Net Capital Assets

Net capital asset activity during the year was as follows:

	<u>June 30</u> 2016	<u>Additions</u>	<u>Deletions</u>	<u>June 30</u> 2017
Capital assets not being depreciated:				
Land	\$ 77,696	\$	\$	\$ 77,696
Construction in progress	<u>875,430</u>	<u>5,782,244</u>	<u>5,173,317</u>	<u>1,484,357</u>
 Total Assets not being depreciated	 <u>953,126</u>	 <u>5,782,244</u>	 <u>5,173,317</u>	 <u>1,562,053</u>
 Capital assets being depreciated:				
Office and shop building	294,106	243,326		537,432
Storage units	164,944			164,944
Lines and equipment	43,137,966	4,305,138		47,443,104
Reservoirs and equipment	12,860,957	644,374	50,174	13,455,157
Wells and equipment	356,899			356,899
Office equipment	117,896	31,128	21,139	127,885
Equipment and tools	309,833	74,009	44,471	339,371
GRE lines and equipment	<u>6,282,331</u>			<u>6,282,331</u>
 Total capital assets being depreciated	 <u>63,524,932</u>	 <u>5,297,975</u>	 <u>115,784</u>	 <u>68,707,123</u>
 Less accumulated depreciation	 <u>(8,362,416)</u>	 <u>(1,419,663)</u>	 <u>114,742</u>	 <u>(9,667,337)</u>
 Net Capital Assets	 <u>\$56,115,642</u>	 <u>\$ 9,660,556</u>	 <u>\$ 5,174,359</u>	 <u>\$ 60,601,839</u>

Depreciation expense included with operating expenses was \$1,255,912 in 2017 and \$934,900 in 2016. Administrative expenses included \$31,133 of depreciation in 2017 and \$21,804 in 2016. Industrial utilities expenses included \$125,647 of depreciation in 2017 and \$117,772 in 2016. Miscellaneous revenue included \$6,972 of depreciation in 2017 and 2016.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

6. Net Capital Assets - continued

	June 30 2015	Additions	Deletions	June 30 2016
Capital assets not being depreciated:				
Land	\$ 77,696	\$	\$	\$ 77,696
Construction in progress	<u>10,941,517</u>	<u>8,395,607</u>	<u>18,461,694</u>	<u>875,430</u>
 Total Assets not being depreciated	 <u>11,019,213</u>	 <u>8,395,607</u>	 <u>18,461,694</u>	 <u>953,126</u>
Capital assets being depreciated:				
Office and shop building	294,106			294,106
Storage units	164,944			164,944
Lines and equipment	30,236,234	12,901,732		43,137,966
Reservoirs and equipment	9,382,671	3,478,286		12,860,957
Wells and equipment	63,127	293,772		356,899
Office equipment	111,276	6,620		117,896
Equipment and tools	265,796	71,753	27,716	309,833
GRE lines and equipment	<u>4,478,903</u>	<u>1,803,428</u>		<u>6,282,331</u>
 Total capital assets being depreciated	 44,997,057	 18,555,591	 27,716	 63,524,932
 Less accumulated depreciation	 <u>(7,308,684)</u>	 <u>(1,081,448)</u>	 <u>(27,716)</u>	 <u>(8,362,416)</u>
 Net Capital Assets	 <u>\$48,707,586</u>	 <u>\$ 25,869,750</u>	 <u>\$18,461,694</u>	 <u>\$ 56,115,642</u>

During the years ended June 30, 2017 and 2016, construction loan interest of \$64,969 and \$148,347 was capitalized in Construction in Progress in accordance with the District's policy of capitalizing construction loan interest during the construction period.

