

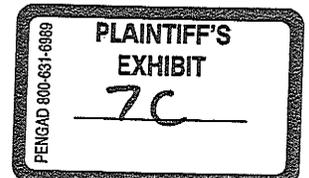
STUTSMAN RURAL WATER DISTRICT

Stutsman County, North Dakota

REPORT ON FINANCIAL STATEMENTS

(with supplementary information)

Years Ended June 30, 2011 and 2010



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INDEPENDENT AUDITORS' REPORT

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota

We have audited the accompanying statements of net assets of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of **STUTSMAN RURAL WATER DISTRICT'S** management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 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 performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, 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.

INDEPENDENT AUDITORS' REPORT - continued

Our audit was conducted for the purpose of forming an opinion on the financial statements of **STUTSMAN RURAL WATER DISTRICT** as a whole. 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Schau & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 3, 2011

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011 and 2010

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, 2011 and 2010. This information is presented in conjunction with the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net assets increased by \$845,288 or 16% from \$5,228,720 to \$6,074,008.
- Operating revenues increased by \$116,540 or 13.6% from \$860,037 to \$976,577.
- Operating expenses increased by \$136,954 or 16.7 % from \$820,229 to \$957,183.
- For the fiscal year ended June 30, 2011, the District delivered 91.2 million gallons of water.

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 assets 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 assets identifies the District's revenues and expenses for the fiscal years ended June 30, 2011 and 2010. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

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

Financial Analysis of the District

The statement of net assets (page 7) and the statement of revenues, expenses and changes in nets assets (page 8) 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 assets reflect the difference between assets and liabilities. An increase in net assets 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, 2011 and 2010

NET ASSETS

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

Table I
CONDENSED STATEMENTS OF NET ASSETS
 June 30, 2011 and 2010

	2011	2010	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 1,208,101	\$ 691,268	\$ 516,833	74.8%
Other assets	334,855	303,790	31,065	10.3
Capital assets	11,732,579	10,979,287	753,292	6.9
Total Assets	<u>\$13,275,535</u>	<u>\$11,974,345</u>	<u>\$ 1,301,190</u>	<u>10.9%</u>
LIABILITIES				
Current liabilities	\$ 715,890	\$ 563,729	\$ 152,161	27.0%
Non-current liabilities	6,485,637	6,181,896	303,741	5.0
Total Liabilities	<u>7,201,527</u>	<u>6,745,625</u>	<u>455,902</u>	<u>6.8</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,585,635	4,299,793	285,842	6.7
Restricted for debt service	280,652	254,004	26,648	10.5
Unrestricted	1,207,721	674,923	532,798	79.0
Total Net Assets	<u>6,074,008</u>	<u>5,228,720</u>	<u>845,288</u>	<u>16.2</u>
Total Liabilities and Net Assets	<u>\$13,275,535</u>	<u>\$11,974,345</u>	<u>\$ 1,301,190</u>	<u>10.9%</u>

As the above table indicates, total assets increased by \$1,301,190 during the fiscal year ended June 30, 2011. This is comprised of an increase in current assets of \$516,833, an increase in other assets of \$31,065 and an increase in capital assets of \$753,292.

Total liabilities reflect an increase of \$455,902. This includes an increase of \$303,741 in long-term debt as the District financed part of the Great River Energy water supply and continued to make the scheduled debt service payments on existing debt and an increase of \$152,161 in current liabilities reflecting an increase in accounts payable incurred primarily for construction projects.

Table I also indicates that total net assets increased by \$845,288. This increase is the result of operations, non-operating activity and a net increase in member capital.

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

Table II indicates that the District's total operating revenues increased by \$116,540 or 13.6% to \$976,577 from \$860,037 in the prior year. Total expenses increased by \$136,954 or 16.7% from the prior year. Non-operating revenue increased by \$852,899 primarily because of \$325,678 of grant revenue and \$533,859 additional net lease income from the GRE project.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2011 and 2010

Table II
CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Years Ended June 30, 2011 and 2010

	2011	2010	Dollar Change	Percent Change
Operating revenues	\$ 976,577	\$ 860,037	\$116,540	13.6%
Operations and maintenance expenses	545,762	461,470	84,292	18.3
Administrative expenses	411,421	358,759	52,662	14.7
	<u>957,183</u>	<u>820,229</u>	<u>136,954</u>	<u>16.7</u>
Non-operating revenue (expenses)	784,844	(68,055)	852,899	n/a
Income (loss) before contributions	804,238	(28,247)	832,485	n/a
Capital contributions	41,050	12,500	28,550	n/a
Change in net assets	845,288	(15,747)	861,035	n/a
Total net assets – beginning	5,228,720	5,244,467	(15,747)	n/a
Total net assets – ending	<u>\$ 6,074,008</u>	<u>\$ 5,228,720</u>	<u>\$845,288</u>	<u>16.2%</u>

Capital Assets

As of June 30, 2011, the District's investment in capital assets totaled \$11,732,579, which is an increase of \$753,292 or 6.9 % over the capital asset balance of \$10,979,287 at June 30, 2010. Capital assets include all of the District's major capital assets, including land, buildings, lines, reservoirs, wells, equipment, tools and vehicles. A comparison of the District's capital assets over the past two years is presented in Table III.

Included among the capital projects completed during the fiscal year was the GRE lines and pumping (\$4,475,492), 2 new vehicles (\$68,123), meters and meter assembly parts (\$10,802) and other miscellaneous items.

Table III
CAPITAL ASSETS
June 30, 2011 and 2010

	2011	2010	Dollar Change	Percent Change
Land	\$ 50,692	\$ 50,692	\$	%
Office and shop building	294,106	294,106		
Lines and equipment	12,619,307	8,133,013	4,486,294	55.2
Reservoirs and equipment	3,074,505	3,068,229	6,276	.2
Wells and equipment	63,127	63,127		
Office equipment	51,076	47,194	3,882	8.3
Equipment and tools	168,420	114,064	54,356	47.7
Construction in progress	796,642	4,232,891	(3,436,249)	(81.2)
Total	<u>17,117,875</u>	<u>16,003,316</u>	<u>1,114,559</u>	<u>7.0</u>
Less accumulated depreciation	<u>(5,385,296)</u>	<u>(5,024,029)</u>	<u>(361,267)</u>	<u>7.2</u>
Total Capital Assets (net of depreciation)	<u>\$ 11,732,579</u>	<u>\$ 10,979,287</u>	<u>\$ 753,292</u>	<u>6.9%</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
Years Ended June 30, 2011 and 2010

Long-Term Debt

As of June 30, 2011, the District had \$6,912,976 in outstanding long-term debt compared to \$6,596,277 as of June 30, 2010. The increase of \$316,699 represents additional debt to finance the Great River Energy Spiritwood Station project construction and Phase I expansion less principal payments made during the fiscal year.

	<u>2011</u>	<u>2010</u>
Bank of North Dakota	\$ 742,871	\$ 781,730
Bank of North Dakota	58,530	61,144
ND Public Finance Agency	375,000	410,000
ND Public Finance Agency	151,000	160,000
ND Public Finance Agency	943,000	995,000
ND Public Finance Agency	4,213,805	4,113,649
Unison Bank	47,482	74,754
ND Rural Water Finance Corporation	381,288	
	<u>\$ 6,912,976</u>	<u>\$ 6,596,277</u>

Additional information on the District's long-term debt is provided in note 7 (page 16) of the financial statements.

Economic Factors and Next Year's Budget and Rates

A 7% increase in revenue is expected this year with the connection of 50 new users to the water system through Phase I of the expansion project. A 4% increase in expenses is also projected. The District does not anticipate an increase to customer water rates before the end of the fiscal year. Construction is to begin on Phase II of the District wide expansion project in the Spring of 2012. This Phase will be a \$9.8 million dollar project connecting 340 new users and the town of Woodworth to the water system. The project will be 70% grant funded through the State MR & I Program (Municipal, Rural and Industrial water supply).

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 P.O. Box 547, Jamestown, North Dakota 58402-0547.

LIABILITIES AND NET ASSETS	June 30	
	2011	2010
Current Liabilities:		
Accounts payable	\$ 250,365	\$ 98,092
Customer deposits	1,350	13,050
Accrued interest payable	36,836	38,206
Bonds, notes and loans payable	427,339	414,381
Total Current Liabilities	715,890	563,729
Non-Current Liabilities:		
Bonds, notes and loans payable	6,485,637	6,181,896
Total Liabilities	7,201,527	6,745,625
Net Assets:		
Invested in capital assets, net of related debt	4,585,635	4,299,793
Restricted for debt service	280,652	254,004
Unrestricted	1,207,721	674,923
Total Net Assets	6,074,008	5,228,720
Total Liabilities and Net Assets	\$ 13,275,535	\$ 11,974,345

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water sales	\$ 351,853	\$ 318,478
Service charges	574,725	486,140
Other charges	49,999	55,419
Total Operating Revenues	976,577	860,037
 OPERATING EXPENSES		
Operation and maintenance expenses	545,762	461,470
Administrative expenses	411,421	358,759
Total Operating Expenses	957,183	820,229
 Operating Income	19,394	39,808
 NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	9,467	14,419
Lease income	651,367	16,802
Lease expenses	(141,532)	
Grant income	325,678	
Miscellaneous revenue (expense)	13,012	
Interest expense	(73,148)	(99,276)
Total Non-Operating Revenues (Expenses)	784,844	(68,055)
 Income (loss) before capital contributions	804,238	(28,247)
 CAPITAL CONTRIBUTIONS		
Net change in member fees	41,050	12,500
Total Capital Contributions	41,050	12,500
 Change in Net Assets	845,288	(15,747)
 Total Net Assets - Beginning	5,228,720	5,244,467
 Total Net Assets - Ending	\$ 6,074,008	\$ 5,228,720

The accompanying notes are an integral part of these financial statements

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 19,394	\$ 39,808
Adjustments		
Depreciation and amortization	288,558	275,238
Changes in Assets and Liabilities		
Receivables	(6,102)	(9,590)
Inventories	(2,169)	1,507
Prepaid expenses	(1,582)	522
Accounts payable	1,523	(5,922)
Customer deposits	300	11,850
Net Cash Provided by Operating Activities	<u>\$ 299,922</u>	<u>\$ 313,413</u>

Schedule of Noncash Capital and Related Financing Activities

Additions to construction of capital assets	\$ 150,750	\$ 83,217
Increase in loan proceeds	149,620	
Increase in grant proceeds	109,500	
Customer deposit applied to receivable	12,000	
Reimbursements receivable related to construction	55,530	

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2011 and 2010

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. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) statements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; 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, 2011 and 2010

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, 2011, the District's deposits were not fully insured or collateralized with securities held by the financial institutions in the District's name or guaranteed by the FDIC's Transaction Account Guarantee Program.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

D. Deposits and Investments - continued

As of June 30, 2010, 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's Transaction Account Guarantee Program. (See note 2)

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
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

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, 2011 and 2010

2. Cash and Cash Equivalents - continued

The following reconciles deposits to cash and cash equivalents as presented in the balance sheet:

	2011	2010
Disclosures regarding deposits		
Cash on hand	\$ 254	\$ 249
Deposits	1,013,265	782,292
Certificates of deposit	63,500	63,500
Total	\$ 1,077,019	\$ 846,041
Statements of net assets and cash flow amounts		
Cash and cash equivalents - unrestricted	\$ 796,367	\$ 592,037
Investments restricted for debt service		
Savings	217,152	190,504
Certificates of deposit – over 3 months	63,500	63,500
Total	\$ 1,077,019	\$ 846,041

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, 2011. The District's cash on hand of \$254 has been excluded from the amounts shown below.

	Category 1	Category 2	Category 3	Total
Cash deposits	\$ 250,000	\$ 727,650	\$ 146,206	\$1,123,856
Certificates of deposit	50,000	13,500		63,500
	\$ 300,000	\$ 741,150	\$ 146,206	\$1,187,356

3. Accounts Receivable, Trade

The District primarily provides a water system to residents of Stutsman, Foster, Lamoure and Griggs Counties. The District extends credit to customers, substantially all of whom are local residents.

Accounts written off as uncollectible were \$0 and \$761 in 2011 and 2010, respectively. In management's opinion, there are no material accounts which are uncollectible.

4. Accounts Receivable, Other

Accounts receivable, other consists of the following as of June 30, 2011:

STAG Grant	\$ 109,500
Clean Water State Revolving Funds	36,325
USDA Rural Development Loan Funds	113,295
North Dakota Department of Transportation	1,304
VanBedaf Dairy, 3% interest, 5 years	48,000
	\$ 308,424

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

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. Capital Assets

Capital asset activity during the year was as follows:

	<u>June 30 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2011</u>
Capital assets not being depreciated:				
Land	\$ 50,692	\$	\$	\$ 50,692
Construction in progress	<u>4,232,891</u>	<u>1,039,243</u>	<u>4,475,492</u>	<u>796,642</u>
Total Assets not being depreciated	<u>4,283,583</u>	<u>1,039,243</u>	<u>4,475,492</u>	<u>847,334</u>
Capital assets being depreciated:				
Office and shop building	294,106			294,106
Lines and equipment	8,133,013	4,486,294		12,619,307
Reservoirs and equipment	3,068,229	6,276		3,074,505
Wells and equipment	63,127			63,127
Office equipment	47,194	3,882		51,076
Equipment and tools	<u>114,064</u>	<u>70,978</u>	<u>16,622</u>	<u>168,420</u>
Total capital assets being depreciated	11,719,733	4,567,430	16,622	16,270,541
Less accumulated depreciation	<u>(5,024,029)</u>	<u>377,889</u>	<u>16,622</u>	<u>(5,385,296)</u>
Net Capital Assets	<u>\$10,979,287</u>	<u>\$5,228,784</u>	<u>\$4,475,492</u>	<u>\$11,732,579</u>

Depreciation expense included with operating expenses was \$278,969 in 2011 and \$265,803 in 2010. Administrative expenses included \$9,409 of depreciation in 2011 and \$8,980 in 2010. Lease expenses included \$89,511 of depreciation in 2011.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

7. Bonds, Notes and Loans Payable

The following is a summary of bonds, notes and loans payable transactions of the District for the year ended June 30, 2011:

	June 30 2010	Issued	Retired	June 30 2011	Due In One Year
Bank of North Dakota, 1985	\$ 781,730	\$	\$38,859	\$ 742,871	\$ 39,885
Bank of North Dakota, 1987	61,144		2,614	58,530	2,609
ND Public Finance Agency	410,000		35,000	375,000	35,000
ND Public Finance Agency	160,000		9,000	151,000	9,000
ND Public Finance Agency	995,000		52,000	943,000	57,000
ND Public Finance Agency	4,113,649	360,156	260,000	4,213,805	265,000
ND Rural Water Finance Corporation		381,288		381,288	
Unison Bank	74,754		27,272	47,482	18,845
	<u>\$ 6,596,277</u>	<u>\$741,444</u>	<u>\$424,745</u>	<u>\$ 6,912,976</u>	<u>\$ 427,339</u>

	2011	2010
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	\$ 742,871	\$ 781,730
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	58,530	61,144
North Dakota Public Finance Agency Water System Improvement 2.5% Revenue Bonds Series 2000, dated April 11, 2000, 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	375,000	410,000
North Dakota Public Finance Agency 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	151,000	160,000

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

7. Bonds, Notes and Loans Payable - continued

	<u>2011</u>	<u>2010</u>
North Dakota Public Finance Agency 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	943,000	995,000
North Dakota Public Finance Agency .5 % Wastewater Revenue Bonds Series 2009, dated June 1, 2009, due in annual installments from \$260,000 to \$290,000 beginning September 1, 2010 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 \$292,150 required to be funded over five years	4,213,805	4,113,649
North Dakota Rural Water Finance Corporation 2.5% Revenue Bond Anticipation Note, due July 1, 2012 with interest	381,288	
6.5% note payable to Unison Bank, dated July 8, 2009, due in 9 semi-annual payments of \$10,815 (including principal and interest) starting January 1, 2010, secured by a real estate mortgage	<u>47,482</u>	<u>74,754</u>
Less current maturities	<u>6,912,976</u> 427,339	<u>6,596,277</u> 414,381
	<u>\$ 6,485,637</u>	<u>\$ 6,181,896</u>

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>
2012	\$ 427,339	\$ 90,172	\$ 517,511
2013	811,300	92,268	903,568
2014	422,787	76,315	499,102
2015	418,598	70,717	489,315
2016	424,996	56,320	481,316
2017 – 2021	2,225,458	240,342	2,465,800
2022 – 2026	2,055,113	93,426	2,148,539
2027 – 2028	127,385	6,827	134,212
	<u>\$ 6,912,976</u>	<u>\$ 726,387</u>	<u>\$ 7,639,363</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

8. Defined Contribution Plan

The District sponsors 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% above \$20,000. In addition, the District will match up to 2% of employees' contributions. Total pension expenses were \$9,207 in 2011 and \$9,212 in 2010.

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. Vacation is calculated on the calendar year and computed on December 31 of each year and must be used in the following calendar year. There is no carryover to a subsequent year. As of June 30, 2011 and 2010, the liability for accrued vacation is approximately \$9,390 and \$7,342, respectively, which have not been accrued on the books.

11. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net asset amounts were as follows:

	<u>2011</u>	<u>2010</u>
Invested in Capital Assets, Net of Related Debt		
Net capital assets	\$11,732,579	\$ 10,979,287
Debt as disclosed in note 7	(6,912,976)	(6,596,277)
Account payable, construction project	(233,968)	(83,217)
	<u>4,585,635</u>	<u>4,299,793</u>
Restricted for Debt Service		
Required reserve by ND Public Finance Agency	<u>280,652</u>	<u>254,004</u>
Unrestricted	<u>1,207,721</u>	<u>674,923</u>
Total Net Assets	<u>\$ 6,074,008</u>	<u>\$ 5,228,720</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2011 and 2010

12. Construction Commitments

The District is currently working on the Phase I construction project. The total balance due on the project as of June 30, 2011 is \$548,602.

13. Lease Commitments

The District has entered into a lease agreement with Great River Energy, a Minnesota cooperative corporation for the transportation of treated wastewater to and from the City of Jamestown and Great River Energy Spiritwood Station. The lease consists of a fixed component covering the cost of the transportation facilities amortized over 20 years and the funding of a required reserve account for the first five years and a variable fee component for the flow of treated wastewater to and discharge from the Station. As of June 30, 2011, operations had not yet commenced and \$651,367 and \$16,802 had been recorded as lease income for the years ended June 30, 2011 and 2010, respectively.