7. Bonds, Notes and Loans Payable

The following is a summary of bonds, notes and loans payable transactions of the District for the years ended June 30, 2017 and 2016:

	June 30 2016	Issued	Retired	June 30 2017	Due In One Year
Bank of North Dakota, 1985	\$ 531,075	\$	\$ 46,320	\$ 484,755	\$ 47,706
Bank of North Dakota, 1987	44,284		3,119	41,165	3,212
ND Public Finance Authority	200,000		40,000	160,000	40,000
ND Public Finance Authority	103,000		10,000	93,000	11,000
ND Public Finance Authority	646,000		65,000	581,000	67,000
ND Public Finance Authority	3,185,000		215,000	2,970,000	215,000
ND Public Finance Authority	<u>8,417,142</u>		<u>344,564</u>	<u>8,072,578</u>	<u>354,563</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	June 30 2016	Issued	Retired	June 30 2017	Due In One Year
ND Public Finance Authority	\$ 742,252	\$ 128,073	\$ 40,000	\$ 830,325	\$ 40,000
ND Public Finance Authority	1,109,680		40,000	1,069,680	40,004
ND Public Finance Authority	2,961,646	819,551	165,000	3,616,197	161,200
USDA Rural Development	791,914		11,605	780,309	11,997
Unison Bank	21,924		21,924		
Bank of North Dakota/ Unison Bank interim	1,516,500		1,516,500		
RD/USDA	1,516,500		1,516,500		
USDA interim financing	1,281,500	81,080	1,362,580		
USDA interim financing	455,591	4,284	459,875		
USDA interim financing	1,557,143	82,529	1,639,672		
USDA interim financing	245,168	3,049	248,217		
BND interim financing	245,167	3,050	248,217		
BND interim financing	1,557,143	82,529	1,639,672		
USDA Rural Development		1,575,000		1,575,000	19,184
Bank of North Dakota		1,575,000		1,575,000	20,714
USDA Rural Development		1,516,500		1,516,500	23,142
Bank of North Dakota		1,516,500		1,516,500	19,943
Bank of North Dakota		721,000		721,000	33,495
USDA Rural Development		600,000		600,000	9,156
USDA Rural Development		330,400		330,400	5,042
Bank of North Dakota		330,400		330,400	4,345
ND Public Finance Authority		1,045,667		1,045,667	41,000
USDA Rural Development		1,281,500		1,281,500	19,556
	<u>\$27,128,629</u>	<u>\$11,696,112</u>	<u>\$9,633,765</u>	<u>\$29,190,976</u>	<u>\$ 1,187,259</u>

	June 30 2015	Issued	Retired	June 30 2016	Due In One Year
Bank of North Dakota, 1985	\$ 575,956	\$	\$ 44,881	\$ 531,075	\$ 46,317
Bank of North Dakota, 1987	47,307		3,023	44,284	3,118
ND Public Finance Authority	235,000		35,000	200,000	40,000
ND Public Finance Authority	113,000		10,000	103,000	10,000
ND Public Finance Authority	708,000		62,000	646,000	65,000
ND Public Finance Authority	3,395,000		210,000	3,185,000	215,000
ND Public Finance Authority	8,756,705		339,563	8,417,142	344,564
ND Public Finance Authority	783,868		41,616	742,252	40,000
ND Public Finance Authority	1,154,065		44,385	1,109,680	40,000
ND Public Finance Authority	3,123,246		161,600	2,961,646	165,000
USDA Rural Development	803,140		11,226	791,914	11,605
Unison Bank	149,923		149,923		
Unison Bank	34,554		34,554		
Unison Bank		25,595	3,671	21,924	21,924

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	June 30 2015	Issued	Retired	June 30 2016	Due In One Year
Bank of North Dakota/ Unison Bank interim RD/USDA	\$ 1,516,500	\$	\$	\$ 1,516,500	\$ 1,516,500
USDA interim financing	1,516,500			1,516,500	1,516,500
USDA interim financing	1,281,500			1,281,500	
USDA interim financing	432,090	23,501		455,591	
USDA interim financing	805,702	751,441		1,557,143	
USDA interim financing		245,168		245,168	
BND interim financing		245,167		245,167	
BND interim financing	854,256	702,887		1,557,143	
	<u>\$26,286,312</u>	<u>\$ 1,993,759</u>	<u>\$1,151,442</u>	<u>\$27,128,629</u>	<u>\$ 4,035,528</u>
				<u>2017</u>	<u>2016</u>
Bank of North Dakota 3% mortgage note payable dated October 8, 1985, due in annual installments of \$62,244 (including principal and interest) to October 8, 2025, secured by a real estate mortgage on facility sites				\$ 484,755	\$ 531,075
Bank of North Dakota 3% mortgage note payable dated August 28, 1987, due in annual installments of \$4,446 (including principal and interest) to August 20, 2027, secured by a real estate mortgage on facility sites				41,165	44,284
North Dakota Public Finance Authority Water System Improvement 2.5% Revenue Bonds Series 2000, dated September 1, 2001, due in annual principal installments of \$21,168 to \$40,000 beginning September 1, 2001 with interest due semi-annually on March 1 and September 1, secured by a lien on the revenue of the entire system, and a reserve fund of \$45,500 required to be funded over five years				160,000	200,000
North Dakota Public Finance Authority Water System Improvement 2.5% Revenue Bonds Series 2004, dated April 1, 2004, due in annual installments from \$8,000 to \$12,000 beginning September 1, 2005 with interest due semi-annually on March 1 and September 1, secured by a lien on the revenue of the entire system, and a reserve fund of \$13,500 required to be funded over five years				93,000	103,000
North Dakota Public Finance Authority Water System Improvement 2.5% Revenue Bonds Series 2006, dated January 23, 2006, due in annual installments from \$48,020 to \$77,000 beginning September 1, 2006 with interest due semi-annually on March 1 and September 1, secured by a lien on the revenue of the entire system, and a reserve fund of \$81,850 required to be funded over five years				581,000	646,000

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	2017	2016
North Dakota Public Finance Authority .5 % Wastewater Revenue Bonds Series 2009, dated June 27, 2009, due in annual installments from \$208,386 to \$240,000 beginning September 1, 2013 with interest due semi-annually on March 1 and September 1, secured by a lien on the revenues of the entire system, and a reserve fund of \$243,600 required to be funded over five years	\$ 2,970,000	\$ 3,185,000
North Dakota Public Finance Authority 2% to 4.5% Taxable Capital Financing Program Bonds, Series 2014B, dated April 22, 2014, due in annual installments from \$330,000 to \$585,000 beginning June 1, 2015, with interest due semi-annually June 1 and December 1, secured by a lien on revenues of the entire system (including bond premium of \$82,142)	8,072,578	8,417,142
North Dakota Public Finance Authority 3% Taxable Water Revenue Bonds, Series 2014D, dated June 23, 2014, due in annual installments from \$41,935 to \$70,000 beginning September 1, 2015, with interest due semi-annually March 1 and September 1, secured by a lien on revenues of the entire system, and a reserve fund of \$76,300 required to be funded over five years	830,325	742,252
North Dakota Public Finance Authority 3% Taxable Water Revenue Bonds, Series 2014D, dated June 23, 2014, due in annual installments from \$44,065 to \$75,000 beginning September 1, 2014, with interest due semi-annually March 1 and September 1, secured by a lien on revenues of the entire system, and a reserve fund of \$81,750 required to be funded over five years	1,069,680	1,109,680
North Dakota Public Finance Authority 2% Taxable Water Revenue Bonds, Series 2014C, dated June 23, 2014, due in annual installments from \$161,600 to \$250,000 beginning September 1, 2015, with interest due semi-annually March 1 and September 1, secured by a lien on revenues of the entire system, and a reserve fund of \$260,000 required to be funded over five years *(\$1,426,588 was debt forgiveness by the funding agency in 2015)	3,616,197	2,961,646
USDA Rural Development 3.375% Water Revenue Bonds Series 2012, dated May 1, 2012, due in annual interest only payments of \$27,473 on May 1, 2013 and May 1, 2014, and annual installments of \$38,332 beginning May 1, 2015 to May 1, 2052, secured by a lien on the revenues of the entire system, and a reserve fund of \$38,400 required to be funded over ten years starting no later than three years from the date of the loan closing	780,309	791,914
Bank of North Dakota/Unison Bank 2.6% interim financing, dated October 15, 2012, due October 1, 2016, interest due May 1 and November 1, secured by net revenues		1,516,500