SUPPLEMENTARY INFORMATION

**STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2011 and 2010**

OPERATION AND MAINTENANCE EXPENSES

	2011	2010
Operating supplies	\$ 13,766	\$ 15,160
Water purchase, Ramsey Rural Water	11,992	6,406
Water purchase, City of Jamestown	21,948	10,667
Water purchase, City of Carrington	4,076	
Power for pumping	62,096	61,541
Small tools expense	4,544	2,880
Chemicals	25,467	25,666
Repairs and maintenance	94,025	51,448
Mobile and site telephone	3,929	3,416
Water testing	1,413	816
Vehicle and travel expense	23,537	16,495
Consumer confidence report		1,172
Depreciation	278,969	265,803
Total Operation and Maintenance Expenses	\$ 545,762	\$ 461,470

ADMINISTRATIVE EXPENSES

	2011	2010
Salaries	\$ 239,219	\$ 198,187
Payroll taxes	21,393	19,054
Insurance, general	5,915	5,798
Insurance, group	57,931	45,962
Board and employee training	4,171	5,351
Office supplies and expense	2,949	2,234
Employee uniforms	934	766
Postage	5,790	5,826
Telephone	3,684	3,687
Professional services	16,714	22,824
Licenses, fees and permits	1,675	1,424
Directors' fees	10,229	8,832
Repairs and maintenance	2,678	5,414
Dues and subscriptions	3,991	1,521
Travel and meetings	877	870
Bad debts		761
Utilities	4,563	4,143
Pension expense	9,207	9,212
Depreciation	9,409	8,980
Amortization	180	455
Miscellaneous	9,912	7,458
Total Administrative Expenses	\$ 411,421	\$ 358,759

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION - continued
Years Ended June 30, 2011 and 2010

SCHEDULE OF MEMBERS

Number			Amount	
2011	2010		2011	2010
1,229	1,211	Users fees		
16	22	\$350 Members (after refunds)	\$ 430,150	\$ 423,850
(6)	(4)	New	5,600	7,700
1,239	1,229	Terminated	(2,100)	(1,400)
		Balance	\$ 433,650	\$ 430,150
		Users Fees - No Curb Stops		
1	1	\$350 Members	\$ 350	\$ 350
1	1	Balance	\$ 350	\$ 350
		Forfeited member and user fees	\$ 84,350	\$ 82,600
		Memberships		
179	179	Memberships no hookups	\$ 8,950	\$ 8,950
179	179		\$ 8,950	\$ 8,950
		User Fees		
1	1	\$600 Members	\$ 600	\$ 600
62		New	37,200	
63	1		\$ 37,800	\$ 600
		Memberships Phase III		
543	470	Memberships	\$ 28,760	\$ 24,560
23	73	New	1,250	4,200
(53)		Transfer to user fees	(2,650)	
513	543		\$ 27,360	\$ 28,760
		Total Fees and Users Equity	\$ 592,460	\$ 551,410

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION - continued
Years Ended June 30, 2011 and 2010

SCHEDULE OF COSTS PER 1,000 GALLONS SOLD

Gallons Sold	2011		2010	
	Total	Per 1,000 Gallons Sold	Total	Per 1,000 Gallons Sold
	91,285,858		94,635,576	
Operation and Maintenance Expenses	\$ 266,793	\$ 2.92	\$ 195,667	\$ 2.07
Administrative Expenses	402,012	4.40	349,779	3.70
Interest Expense	73,148	0.80	99,276	1.05
Depreciation Expense	288,378	3.16	274,783	2.90
	<u>\$ 1,030,331</u>	<u>\$ 11.28</u>	<u>\$ 919,505</u>	<u>\$ 9.72</u>

LEASE EXPENSES

	2011	2010
Power for pumping	\$ 4,380	\$
Chemicals	495	
Line repairs	5,719	
Pump and equipment repair	77	
Insurance	524	
Depreciation	89,511	
Interest	40,826	
	<u>\$ 141,532</u>	<u>\$</u>
Total Lease Expenses	<u>\$ 141,532</u>	<u>\$</u>

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2011 and 2010

SCHEDULE OF OPERATIONS - MANAGEMENT BASIS

	2011	2010
REVENUE		
Metered water sales	\$ 351,853	\$ 318,478
Service charge	574,725	486,140
Other charges	49,999	55,419
Total Revenue	<u>976,577</u>	<u>860,037</u>
OPERATIONS AND MAINTENANCE EXPENSES		
Operating supplies	13,766	15,160
Water purchase, Ramsey Rural Water	11,992	6,406
Water purchase, City of Jamestown	21,948	10,667
Water purchase, Carrington	4,076	
Power for pumping	62,096	61,541
Small tools expense	4,544	2,880
Chemicals	25,467	25,666
Repairs and maintenance	94,025	51,448
Mobile and site telephone	3,929	3,416
Water testing	1,413	816
Vehicle and travel expense	23,537	16,495
Consumer confidence report		1,172
Depreciation	278,969	265,803
Total Operation and Maintenance Expenses	<u>545,762</u>	<u>461,470</u>
ADMINISTRATIVE EXPENSES		
Salaries	239,219	198,187
Payroll taxes	21,393	19,054
Insurance, general	5,915	5,798
Insurance, group	57,931	45,962
Board and employee training	4,171	5,351
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Employee uniforms	934	766
Postage	5,790	5,826
Telephone	3,684	3,687
Professional services	16,714	22,824
Licenses, fees and permits	1,675	1,424
Directors' fees	10,229	8,832
Repairs and maintenance	2,678	5,414
Dues and subscriptions	3,991	1,521
Travel and meetings	877	870
Bad debts		761
Utilities	4,563	4,143
Pension expense	9,207	9,212
Depreciation	9,409	8,980
Amortization expense	180	455
Miscellaneous	9,912	7,458
Total Administrative Expenses	<u>411,421</u>	<u>358,759</u>
Total Expenses	<u>957,183</u>	<u>820,229</u>
INCOME FROM OPERATIONS	<u>\$ 19,394</u>	<u>\$ 39,808</u>

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2011 and 2010

SCHEDULE OF CHANGES IN NET ASSETS

	Fees and Users Equity	Construction Equity	Forfeited Equity	Cumulative Net Income (Loss)	Total Retained Earnings	Contributed Capital
Balance, June 30, 2009	\$ 457,710	\$ 18,200	\$ 81,200	\$ (412,643)	\$ 144,467	\$ 5,100,000
New members	12,500				12,500	
Terminated members	(1,400)		1,400			
Net loss				(28,247)	(28,247)	
Change in net asset amounts	11,100		1,400	(28,247)	(15,747)	
Balance, June 30, 2010	468,810	18,200	82,600	(440,890)	128,720	5,100,000
New members	41,400				41,400	
Terminated members	(2,100)		1,750		(350)	
Net income				804,238	804,238	
Change in net asset amounts	39,300		1,750	804,238	845,288	
Balance, June 30, 2011	\$ 508,110	\$ 18,200	\$ 84,350	\$ 363,348	\$ 974,008	\$ 5,100,000



Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Ronald R. Fuchs, CPA
Duane R. Dunn, CPA
Robert A. Platz, 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 the financial statements of **STUTSMAN RURAL WATER DISTRICT**, as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated October 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **STUTSMAN RURAL WATER DISTRICT'S** financial statements are free of 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*.

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

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schauer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 3, 2011



Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, ND

Compliance

We have audited the compliance of **STUTSMAN RURAL WATER DISTRICT** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. **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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **STUTSMAN RURAL WATER DISTRICT'S** management. Our responsibility is to express an opinion on **STUTSMAN RURAL WATER DISTRICT'S** compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on **STUTSMAN RURAL WATER DISTRICT'S** compliance with those requirements.

In our opinion, **STUTSMAN RURAL WATER DISTRICT**, complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of **STUTSMAN RURAL WATER DISTRICT**, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB A-133 —continued 2**

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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schauer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 3, 2011

STUTSMAN RURAL WATER DISTRICT
 Jamestown, North Dakota
 SUPPLEMENTARY INFORMATION – continued
 Year Ended June 30, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor Program Grant Title	Federal CFDA #	Pass-through Grantor's #	Expenditures
U.S. Department of Agriculture Passed Through North Dakota Rural Water Finance Corporation Water and Waste Disposal Systems for Rural Communities	10.760		\$ 381,287
Environmental Protection Agency Passed Through State Department of Health State and Tribal Assistance Grants (1)	66.202	#XP968017-01	325,678
ARRA - Capitalization Grants for Clean Water State Revolving Funds (2)	66.458	380929-01	360,156
Total Environmental Protection Agency			685,834
Total Federal Awards			\$ 1,067,121
(1) Major program			
(2) State Revolving Loan including commingled funds			
State Revolving Loan Balances at year end:			
Water system improvement revenue bonds series 2000			\$ 375,000
Water system improvement revenue bonds series 2004			151,000
Water system improvement revenue bonds series 2006			943,000
Wastewater revenue bonds of 2009			4,213,805
Revenue bond anticipation note			381,287

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. Summary of Audit Results

Type of auditors' report issued - unqualified

Internal control over financial reporting

Material weakness(es) identified yes X no

Significant deficiency(ies) identified that are not
considered to be material weaknesses? yes X 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 - unqualified

Identification of Major Programs

66.202 – State and Tribal Assistance Grants

Dollar threshold used to distinguish between type A and
type B programs \$300,000

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*.

1. None

C. Findings and Questioned Costs for Federal Awards Which Must Include Audit Findings as Defined in Section 510(a) of Circular A-133.

1. None

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2011

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **STUTSMAN RURAL WATER DISTRICT** and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

STUTSMAN RURAL WATER DISTRICT
Stutsman County, North Dakota

REPORT ON FINANCIAL STATEMENTS
(with supplementary information)
Years Ended June 30, 2010 and 2009



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INDEPENDENT AUDITORS' REPORT

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota

We have audited the accompanying statements of net assets of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of **STUTSMAN RURAL WATER DISTRICT'S** management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2010 and 2009 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2010 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 performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, 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.

INDEPENDENT AUDITORS' REPORT - continued

Our audit was conducted for the purpose of forming an opinion on the financial statements of **STUTSMAN RURAL WATER DISTRICT** as a whole. 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements.

Schauwer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 1, 2010

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

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, 2010 and 2009. This information is presented in conjunction with the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net assets decreased by \$15,747 or .3 % from \$5,244,467 to \$5,228,720.
- Operating revenues increased by \$10,358 or 1.2% from \$849,679 to \$860,037.
- Operating expenses increased by \$75,630 or 10.2 % from \$744,599 to \$820,229.
- For the fiscal year ended June 30, 2010, the District delivered 94.6 million gallons of water.