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	2017	2016
ND Rural Water Finance Corporation/Regions Bank 2.6% interim financing, dated March 1, 2016, due February 1, 2017 secured by net revenues, to be refinanced payable over 40 years, with interest at 3.375%, annual payment of \$69,653	\$	\$ 1,516,500
USDA Rural Development 3.125% interim financing Phase 2B expansion project, \$1,281,500, projected repayment to begin 1 year from date of loan closing, payable over 40 years, annual payment of \$56,579, secured by a revenue bond		1,281,500
USDA Rural Development 4.125% interim financing Phase 2 cost overrun, \$600,000, projected repayment to begin April 1, 2015, payable over 40 years, annual payment of \$30,882, secured by a revenue bond		455,591
USDA Rural Development 3.5% interim financing Phase 3 expansion project, \$1,575,000, projected repayment to begin 1 year from date of loan closing, payable over 40 years, annual payment of \$73,758, secured by a revenue bond		1,557,143
USDA Rural Development 3.625% interim financing Phase 2B overrun project, \$330,400, projected repayment to begin 1 year from date of loan closing, payable over 40 years, annual payment of \$15,774, secured by a revenue bond		245,168
Bank of North Dakota 3% interim financing Phase 2B overrun project, \$330,400, projected repayment to begin 1 year from date of loan closing, payable over 40 years, annual payment of \$14,297, secured by a revenue bond		245,167
Bank of North Dakota 3% interim financing Phase 3 expansion project, \$1,575,000, projected repayment to begin 1 year from date of loan closing, payable over 40 years, annual payment of \$68,151, secured by a revenue bond		1,557,143
Unison Bank 3% note payable, dated August 11, 2015, due in 72 monthly payments of \$389.36 (including principal and interest) starting September 25, 2015, secured by 2015 Chevrolet Silverado		21,924
USDA Rural Development 2.375% term bond, Series 2016A, dated October 17, 2016, due in annual installments of \$59,159 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund of \$59,159 to be established over 10 years *See 1 below	1,516,500	

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	2017	2016
Bank of North Dakota 3.00% term bond, Series 2016B, dated October 17, 2016, due in annual installments of \$66,070 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund of \$65,619 to be established over 10 years * See 1 below	\$ 1,516,500	\$
USDA Rural Development 2.375% term bond, Series 2016C, dated October 17, 2016, due in annual installments of \$23,406 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund of \$23,406 to be established over 10 years * See 1 below	600,000	
USDA Rural Development 2.375% term bond, Series 2016D, dated October 17, 2016, due in annual installments of \$49,992 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund \$49,992 to be established over 10 years	1,281,500	
USDA Rural Development 2.375% term bond, Series 2016E, dated October 17, 2016, due in annual installments of \$12,889 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund of \$12,889 to be established over 10 years	330,400	
Bank of North Dakota 3.00% term bond, Series 2016F, dated October 17, 2016, due in annual installments of \$14,395 including interest starting October 17, 2017 to October 17, 2056, secured by a pledge of net revenues and a reserve fund of \$14,297 to be established over 10 years	330,400	
Bank of North Dakota 3.0% term bond, Series 2017C, dated March 28, 2017, due in annual installments of \$68,620.24 including interest starting March 28, 2017 to March 28, 2057, secured by a pledge of net revenues and a reserve fund of \$68,151 to be established over 10 years *See 2 below	1,575,000	
USDA Rural Development 3.375% term bond, Series 2017B, dated March 28, 2017, due in annual installments of \$72,340 including interest starting March 28, 2017 to March 28, 2057, secured by a pledge of net revenues and a reserve fund of \$72,340 to be established over 10 years * See 2 below	1,575,000	

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

7. Bonds, Notes and Loans Payable - continued

	<u>2017</u>	<u>2016</u>
Bank of North Dakota for the benefit of the State Water Commission 1.5% water revenue bond, Series 2017, dated February 1, 2017, due in annual principal installments of \$39,022.18 including interest starting September 1, 2017 plus semi-annual interest payments on March 1 to September 1, 2036, secured by a reserve fund of \$44,205 to be established over 5 years	\$ 721,000	\$
North Dakota Public Finance Authority 2.0% water revenue bond, Series 2016G (not fully funded), dated October 3, 2016 due in annual installments from \$40,000 to \$80,000 plus interest beginning September 1, 2017 with interest due semi-annual on March 1 and September 1 to September 1, 2046, secured by a serve fund of \$83,200 to be established over 5 years	1,045,667 <u>29,190,976</u>	<u>27,128,629</u>
Less current maturities	<u>1,187,259</u>	<u>4,035,528</u>
	<u>\$ 28,003,717</u>	<u>\$ 23,093,101</u>

*1 – in addition a short lived asset replacement reserve must be funded in the amount of \$89,510 annually for the life of the loans.

*2 – in addition a short lived asset replacement reserve must be funded in the amount of \$88,844 annually for the life of the bonds.

Maturities of bonds, notes and loans payable, which are subject to mandatory redemption, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,187,259	\$ 796,960	\$ 1,984,219
2019	1,222,610	783,264	2,005,874
2020	1,249,197	766,323	2,015,520
2021	1,278,048	738,024	2,016,072
2022	1,276,233	707,529	1,983,762
2023 – 2027	6,650,541	3,074,433	9,724,974
2028 - 2032	6,577,588	2,213,857	8,791,445
2033 - 2037	3,707,753	1,248,611	4,956,364
2038 - 2042	1,290,607	803,720	2,094,327
2043 - 2047	1,424,152	601,859	2,026,011
2048 - 2052	1,641,563	365,489	2,007,052
2053 - 2057	1,685,425	148,171	1,833,596
	<u>\$29,190,976</u>	<u>\$ 12,248,240</u>	<u>\$ 41,439,216</u>

8. 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
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

8. Defined Contribution Plan - continued

Employees may elect to reduce their compensation and make a contribution 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. Total District and employee contributions cannot exceed \$18,000 in 2017. Additional catchup contributions may be made and age related limitations also may apply. Total pension expenses for the first 6 months in 2017 were \$11,047.

The District sponsored a defined contribution pension plan beginning July 1, 1992, covering substantially all of its employees who have completed twelve months of employment.

Contributions are determined as 8% of each covered employee's salary up to \$20,000 and 1% of salary above \$20,000. Effective August 11, 2015, the covered salary is up to \$30,000 and 1% of salary above \$30,000. In addition, the District will match up to an additional 2% of employees' contributions. Total pension expenses were \$8,985 in 2017 and \$13,039 in 2016. As of June 30, 2016, the District had suspended contributions to the plan and has approved implementation of a new plan.

9. Risk Management

The District is exposed to various risks including but not limited to losses from worker's compensation and general liability/property.

The District's risk for worker's compensation is covered by premiums paid to the North Dakota Workforce Safety. The Bureau was created by the Legislature of the State of North Dakota. 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.

10. Compensated Absences

Employees who have worked more than five years can receive 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. Effective August 11, 2015, accumulated sick leave will not be 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 the employee was employed. All other sick leave hours will be lost.