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 assets 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 assets identifies the District's revenues and expenses for the fiscal years ended June 30, 2010 and 2009. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

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

Financial Analysis of the District

The statement of net assets (page 7) and the statement of revenues, expenses and changes in nets assets (page 8) 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 assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2010 and 2009

NET ASSETS

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

Table I
CONDENSED STATEMENTS OF NET ASSETS
 June 30, 2010 and 2009

	2010	2009	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 691,268	\$ 580,274	\$ 110,994	19.1%
Other assets	303,790	129,377	174,413	134.8
Capital assets	10,979,287	8,126,285	2,853,002	35.1
Total Assets	<u>\$11,974,345</u>	<u>\$ 8,835,936</u>	<u>3,138,409</u>	<u>35.5%</u>
LIABILITIES				
Current liabilities	\$ 563,729	\$ 1,182,455	\$ (618,726)	(52.3)%
Non-current liabilities	6,181,896	2,409,014	3,772,882	156.6
Total Liabilities	<u>6,745,625</u>	<u>3,591,469</u>	<u>3,154,156</u>	<u>87.8</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,299,793	4,592,670	(292,878)	(6.4)
Restricted for debt service	254,004	85,978	168,026	195.4
Unrestricted	674,923	565,819	109,105	19.3
Total Net Assets	<u>5,228,720</u>	<u>5,244,467</u>	<u>(15,747)</u>	<u>(0.3)</u>
Total Liabilities and Net Assets	<u>\$11,974,345</u>	<u>\$ 8,835,936</u>	<u>\$3,138,409</u>	<u>35.5%</u>

As the above table indicates, total assets increased by \$3,138,409 during the fiscal year ended June 30, 2010. This is comprised of an increase in current assets of \$110,994, an increase in other assets of \$174,413 and an increase in capital assets of \$2,853,002.

Total liabilities reflect an increase of \$3,154,156. This includes an increase of \$3,772,882 in long-term debt as the District financed part of the Great River Energy water supply and continued to make the scheduled debt service payments on existing debt and a decrease of \$618,726 in current liabilities reflecting a decrease in accounts payable incurred primarily for construction projects.

Table I also indicates that total net assets decreased by \$15,747. This decrease is the result of operations and a net increase in member capital.

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

Table II indicates that the District's total revenues increased by \$10,358 or 1.2% to \$849,679 from \$860,037 in the prior year. Total expenses increased by \$85,262 or 10.6% from the prior year.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2010 and 2009

Table II
**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**
Years Ended June 30, 2010 and 2009

	2010	2009	Dollar Change	Percent Change
Operating revenues	\$ 860,037	\$ 849,679	\$ 10,358	1.2%
Operations and maintenance expenses	461,470	422,203	39,267	9.2
Administrative expenses	358,759	322,396	36,363	11.3
Non-operating expenses	68,055	58,423	9,632	16.5
Total expenses	<u>888,284</u>	<u>803,022</u>	<u>85,262</u>	<u>10.6</u>
Income (loss) before contributions	(28,247)	46,657	(74,904)	(160.5)
Capital contributions	12,500	35,160	(22,660)	(64.4)
Change in net assets	<u>(15,747)</u>	<u>81,817</u>	<u>(97,564)</u>	<u>(119.2)</u>
Total net assets -- beginning	5,244,467	5,162,650	81,817	1.6
Total net assets -- ending	<u>\$5,228,720</u>	<u>\$ 5,244,467</u>	<u>\$ (15,747)</u>	<u>(.3)%</u>

Capital Assets

As of June 30, 2010, the District's investment in capital assets totaled \$10,979,287, which is an increase of \$2,853,002 or 35.1 % over the capital asset balance of \$8,126,285 at June 30, 2009. Capital assets include all of the District's major capital assets, including land, buildings, lines, reservoirs, wells, equipment, tools and vehicles. A comparison of the District's capital assets over the past two years is presented in Table III.

Included among the capital projects completed during the fiscal year were new shop addition (\$109,613), Reservoir 4 improvements (\$71,724), meters and meter assembly parts (\$18,275) and other miscellaneous items.

Table III
CAPITAL ASSETS
June 30, 2010 and 2009

	2010	2009	Dollar Change	Percent Change
Land	\$ 50,692	\$ 50,692	\$	%
Office and shop building	294,106	184,493	109,613	59.4
Lines and equipment	8,133,013	8,114,738	18,275	.2
Reservoirs and equipment	3,068,229	2,989,847	78,382	2.6
Wells and equipment	63,127	63,127		
Office equipment	47,194	45,275	1,919	4.2
Equipment and tools	114,064	108,592	5,472	5.0
Construction in progress	4,232,891	1,318,768	2,914,123	220.9
Total	<u>16,003,316</u>	<u>12,875,532</u>	<u>3,127,784</u>	<u>24.3</u>
Less accumulated depreciation	<u>(5,024,029)</u>	<u>(4,749,247)</u>	<u>(274,782)</u>	<u>5.8</u>
Total Capital Assets (net of depreciation)	<u>\$10,979,287</u>	<u>\$ 8,126,285</u>	<u>\$2,853,002</u>	<u>35.1%</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2010 and 2009

Long-Term Debt

As of June 30, 2010, the District had \$6,596,277 in outstanding long-term debt compared to \$2,539,086 as of June 30, 2009. The increase of \$4,057,191 represents additional debt to finance the Great River Energy Spiritwood Station project construction less principal payments made during the fiscal year.

	2010	2009
Bank of North Dakota	\$ 781,730	\$ 819,410
Bank of North Dakota	61,144	63,676
ND Public Finance Agency	410,000	440,000
ND Public Finance Agency	160,000	169,000
ND Public Finance Agency	995,000	1,047,000
ND Public Finance Agency	4,113,649	
Unison Bank	74,754	
	<u>\$ 6,596,277</u>	<u>\$ 2,539,086</u>

Additional information on the District's long-term debt is provided in note 6 (page 15) of the financial statements.

Economic Factors and Next Year's Budget and Rates

A modest increase in revenue is expected as well as the addition of approximately 60 new members during the fiscal year ending June 30, 2011. Expenses are expected to increase an average of 3%. A water rate increase is effective at the start of the new fiscal year beginning July 1, 2010. The majority of the new members will be added to the water system through the construction of Phase 1 of the District's Capital Improvement and Expansion Project which has a completion deadline of June 15, 2011. The start up date for the Great River Energy Treated Waste Water Delivery and Return Project has been delayed by GRE until October of 2011. The District will receive income from that project during the current fiscal year based on the minimum flows required in the contract.

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 P.O. Box 547, Jamestown, North Dakota 58402-0547.

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

ASSETS	June 30	
	2010	2009
Current Assets:		
Cash and cash equivalents	\$ 592,037	\$ 488,604
Accounts receivable, trade	67,573	57,983
Inventories	29,882	31,389
Prepaid expenses	1,776	2,298
	<u>691,268</u>	<u>580,274</u>
Total Current Assets		
Other Assets:		
Investments restricted for debt service	254,004	85,978
Investments in cooperatives	49,066	43,124
Debt issuance costs (net of accumulated amortization of \$1,225 and \$925 as of June 30, 2008 and 2007)	720	275
	<u>303,790</u>	<u>129,377</u>
Total Other Assets		
Capital Assets:		
Land	50,692	50,692
Office and shop building	294,106	184,493
Lines and equipment	8,133,013	8,114,738
Reservoirs and equipment	3,068,229	2,989,847
Wells and equipment	63,127	63,127
Office equipment	47,194	45,275
Equipment and tools	114,064	108,592
Construction in progress	4,232,891	1,318,768
Less accumulated depreciation	(5,024,030)	(4,749,247)
	<u>10,979,286</u>	<u>8,126,285</u>
Net Capital Assets		
Total Assets	<u>\$ 11,974,344</u>	<u>\$ 8,835,936</u>

The accompanying notes are an integral part of these financial statements

	June 30	
	2010	2009
LIABILITIES AND NET ASSETS.		
Current Liabilities:		
Accounts payable	\$ 98,092	\$ 1,015,326
Customer deposits	13,050	1,200
Accrued interest payable	38,206	35,857
Bonds, notes and loans payable	414,381	130,072
Total Current Liabilities	563,729	1,182,455
Non-Current Liabilities:		
Bonds, notes and loans payable	6,181,896	2,409,014
Total Liabilities	6,745,625	3,591,469
Net Assets:		
Invested in capital assets, net of related debt	4,299,793	4,592,670
Restricted for debt service	254,004	85,978
Unrestricted	674,923	565,819
Total Net Assets	5,228,720	5,244,467
 Total Liabilities and Net Assets	 \$ 11,974,345	 \$ 8,835,936

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Water sales	\$ 318,478	\$ 301,208
Service charges	486,140	477,804
Other charges	55,419	70,667
Total Operating Revenues	860,037	849,679
 OPERATING EXPENSES		
Operation and maintenance expenses	461,470	422,203
Administrative expenses	358,759	322,396
Total Operating Expenses	820,229	744,599
 Operating Income	39,808	105,080
 NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	14,419	14,011
Lease income	16,802	
Gain on disposition of equipment		4,800
Miscellaneous revenue (expense)		(250)
Interest expense	(99,276)	(76,984)
Total Non-Operating Revenues (Expenses)	(68,055)	(58,423)
 Income (loss) before capital contributions	(28,247)	46,657
 CAPITAL CONTRIBUTIONS		
Net change in member fees	12,500	35,160
Total Capital Contributions	12,500	35,160
 Change in Net Assets	(15,747)	81,817
 Total Net Assets - Beginning	5,244,467	5,162,650
 Total Net Assets - Ending	\$ 5,228,720	\$ 5,244,467

The accompanying notes are an integral part of these financial statements

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Cash received from customers	\$ 844,673	\$ 851,273
Cash paid to suppliers and employees	(537,034)	(458,761)
Net Cash Provided by Operating Activities	307,639	392,512
 Cash Flows From Investing Activities		
Proceeds from redemption of investments in cooperatives	402	392
Other income (expense)	16,802	(250)
Interest income	8,075	7,972
Net Cash Provided by Investing Activities	25,279	8,114
 Cash Flows From Capital and Related Financing Activities		
Purchase/construction of capital assets	(4,039,997)	(374,923)
Sale of capital assets		4,800
Increase in restricted cash	(168,026)	(19,256)
Proceeds from issuance of long-term debt	4,204,602	
Principal payments on debt	(147,410)	(126,069)
Interest paid on borrowings	(96,928)	(78,731)
Net change in memberships	12,500	35,160
Net Cash Used in Capital and Related Financing Activities	(235,259)	(559,019)
 Increase (Decrease) in Cash and Cash Equivalents	97,659	(158,393)
 Cash and Cash Equivalents at Beginning of Year	488,604	646,997
 Cash and Cash Equivalents at End of Year	\$ 586,263	\$ 488,604

The accompanying notes are an integral part of these financial statements

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating Income	\$ 39,808	\$ 105,080
Adjustments		
Depreciation and amortization	275,238	271,285
Changes in Assets and Liabilities		
Receivables	(15,364)	1,593
Inventories	1,507	(1,140)
Prepaid expenses	522	557
Accounts payable	(5,922)	15,587
Customer deposits	11,850	(450)
Net Cash Provided by Operating Activities	<u>\$ 307,639</u>	<u>\$ 392,512</u>

Schedule of Noncash Capital and Related Financing Activities

Additions to construction of capital assets	<u>\$ 83,217</u>	<u>\$ 994,529</u>
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STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

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. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) statements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 assets (i.e., total assets net of total liabilities) are segregated into *invested in capital assets, net of related debt; 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, 2010 and 2009

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, 2010 and 2009, the District's deposits are fully insured or collateralized with securities held by the financial institutions in the District's name or guaranteed by the FDIC's Transaction Account Guarantee Program. (See note 2)

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

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
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

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.

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.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

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 Net Assets when earned. Contributions include grants in support of system improvements and member fees.

L. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt - 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 assets 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 assets 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 assets) amounts were \$846,041 and \$574,582 for June 30, 2010 and 2009, respectively. The bank balances were \$1,037,575 and \$605,658 for June 30, 2010 and 2009, respectively. All bank balances were covered by federal depository insurance and/or pledge of assets.

All Certificates of Deposit held and some of the savings at June 30, 2010 and 2009 are considered reserved for debt service and not available for current operations.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

2. Cash and Cash Equivalents - continued

The following reconciles deposits to cash and cash equivalents as presented in the balance sheet:

	<u>2010</u>	<u>2009</u>
Disclosures regarding deposits		
Cash on hand	\$ 249	\$ 222
Deposits	782,292	510,860
Certificates of deposit	<u>63,500</u>	<u>63,500</u>
Total	<u>\$ 846,041</u>	<u>\$ 574,582</u>
Statements of net assets and cash flow amounts		
Cash and cash equivalents - unrestricted	\$ 592,037	\$ 488,604
Investments restricted for debt service	190,504	22,478
Certificates of deposit - over 3 months - restricted	<u>63,500</u>	<u>63,500</u>
Total	<u>\$ 846,041</u>	<u>\$ 574,582</u>

3. Accounts Receivable, Trade

The District primarily provides a water system to residents of Stutsman, Foster, Lamoure and Griggs Counties. The District extends credit to customers, substantially all of whom are local residents.

Accounts written off as uncollectible were \$761 and \$366 in 2010 and 2009, respectively. In management's opinion, there are no material accounts which are uncollectible.

4. 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.

5. Capital Assets

Capital asset activity during the year was as follows:

	<u>June 30 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2010</u>
Capital assets not being depreciated:				
Land	\$ 50,692	\$	\$	\$ 50,692
Construction in progress	<u>1,318,768</u>	<u>3,095,461</u>	<u>181,338</u>	<u>4,232,891</u>
Total Assets not being depreciated	<u>1,369,460</u>	<u>3,095,461</u>	<u>181,338</u>	<u>4,283,583</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

5. Capital Assets - continued

	June 30 <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	June 30 <u>2010</u>
Capital assets being depreciated:				
Office & shop building	184,493	109,613		294,106
Lines and equipment	8,114,738	18,275		8,133,013
Reservoirs and equipment	2,989,847	78,382		3,068,229
Wells and equipment	63,127			63,127
Office equipment	45,275	1,919		47,194
Equipment and tools	108,592	5,472		114,064
Total capital assets being depreciated	11,506,072	213,661		11,719,733
Less accumulated depreciation	<u>(4,749,247)</u>	<u>(274,782)</u>		<u>(5,024,029)</u>
Net Capital Assets	<u>\$ 8,126,285</u>	<u>\$3,034,340</u>	<u>\$ 181,338</u>	<u>\$10,979,287</u>

Depreciation expense included with operating expenses was \$265,803 in 2010 and \$264,098 in 2009. Administrative expenses included \$8,980 of depreciation in 2010 and \$6,887 in 2009.

6. Bonds, Notes and Loans Payable

The following is a summary of bonds, notes and loans payable transactions of the District for the year ended June 30, 2010:

	June 30 <u>2009</u>	<u>Issued</u>	<u>Retired</u>	June 30 <u>2010</u>	Due In <u>One Year</u>
Bank of North Dakota, 1985	\$ 819,410	\$	\$37,680	\$ 781,730	\$ 38,789
Bank of North Dakota, 1987	63,676		2,532	61,144	2,612
ND Public Finance Agency	440,000		30,000	410,000	35,000
ND Public Finance Agency	169,000		9,000	160,000	9,000
ND Public Finance Agency	1,047,000		52,000	995,000	52,000
ND Public Finance Agency		4,113,649		4,113,649	260,000
Unison Bank		90,953	16,199	74,754	16,980
	<u>\$ 2,539,086</u>	<u>\$4,204,602</u>	<u>\$ 147,411</u>	<u>\$ 6,596,277</u>	<u>\$ 414,381</u>

	<u>2010</u>	<u>2009</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	\$ 781,730	\$ 819,410

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	61,144	63,676
--	--------	--------

STUTSMAN RURAL WATER DISTRICT
 Jamestown, North Dakota
 NOTES TO FINANCIAL STATEMENTS - continued
 Years Ended June 30, 2010 and 2009

6. Bonds, Notes and Loans Payable - continued

	2010	2009
North Dakota Public Finance Agency Water System Improvement 2.5% Revenue Bonds Series 2000, dated April 11, 2000, 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	410,000	440,000
North Dakota Public Finance Agency 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	160,000	169,000
North Dakota Public Finance Agency 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	995,000	1,047,000
North Dakota Public Finance Agency .5 % Wastewater Revenue Bonds Series 2009, dated June 1, 2009, due in annual installments from \$260,000 to \$290,000 beginning September 1, 2010 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 \$292,150 required to be funded over five years	4,113,649	
6.5% note payable to Unison Bank, dated July 8, 2009, due in 9 semi-annual payments of \$10,815 (including principal and interest) starting January 1, 2010, secured by a real estate mortgage	74,754	
	6,596,277	2,539,086
Less current maturities	414,381	130,072
	\$ 6,181,896	\$ 2,409,014

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

6. Bonds, Notes and Loans Payable - continued

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>
2011	\$ 414,381	\$ 71,889	\$ 486,270
2012	426,761	66,797	493,558
2013	429,253	61,529	490,782
2014	434,567	56,105	490,672
2015	418,597	50,855	469,452
2016 – 2020	2,195,814	186,286	2,382,100
2021 – 2025	2,160,399	59,938	2,220,337
2026 – 2028	116,505	2,577	119,082
	<u>\$ 6,596,277</u>	<u>\$ 555,976</u>	<u>\$ 7,152,253</u>

7. Defined Contribution Plan

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

Contributions are determined as 8% of each covered employee's salary up to \$20,000 and 1% above \$20,000. In addition, the District will match up to 2% of employees' contributions. Total pension expenses were \$9,212 in 2010 and \$7,946 in 2009.

8. 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.

9. 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. Vacation is calculated on the calendar year and computed on December 31 of each year and must be used in the following calendar year. There is no carryover to a subsequent year. As of June 30, 2010 and 2009, the liability for accrued vacation is approximately \$7,342 and \$6,836, respectively, which have not been accrued on the books.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2010 and 2009

10. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net asset amounts were as follows:

	<u>2010</u>	<u>2009</u>
Invested in Capital Assets, Net of Related Debt		
Net capital assets	\$ 10,979,287	\$ 8,126,285
Debt as disclosed in note 6	(6,596,277)	(2,539,086)
Account payable, construction project	<u>(83,217)</u>	<u>(994,529)</u>
	<u>4,299,793</u>	<u>4,592,670</u>
 Restricted for Debt Service		
Required reserve by ND Public Finance Agency	<u>254,004</u>	<u>85,978</u>
 Unrestricted	<u>674,923</u>	<u>565,819</u>
 Total Net Assets	<u>\$ 5,228,720</u>	<u>\$ 5,244,467</u>

Not correct

11. Construction Commitments

The District is currently working on the Great River Energy Spiritwood Station Reservoir construction project. The District has signed construction agreements totaling \$3,224,928 of which \$3,124,928 has been incurred up to June 30, 2010. The total balance due on the agreements is \$100,000.