As of June 30, 2017 and 2016, the liability for accrued vacation and sick leave is approximately \$84,172 and \$59,910, respectively, which has not been accrued on the books.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2017 and 2016

11. Net Position

Net position represents the difference between assets and liabilities. The net position amounts were as follows:

	<u>2017</u>	<u>2016</u>
Net Investment in Capital Assets		
Net capital assets	\$ 60,601,839	\$ 56,115,642
Debt as disclosed in note 7	(29,190,976)	(27,128,629)
Account payable, construction project	(246,466)	(659,973)
	<u>31,164,397</u>	<u>28,327,040</u>
Restricted for Debt Service		
Required reserve by Bond Holders	<u>2,511,713</u>	<u>1,291,784</u>
Unrestricted	<u>3,792,376</u>	<u>3,458,407</u>
Total Net Position	<u>\$ 37,468,486</u>	<u>\$ 33,077,231</u>

12. Construction Commitments

The District has entered into the following commitments for construction projects with signed contracts as of June 30, 2017:

Phase 5 water supply	\$ 160,715
Phase 5 east water tower	333,926
Phase 5 booster 3	<u>40,096</u>
	<u>\$ 534,737</u>

14. Subsequent Events

As of August 18, 2017, the District paid off early the Bank of North Dakota mortgage note in the amount of \$41,165, the North Dakota Public Finance Authority Series 2000 water system improvement revenue bonds in the amount of \$160,000 and the North Dakota Public Finance Authority Series 2004 water system improvement revenue bonds in the amount of \$93,000.

SUPPLEMENTARY INFORMATION

**STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2017 and 2016**

OPERATION AND MAINTENANCE EXPENSES

	2017	2016
Operating supplies	\$ 31,990	\$ 53,317
Water purchase, Ramsey Rural Water	42	94
Water purchase, City of Carrington	80,830	88,920
Power for pumping	90,202	83,436
Small tools expense	680	2,761
Chemicals	29,801	27,290
Repairs and maintenance	39,878	48,392
Mobile and site telephone	4,882	5,587
Water testing	4,462	3,625
Vehicle and travel expense	10,060	10,169
Consumer confidence report	4,272	2,219
Depreciation	1,255,912	934,900
Total Operation and Maintenance Expenses	\$ 1,553,011	\$ 1,260,710

ADMINISTRATIVE EXPENSES

	2017	2016
Salaries	\$ 246,691	\$ 276,898
Payroll taxes	28,834	33,753
Insurance, general	15,893	11,186
Insurance, group	67,001	84,626
Board and employee training	3,499	9,430
On-call pay	52,962	18,071
Vehicle, GPS	1,884	2,457
Office supplies and expense	6,485	4,031
Employee uniforms	1,003	1,098
Postage	6,988	8,413
Telephone	2,531	2,479
Professional services	35,288	40,113
Licenses, fees and permits	7,259	270
Directors' fees	8,463	8,290
Repairs and maintenance	4,688	5,221
Dues and subscriptions	7,459	8,591
Travel and meetings	2,712	587
Bad debts	605	131
Utilities	4,262	4,091
Pension expense	12,822	13,039
Depreciation	31,133	21,804
Amortization	13,921	13,921
Miscellaneous	10,648	9,561
Total Administrative Expenses	\$ 573,031	\$ 578,061

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION - continued
Years Ended June 30, 2017 and 2016

SCHEDULE OF WATER UTILITY OPERATIONS COSTS PER 1,000 GALLONS SOLD

	2017		2016	
	Total	Per 1,000 Gallons Sold	Total	Per 1,000 Gallons Sold
Gallons Sold	144,400,000		143,096,000	
Operation and Maintenance Expenses	\$ 297,099	\$ 2.06	\$ 325,810	\$ 2.28
Administrative Expenses	541,898	3.75	556,257	3.89
Interest Expense	321,812	2.23	188,092	1.31
Depreciation Expense	1,287,045	8.90	956,704	6.69
	<u>\$ 2,447,854</u>	<u>\$ 16.95</u>	<u>\$ 2,026,863</u>	<u>\$ 14.16</u>

INDUSTRIAL UTILITIES EXPENSES

	2017	2016
GRE expenses	\$ 2,988	\$ 7,929
SWS expenses	59,921	55,827
DSA expenses	42,387	49,648
Salary, benefits, payroll taxes	187,420	116,437
Industrial expenses	17,538	17,124
Administration costs	15,786	15,281
RRVWS dues	35,172	
Depreciation	125,647	117,772
Total Industrial Utilities Expenses	<u>\$ 486,859</u>	<u>\$ 380,018</u>

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION - continued
Years Ended June 30, 2017 and 2016

SCHEDULE OF WATER UTILITY OPERATIONS - MANAGEMENT BASIS

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
WATER UTILITY		
Metered water sales	\$ 692,206	\$ 626,533
Service charge	1,302,237	1,032,804
Other charges	85,254	87,594
Total Water Utility Revenue	<u>2,079,697</u>	<u>1,746,931</u>
OPERATIONS AND MAINTENANCE EXPENSES		
Operating supplies	31,990	53,317
Water purchase, Ramsey Rural Water	42	94
Water purchase, Carrington	80,830	88,920
Power for pumping	90,202	83,436
Small tools expense	680	2,761
Chemicals	29,801	27,290
Repairs and maintenance	39,878	48,392
Mobile and site telephone	4,882	5,587
Water testing	4,462	3,625
Vehicle and travel expense	10,060	10,169
Consumer confidence report	4,272	2,219
Depreciation	1,255,912	934,900
Total Operation and Maintenance Expenses	<u>1,553,011</u>	<u>1,260,710</u>
ADMINISTRATIVE EXPENSES		
Salaries	246,691	276,898
Payroll taxes	28,834	33,753
Insurance, general	15,893	11,186
Insurance, group	67,001	84,626
Board and employee training	3,499	9,430
On-call pay	52,962	18,071
Vehicle, GPS	1,884	2,457
Office supplies and expense	6,485	4,031
Employee uniforms	1,003	1,098
Postage	6,988	8,413
Telephone	2,531	2,479
Professional services	35,288	40,113
Licenses, fees and permits	7,259	270
Directors' fees	8,463	8,290
Repairs and maintenance	4,688	5,221
Dues and subscriptions	7,459	8,591
Travel and meetings	2,712	587
Bad debts	605	131
Utilities	4,262	4,091
Pension expense	12,822	13,039
Depreciation	31,133	21,804
Amortization expense	13,921	13,921
Miscellaneous	10,648	9,560
Total Administrative Expenses	<u>573,031</u>	<u>578,061</u>
INTEREST EXPENSE	<u>321,812</u>	<u>188,092</u>
Total Expenses	<u>2,447,854</u>	<u>2,026,863</u>
LOSS FROM WATER UTILITY OPERATIONS	<u>\$ (368,157)</u>	<u>\$ (279,932)</u>

**STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2017 and 2016**

SCHEDULE OF CHANGES IN NET POSITION

	Fees and Users Equity	Construction Equity	Forfeited Equity	Cumulative Net Income	Total Retained Earnings	Contributed Capital
Balance, June 30, 2015	\$ 1,007,000	\$ 23,050	\$ 89,950	\$ 3,255,840	\$ 4,375,840	\$ 22,665,467
New members	85,600				85,600	
Terminated members	(2,450)		2,450			
Net income				1,003,668	1,003,668	4,946,656
Change in net position amounts	83,150		2,450	1,003,668	1,089,268	4,946,656
Balance, June 30, 2016	1,090,150	23,050	92,400	4,259,508	5,465,108	27,612,123
New members	25,550				25,550	
Terminated members	(7,250)		7,250			
Net income				583,988	583,988	3,781,717
Change in net position amounts	18,300		7,250	583,988	609,538	3,781,717
Balance, June 30, 2017	\$ 1,108,450	\$ 23,050	\$ 99,650	\$ 4,843,496	\$ 6,074,646	\$ 31,393,840



Schauer & Associates, P.C.

Certified Public Accountants

Ronald R. Fuchs, CPA
Duane R. Dunn, CPA
Robert A. Piatz, CPA

**INDEPENDENT AUDITORS' 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***

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, 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 business-type activities of **STUTSMAN RURAL WATER DISTRICT**, as of and for the years ended June 30, 2017 and 2016, 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 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **STUTSMAN RURAL WATER DISTRICT's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **STUTSMAN RURAL WATER DISTRICT's** internal control. Accordingly, we do not express an opinion on the effectiveness of **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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. (2017-001)

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

INDEPENDENT AUDITORS' 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 – continued 2

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*.