12. Lease Commitments

The District has entered into a lease agreement with Great River Energy, a Minnesota cooperative corporation for the transportation of treated wastewater to and from the City of Jamestown and Great River Energy Spiritwood Station. The lease consists of a fixed component covering the cost of the transportation facilities amortized over 20 years and the funding of a required reserve account for the first five years and a variable fee component for the flow of treated wastewater to and discharge from the Station. As of June 30, 2010, operations had not yet commenced and \$16,802 had been recorded as lease income.

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2010 and 2009

OPERATION AND MAINTENANCE EXPENSES

	2010	2009
Operating supplies	\$ 15,160	\$ 18,338
Water purchase, Ramsey Rural Water	6,406	2,616
Water purchase, City of Jamestown	10,667	
Power for pumping	61,541	53,729
Small tools expense	2,880	2,490
Chemicals	25,666	22,018
Repairs and maintenance	51,448	35,582
Mobile and site telephone	3,416	3,061
Water testing	816	1,604
Vehicle and travel expense	16,495	17,940
Consumer confidence report	1,172	728
Depreciation	265,803	264,098
Total Operation and Maintenance Expenses	\$ 461,470	\$ 422,203

ADMINISTRATIVE EXPENSES

	2010	2009
Salaries	\$ 198,187	\$ 170,512
Payroll taxes	19,054	14,779
Insurance, general	5,798	5,462
Insurance, group	45,962	52,771
Board and employee training	5,351	2,777
Office supplies and expense	2,234	2,231
Employee uniforms	766	921
Postage	5,826	5,725
Telephone	3,687	3,292
Professional services	22,824	19,594
Licenses, fees and permits	1,424	1,229
Directors' fees	8,832	11,582
Repairs and maintenance	5,414	3,352
Dues and subscriptions	1,521	1,619
Travel and meetings	870	1,074
Bad debts	761	366
Utilities	4,143	3,555
Pension expense	9,212	7,946
Depreciation	8,980	6,887
Amortization	455	300
Miscellaneous	7,458	6,422
Total Administrative Expenses	\$ 358,759	\$ 322,396

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2010 and 2009

SCHEDULE OF MEMBERS

Number			Amount	
2010	2009	Users fees	2010	2009
1,211	1,185	\$350 Members (after refunds)	\$ 423,850	\$ 414,750
22	28	New	7,700	9,800
	2	New from nonqualified		700
	1	New from Phase III		350
(4)	(5)	Terminated	(1,400)	(1,750)
<u>1,229</u>	<u>1,211</u>	Balance	<u>\$ 430,150</u>	<u>\$ 423,850</u>
		Users Fees - No Curb Stops		
1	1	\$350 Members	\$ 350	\$ 350
<u>1</u>	<u>1</u>	Balance	<u>350</u>	<u>350</u>
		Forfeited member and user fees	<u>\$ 82,600</u>	<u>\$ 81,200</u>
		Memberships		
179	184	Memberships no hookups	\$ 8,950	\$ 9,200
	(2)	Transfer to user fees		(100)
	(3)	Transfer to Phase III		(150)
<u>179</u>	<u>179</u>		<u>\$ 8,950</u>	<u>\$ 8,950</u>
		User Fees		
<u>1</u>		\$600 Members	<u>\$ 600</u>	<u>\$</u>
		Memberships Phase III		
470	3	Transfer from nonqualified	\$ 24,560	\$ 150
73	468	New	4,200	24,460
	(1)	Transfer to user fees		(50)
<u>543</u>	<u>470</u>		<u>\$ 28,760</u>	<u>\$ 24,560</u>
		Total Fees and Users Equity	<u>\$ 551,410</u>	<u>\$ 538,910</u>

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2010 and 2009

SCHEDULE OF COSTS PER 1,000 GALLONS SOLD

Gallons Sold	2010		2009	
	Total	Per 1,000 Gallons Sold	Total	Per 1,000 Gallons Sold
Gallons Sold	94,635,576		88,757,182	
Operation and Maintenance Expenses	\$ 195,667	\$ 2.07	\$ 158,105	\$ 1.78
Administrative Expenses	349,779	3.70	315,509	3.55
Interest Expense	99,276	1.05	76,984	0.87
Depreciation Expense	274,783	2.90	270,985	3.05
	<u>\$ 919,505</u>	<u>\$ 9.72</u>	<u>\$ 821,583</u>	<u>\$ 9.25</u>

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2010 and 2009

SCHEDULE OF OPERATIONS - MANAGEMENT BASIS

	2010	2009
REVENUE		
Metered water sales	\$ 318,478	\$ 301,208
Service charge	486,140	477,804
Other charges	55,419	70,667
Total Revenue	860,037	849,679
OPERATIONS AND MAINTENANCE EXPENSES		
Operating supplies	15,160	18,338
Water purchase, Ramsey Rural Water	6,406	2,616
Water purchase, City of Jamestown	10,667	
Power for pumping	61,541	53,729
Small tools expense	2,880	2,490
Chemicals	25,666	22,018
Repairs and maintenance	51,448	35,582
Mobile and site telephone	3,416	3,061
Water testing	816	1,604
Vehicle and travel expense	16,495	17,940
Consumer confidence report	1,172	728
Depreciation	265,803	264,098
Total Operation and Maintenance Expenses	461,470	422,203
ADMINISTRATIVE EXPENSES		
Salaries	198,187	170,512
Payroll taxes	19,054	14,779
Insurance, general	5,798	5,462
Insurance, group	45,962	52,771
Board and employee training	5,351	2,777
Office supplies and expense	2,234	2,231
Employee uniforms	766	921
Postage	5,826	5,725
Telephone	3,687	3,292
Professional services	22,824	19,594
Licenses, fees and permits	1,424	1,229
Directors' fees	8,832	11,582
Repairs and maintenance	5,414	3,352
Dues and subscriptions	1,521	1,619
Travel and meetings	870	1,074
Bad debts	761	366
Utilities	4,143	3,555
Pension expense	9,212	7,946
Depreciation	8,980	6,887
Amortization expense	455	300
Miscellaneous	7,458	6,422
Total Administrative Expenses	358,759	322,396
Total Expenses	820,229	744,600
INCOME FROM OPERATIONS	\$ 39,808	\$ 105,080

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2010 and 2009

SCHEDULE OF CHANGES IN NET ASSETS

	Fees and Users Equity	Construction Equity	Forfeited Equity	Cumulative Net Income (Loss)	Total Retained Earnings	Contributed Capital
Balance, June 30, 2008	\$ 424,300	\$ 18,200	\$ 79,450	\$ (459,300)	\$ 62,650	\$ 5,100,000
New members	35,160				35,160	
Terminated members	(1,750)		1,750			
Net income				46,657	46,657	
Decrease (increase) in accumulated deficit	33,410		1,750	46,657	81,817	
Balance, June 30, 2009	457,710	18,200	81,200	(412,643)	144,467	5,100,000
New members	12,500				12,500	
Terminated members	(1,400)		1,400			
Net income (loss)				(28,247)	(28,247)	
Decrease (increase) in accumulated deficit	11,100		1,400	(28,247)	(15,747)	
Balance, June 30, 2010	\$ 468,810	\$ 18,200	\$ 82,600	\$ (440,890)	\$ 128,720	\$ 5,100,000



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 the financial statements of **STUTSMAN RURAL WATER DISTRICT**, as of and for the years ended June 30, 2010 and 2009 and have issued our report thereon dated October 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **STUTSMAN RURAL WATER DISTRICT'S** financial statements are free of 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*.

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

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schauer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 1, 2010



Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, ND

Compliance

We have audited the compliance of **STUTSMAN RURAL WATER DISTRICT** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. **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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **STUTSMAN RURAL WATER DISTRICT'S** management. Our responsibility is to express an opinion on **STUTSMAN RURAL WATER DISTRICT'S** compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on **STUTSMAN RURAL WATER DISTRICT'S** compliance with those requirements.

In our opinion, **STUTSMAN RURAL WATER DISTRICT**, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of **STUTSMAN RURAL WATER DISTRICT**, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **STUTSMAN RURAL WATER DISTRICT'S** internal control over compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB A-133 -continued 2

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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schauer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 1, 2010

STUTSMAN RURAL WATER DISTRICT
 Jamestown, North Dakota
 SUPPLEMENTARY INFORMATION – continued
 Year Ended June 30, 2010

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 State Department of Health ARRA - Capitalization Grants for Clean Water State Revolving Funds (1) (2)	66.458	380929-01	<u>\$ 2,932,538</u>

(1) Major program

(2) State Revolving Loan including commingled funds

State Revolving Loan Balances at year end:

Water system improvement revenue bonds series 2000	\$ 410,000
Water system improvement revenue bonds series 2004	160,000
Water system improvement revenue bonds series 2006	995,000
Wastewater revenue bonds of 2009	4,113,649

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. Summary of Audit Results

Type of auditors' report issued - unqualified

Internal control over financial reporting

Material weakness(es) identified yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X 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 - unqualified

Identification of Major Programs

66.458 - ARRA - Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? yes X no

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

1. None

C. Findings and Questioned Costs for Federal Awards Which Must Include Audit Findings as Defined in Section 510(a) of Circular A-133.

1. None

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2010

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **STUTSMAN RURAL WATER DISTRICT** and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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STUTSMAN RURAL WATER DISTRICT
Stutsman County, North Dakota

REPORT ON FINANCIAL STATEMENTS
(with supplementary information)
Years Ended June 30, 2009 and 2008



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S/A

Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Ronald R. Fuchs, C
Duane R. Dunn, C
Robert A. Platz, C

INDEPENDENT AUDITORS' REPORT

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota

We have audited the accompanying statements of net assets of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of **STUTSMAN RURAL WATER DISTRICT'S** management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **STUTSMAN RURAL WATER DISTRICT** as of June 30, 2009 and 2008 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2009 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 performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT - continued

Our audit was conducted for the purpose of forming an opinion on the financial statements of **STUTSMAN RURAL WATER DISTRICT** as a whole. 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements.