STUTSMAN RURAL WATER DISTRICT's Response to Findings

STUTSMAN RURAL WATER DISTRICT's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **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 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.



SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

Jamestown, North Dakota
November 10, 2017



Schauer & Associates, P.C.

Certified Public Accountants

Ronald R. Fuchs, CPA
Duane R. Dunn, CPA
Robert A. Piatz, CPA

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

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, ND

Report on Compliance for Each Major Federal Program

We have audited **STUTSMAN RURAL WATER DISTRICT**'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **STUTSMAN RURAL WATER DISTRICT**'s major federal programs for the year ended June 30, 2017. **STUTSMAN RURAL WATER DISTRICT**'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **STUTSMAN RURAL WATER DISTRICT**'s compliance.

Opinion of Each Major Federal Program

In our opinion, **STUTSMAN RURAL WATER DISTRICT** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
–continued 2**

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

Jamestown, North Dakota
November 10, 2017

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SUPPLEMENTARY INFORMATION – continued
Year Ended June 30, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor Program Grant Title	Federal CFDA #	Pass-through Grantor's #	Expenditures
Environmental Protection Agency Passed Through North Dakota Department of Health Capitalization Grants for Drinking Water State Revolving Funds (1)	66.468	4701303-04	\$ 947,624
	66.468	4701303-05	<u>1,045,667</u>
Total Federal Awards			<u>\$ 1,993,291</u>

(1) Major program

State Revolving Loan Balances at year end:

Water system improvement revenue bonds series 2000	\$ 160,000
Water system improvement revenue bonds series 2004	93,000
Water system improvement revenue bonds series 2006	581,000
Wastewater revenue bonds of 2009	2,970,000
Taxable capital financing program bonds, series 2014B	7,995,000
Taxable water revenue bonds Series 2014D	830,325
Taxable water revenue bonds Series 2014D	1,069,680
Taxable water revenue bonds Series 2014C	3,616,197

USDA Rural Development Loan Balances at year end:

Water revenue bonds of 2012	780,309
Series 2016A	1,516,500
Series 2016B	1,516,500
Series 2016C	600,000
Series 2016D	1,281,500
Series 2016E	330,400
Series 2016F	330,400
Series 2016G	1,045,667
Series 2017	721,000
Series 2017B	1,575,000
Series 2017C	1,575,000

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. Summary of Audit Results

Type of auditors' report issued – unmodified

Internal control over financial reporting

Material weakness(es) identified yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes none reported

Noncompliance material to financial statements noted? Yes X no

Federal Awards

Internal control over major programs

Material weakness(es) identified yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X none reported

Type of auditors' report issued on compliance for major programs – unmodified

Identification of Major Programs

66.468 - Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? X yes no

B. Findings Related to the Financial Statements Which are Required to be Reported in Accordance with *Government Auditing Standards*.

2017-001 Significant Deficiency - Financial Statement Preparation

Condition - Schauer & Associates, P.C. assists the District's management in preparing financial statements that are presented, including note disclosure in accordance with generally accepted accounting principles.

Criteria - As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Cause - The District Board feels it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

Effect - Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation - We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

View of Responsible Officials - The District Board is aware of this condition. The Board will continue to request that Schauer & Associates, P.C. assist with preparation of financial statements; however the Board will continue to instruct the District administration to provide all requested schedules.

C. Findings and Questioned Costs – Major Federal Award Programs Audit.

1. None

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2017

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **STUTSMAN RURAL WATER DISTRICT** under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of **STUTSMAN RURAL WATER DISTRICT**, it is not intended and does not present the financial position, changes in net position, or cash flows of the **STUTSMAN RURAL WATER DISTRICT**.

B. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. **STUTSMAN RURAL WATER DISTRICT** has elected not to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.