Schauwer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 6, 2009

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009 and 2008

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, 2009 and 2008. This information is presented in conjunction with the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net assets increased by \$81,817 or 1.6 % from \$5,162,650 to \$5,244,467.
- Operating revenues increased by \$41,151 or 5% from \$808,528 to \$849,679.
- Operating expenses increased by \$71,649 or 10.6 % from \$672,952 to \$744,599.
- For the fiscal year ended June 30, 2009, the District delivered 88.7 million gallons of water.

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 assets 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 assets identifies the District's revenues and expenses for the fiscal years ended June 30, 2009 and 2008. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

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

Financial Analysis of the District

The statement of net assets (page 7) and the statement of revenues, expenses and changes in nets assets (page 8) provide an indication of the District's financial condition and also indicates that the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2009 and 2008

NET ASSETS

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

Table I
CONDENSED STATEMENTS OF NET ASSETS
 June 30, 2009 and 2008

	2009	2008	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 580,274	\$ 739,677	\$ (159,403)	(21.6) %
Other assets	129,377	104,775	24,602	23.5
Capital assets	8,126,285	7,027,817	1,098,468	15.6
Total Assets	<u>\$ 8,835,936</u>	<u>\$ 7,872,269</u>	<u>\$ 963,667</u>	<u>12.2%</u>
LIABILITIES				
Current liabilities	\$ 1,182,455	\$ 170,487	\$ 1,011,968	593.6
Non-current liabilities	2,409,014	2,539,132	(130,118)	(5.1)
Total Liabilities	<u>3,591,469</u>	<u>2,709,619</u>	<u>881,850</u>	<u>32.5</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,592,670	4,362,663	230,007	5.3
Restricted for debt service	85,978	66,722	19,256	28.9
Unrestricted	565,819	733,265	(167,446)	(22.8)
Total Net Assets	<u>5,244,467</u>	<u>5,162,650</u>	<u>81,817</u>	<u>1.6</u>
Total Liabilities and Net Assets	<u>\$ 8,835,936</u>	<u>\$ 7,872,269</u>	<u>\$ 963,667</u>	<u>12.2%</u>

As the above table indicates, total assets increased by \$963,667 during the fiscal year ended June 30, 2009. This is comprised of a decrease in current assets of \$159,403, an increase in other assets of \$24,602 and an increase in capital assets of \$1,098,468.

Total liabilities reflect an increase of \$881,850. This includes a decrease of \$130,118 in long-term debt as the District continued to make the scheduled debt service payments and an increase of \$1,011,968 in current liabilities reflecting an increase in accounts payable incurred primarily for construction projects.

Table I also indicates that total net assets increased by \$81,817. This increase is the result of operations and a net increase in member capital.

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

Table II indicates that the District's total revenues increased by \$41,151 or 5.1% to \$849,679 from \$808,528 in the prior year. Total expenses increased by \$78,021 or 10.8% during the fiscal year.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2009 and 2008

Table II
CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009	2008	Dollar Change	Percent Change
Operating revenues	\$ 849,679	\$ 808,528	\$ 41,151	5.1 %
Operations and maintenance expenses	422,203	376,332	45,871	12.2
Administrative expenses	322,396	296,620	25,776	8.7
Non-operating expenses	58,423	52,050	6,373	12.2
Total expenses	803,022	725,002	78,020	10.8
Income before contributions	46,657	83,526	(36,869)	(44.1)
Capital contributions	35,160	5,500	29,660	539.3
Change in net assets	81,817	89,026	(7,209)	(8.1)
Total net assets – beginning	5,162,650	5,073,624	89,026	1.8
Total net assets – ending	\$ 5,244,467	\$ 5,162,650	\$ 81,817	1.6%

Capital Assets

As of June 30, 2009, the District's investment in capital assets totaled \$8,126,285, which is an increase of \$1,098,468 or 15.6 % over the capital asset balance of \$7,027,817 at June 30, 2008. Capital assets include all of the District's major capital assets, including land, buildings, lines, reservoirs, wells, equipment, tools and vehicles. A comparison of the District's capital assets over the past two years is presented in Table III.

Included among the capital projects completed during the fiscal year were 3" valve repairs (\$4,840), Reservoir 1 catwalk (\$7,247), GIS mapping update (\$6,872), 2008 pickup (\$18,530), meters and meter assembly parts (\$14,118) and other miscellaneous items.

Table III
CAPITAL ASSETS
June 30, 2009 and 2008

	2009	2008	Dollar Change	Percent Change
Land	\$ 50,692	\$ 50,692	\$	%
Office and shop building	184,493	184,493		
Lines and equipment	8,114,738	8,088,908	25,830	.3
Reservoirs and equipment	2,989,847	2,982,600	7,247	.2
Wells and equipment	63,127	63,127		
Office equipment	45,275	47,171	(1,896)	(.4)
Equipment and tools	108,592	113,223	(4,631)	(.4)
Construction in progress	1,318,768		1,318,768	100.0
Total	12,875,532	11,530,214	1,345,318	11.7
Less accumulated depreciation	(4,749,247)	(4,502,397)	(246,850)	5.5
Total Capital Assets (net of depreciation)	\$ 8,126,285	\$ 7,027,817	\$ 1,098,468	15.6%

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
June 30, 2009 and 2008

Long-Term Debt

As of June 30, 2009, the District had \$2,539,086 in outstanding long-term debt compared to \$2,665,155 as of June 30, 2008. The decrease of \$126,069 represents principal payments made during the fiscal year.

	2009	2008
Bank of North Dakota	\$ 819,410	\$ 855,994
Bank of North Dakota	63,676	66,141
ND Municipal Bond Bank	440,000	470,000
ND Municipal Bond Bank	169,000	178,000
ND Municipal Bond Bank	1,047,000	1,095,020
	<u>\$ 2,539,086</u>	<u>\$ 2,665,155</u>

Additional information on the District's long-term debt is provided in note 6 (page 15) of the financial statements.

Economic Factors and Next Year's Budget and Rates

A slight increase in revenue and the addition of approximately 20 new members is expected during the fiscal year ending June 30, 2010. Expenses are expected to increase an average of 3%. Water rates have not been adjusted since 1999. A modest increase in water rates is anticipated in the next fiscal year. The Great River Energy Treated Waste Water Delivery and Return Project is expected to be completed and operational by June 1, 2010. Income may not be realized from the project until fiscal 2010/2011.

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 P.O. Box 547, Jamestown, North Dakota 58402-0547.

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

	June 30	
ASSETS	2009	2008
Current Assets:		
Cash and cash equivalents	\$ 488,604	\$ 646,997
Accounts receivable, trade	57,983	59,576
Inventories	31,389	30,249
Prepaid expenses	2,298	2,855
	580,274	739,677
Total Current Assets		
Other Assets:		
Investments restricted for debt service	85,978	66,722
Investments in cooperatives	43,124	37,478
Debt issuance costs (net of accumulated amortization of \$1,225 and \$925 as of June 30, 2008 and 2007)	275	575
	129,377	104,775
Total Other Assets		
Capital Assets:		
Land	50,692	50,692
Office and shop building	184,493	184,493
Lines and equipment	8,114,738	8,088,908
Reservoirs and equipment	2,989,847	2,982,600
Wells and equipment	63,127	63,127
Office equipment	45,275	47,171
Equipment and tools	108,592	113,223
Construction in progress	1,318,768	
Less accumulated depreciation	(4,749,247)	(4,502,397)
	8,126,285	7,027,817
Net Capital Assets		
Total Assets	\$ 8,835,936	\$ 7,872,269

The accompanying notes are an integral part of these financial statements

	June 30	
	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,015,326	\$ 5,210
Customer deposits	1,200	1,650
Accrued interest payable	35,857	37,604
Bonds, notes and loans payable	<u>130,072</u>	<u>126,023</u>
Total Current Liabilities	1,182,455	170,487
 Non-Current Liabilities:		
Bonds, notes and loans payable	<u>2,409,014</u>	<u>2,539,132</u>
Total Liabilities	<u>3,591,469</u>	<u>2,709,619</u>
 Net Assets:		
Invested in capital assets, net of related debt	4,592,670	4,362,663
Restricted for debt service	85,978	66,722
Unrestricted	<u>565,819</u>	<u>733,265</u>
Total Net Assets	<u>5,244,467</u>	<u>5,162,650</u>
 Total Liabilities and Net Assets	 <u>\$ 8,835,936</u>	 <u>\$ 7,872,269</u>

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Water sales	\$ 301,208	\$ 293,845
Service charges	477,804	469,644
Other charges	70,667	45,039
Total Operating Revenues	849,679	808,528
OPERATING EXPENSES		
Operation and maintenance expenses	422,203	376,332
Administrative expenses	322,396	296,620
Total Operating Expenses	744,599	672,952
Operating Income	105,080	135,576
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	14,011	16,513
Gain on disposition of equipment	4,800	12,000
Miscellaneous revenue (expense)	(250)	3,531
Interest expense	(76,984)	(84,094)
Total Non-Operating Revenues (Expenses)	(58,423)	(52,050)
Income before capital contributions	46,657	83,526
CAPITAL CONTRIBUTIONS		
Net change in member fees	35,160	5,500
Total Capital Contributions	35,160	5,500
Change in Net Assets	81,817	89,026
Total Net Assets - Beginning	5,162,650	5,073,624
Total Net Assets - Ending	\$ 5,244,467	\$ 5,162,650

The accompanying notes are an integral part of these financial statements

STUTSMAN RURAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Cash received from customers	\$ 851,273	\$ 806,934
Cash paid to suppliers and employees	(458,761)	(516,264)
Net Cash Provided by Operating Activities	392,512	290,670
 Cash Flows From Investing Activities		
Proceeds from redemption of investments in cooperatives	392	7,919
Other income (expense)	(250)	3,531
Interest income	7,972	14,132
Net Cash Provided by Investing Activities	8,114	25,582
 Cash Flows From Capital and Related Financing Activities		
Purchase/construction of capital assets	(374,923)	(82,416)
Sale of capital assets	4,800	12,000
Increase in restricted cash	(19,256)	(16,722)
Proceeds from issuance of long-term debt		99,713
Principal payments on debt	(126,069)	(189,905)
Interest paid on borrowings	(78,731)	(82,586)
Net change in memberships	35,160	5,500
Net Cash Used in Capital and Related Financing Activities	(559,019)	(254,416)
 Increase (Decrease) in Cash and Cash Equivalents	(158,393)	61,836
 Cash and Cash Equivalents at Beginning of Year	646,997	585,161
 Cash and Cash Equivalents at End of Year	\$ 488,604	\$ 646,997

The accompanying notes are an integral part of these financial statements

	<u>2009</u>	<u>2008</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 105,080	\$ 135,576
Adjustments		
Depreciation and amortization	271,285	269,031
Changes in Assets and Liabilities		
Receivables	1,593	(1,594)
Inventories	(1,140)	(12,126)
Prepaid expenses	557	(564)
Accounts payable	15,587	(100,028)
Customer deposits	(450)	375
Net Cash Provided by Operating Activities	<u>\$ 392,512</u>	<u>\$ 290,670</u>

Schedule of Noncash Capital and Related Financing Activities

Additions to construction of capital assets	<u>\$ 994,529</u>	<u>\$</u>
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STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2009 and 2008

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. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) statements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 assets (i.e., total assets net of total liabilities) are segregated into *invested in capital assets, net of related debt; 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, 2009 and 2008

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, 2009 and 2008, the District's deposits are fully insured or collateralized with securities held by the financial institutions in the District's name or guaranteed by the FDIC's Transaction Account Guarantee Program. (See note 2)

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

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
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

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.

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.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

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 Net Assets when earned. Contributions include grants in support of system improvements and member fees.

L. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt - 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 assets 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 assets 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 assets) amounts were \$574,582 and \$713,719 for June 30, 2009 and 2008, respectively. The bank balances were \$605,658 and \$731,393 for June 30, 2009 and 2008, respectively. All bank balances were covered by federal depository insurance and/or pledge of assets.

All Certificates of Deposit held at June 30, 2009 and 2008 are considered reserved for debt service and not available for current operations.

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

2. Cash and Cash Equivalents - continued

The following reconciles deposits to cash and cash equivalents as presented in the balance sheet:

	<u>2009</u>	<u>2008</u>
Disclosures regarding deposits		
Cash on hand	\$ 222	\$ 155
Deposits	510,860	650,064
Certificates of deposit	63,500	63,500
Total	<u>\$ 574,582</u>	<u>\$ 713,719</u>
Statements of net assets and cash flow amounts		
Cash and cash equivalents - unrestricted	\$ 488,604	\$ 646,997
Investments restricted for debt service	22,478	3,222
Certificates of deposit – over 3 months - restricted	63,500	63,500
Total	<u>\$ 574,582</u>	<u>\$ 713,719</u>

3. Accounts Receivable, Trade

The District primarily provides a water system to residents of Stutsman, Foster, Lamoure and Griggs Counties. The District extends credit to customers, substantially all of whom are local residents.

Accounts written off as uncollectible were \$366 and \$118 in 2009 and 2008, respectively. In management's opinion, there are no material accounts which are uncollectible.

4. 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.

5. Capital Assets

Capital asset activity during the year was as follows:

	<u>June 30 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2009</u>
Capital assets not being depreciated:				
Land	\$ 50,692	\$	\$	\$ 50,692
Construction in progress		1,318,768		1,318,768
Total Assets not being depreciated	<u>50,692</u>	<u>1,318,768</u>		<u>1,369,460</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

5. Capital Assets - continued

	June 30 2008	Additions	Deletions	June 30 2009
Capital assets being depreciated:				
Building	184,493			184,493
Lines and equipment	8,088,908	25,830		8,114,738
Reservoirs and equipment	2,982,600	7,247		2,989,847
Wells and equipment	63,127			63,127
Office equipment	47,171	1,394	3,290	45,275
Equipment and tools	113,223	18,530	23,161	108,592
Total capital assets being depreciated	11,479,522	53,001	26,451	11,506,072
Less accumulated depreciation	4,502,397	270,985	24,135	4,749,247
Net Capital Assets	<u>\$ 7,027,817</u>	<u>\$1,100,784</u>	<u>\$ 2,316</u>	<u>\$ 8,126,285</u>

Depreciation expense included with operating expenses was \$ 264,098 in 2009 and \$261,670 in 2008. Administrative expenses included \$6,887 of depreciation in 2009 and \$7,061 in 2008.

6. Bonds, Notes and Loans Payable

The following is a summary of bonds, notes and loans payable transactions of the District for the year ended June 30, 2009:

	June 30 2008	Issued	Retired	June 30 2009	Due In One Year
Bank of North Dakota, 1985	\$ 855,994	\$	\$36,584	\$ 819,410	\$ 36,521
Bank of North Dakota, 1987	66,141		2,465	63,676	2,551
ND Public Finance Agency	470,000		30,000	440,000	30,000
ND Public Finance Agency	178,000		9,000	169,000	9,000
ND Public Finance Agency	1,095,020		48,020	1,047,000	52,000
	<u>\$ 2,665,155</u>	<u>\$</u>	<u>\$126,069</u>	<u>\$ 2,539,086</u>	<u>\$ 130,072</u>

	2009	2008
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	\$ 819,410	\$ 855,994
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	63,676	66,141

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

6. Bonds, Notes and Loans Payable - continued

	<u>2009</u>	<u>2008</u>
North Dakota Public Finance Agency Water System Improvement 2.5% Revenue Bonds Series 2000, dated April 11, 2000, 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	440,000	470,000
North Dakota Public Finance Agency 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	169,000	178,000
North Dakota Public Finance Agency 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	1,047,000	1,095,020
	<u>2,539,086</u>	<u>2,665,155</u>
Less current maturities	130,072	126,023
	<u>\$ 2,409,014</u>	<u>\$ 2,539,132</u>

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>
2010	\$ 130,072	\$ 71,032	\$ 201,104
2011	137,401	67,239	204,640
2012	143,643	63,284	206,927
2013	144,923	59,230	204,153
2014	149,240	55,100	204,340
2015 – 2019	814,392	209,408	1,023,800
2020 – 2024	793,796	83,455	877,251
2025 – 2028	225,619	6,794	232,413
	<u>\$ 2,539,086</u>	<u>\$ 615,542</u>	<u>\$ 3,154,628</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

7. Defined Contribution Plan

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

Contributions are determined as 8% of each covered employee's salary up to \$20,000 and 1% above \$20,000. In addition, the District will match up to 2% of employees' contributions. Total pension expenses were \$7,946 in 2009 and \$7,296 in 2008.

8. 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.

9. 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. Vacation is calculated on the calendar year and computed on December 31 of each year and must be used in the following calendar year. There is no carryover to a subsequent year. As of June 30, 2009 and 2008, the liability for accrued vacation is approximately \$6,836 and \$5,994, respectively, which have not been accrued on the books.

10. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net asset amounts were as follows:

	2009	2008
Invested in Capital Assets, Net of Related Debt		
Net capital assets	\$ 8,126,285	\$ 7,027,817
Debt as disclosed in note 6	(2,539,086)	(2,665,154)
Account payable, construction project	(994,529)	
	<u>4,592,670</u>	<u>4,362,663</u>
Restricted for Debt Service		
Required reserve by ND Public Finance Agency	<u>85,978</u>	<u>66,722</u>
Unrestricted	<u>565,819</u>	<u>733,265</u>
Total Net Assets	<u>\$ 5,244,467</u>	<u>\$ 5,162,650</u>

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended June 30, 2009 and 2008

11. Construction Commitments

The District is currently working on the Great River Energy Spiritwood Station Reservoir construction project. The District has signed construction agreements totaling \$3,459,260 of which \$847,151 has been incurred up to June 30, 2009. The total balance due on the agreements is \$2,612,109.

SUPPLEMENTARY INFORMATION

**STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2009 and 2008**

OPERATION AND MAINTENANCE EXPENSES

	2009	2008
Operating supplies	\$ 18,338	\$ 6,039
Water purchase, Ramsey Rural Water	2,616	1,544
Power for pumping	53,729	47,403
Small tools expense	2,490	1,500
Chemicals	22,018	18,090
Repairs and maintenance	35,582	19,424
Mobile and site telephone	3,061	2,806
Water testing	1,604	935
Vehicle and travel expense	17,940	13,948
On call pay		2,646
Consumer confidence report	728	327
Depreciation	264,098	261,670
Total Operation and Maintenance Expenses	\$ 422,203	\$ 376,332

ADMINISTRATIVE EXPENSES

	2009	2008
Salaries	\$ 170,512	\$ 150,276
Payroll taxes	14,779	13,587
Insurance, general	5,462	3,764
Insurance, group	52,771	44,388
Board and employee training	2,777	2,636
Office supplies and expense	2,231	2,612
Employee uniforms	921	
Postage	5,725	5,280
Telephone	3,292	2,971
Professional services	19,594	28,433
Licenses, fees and permits	1,229	1,511
Directors' fees	11,582	9,880
Repairs and maintenance	3,352	3,631
Dues and subscriptions	1,619	1,535
Travel and meetings	1,074	1,815
Bad debts	366	118
Utilities	3,555	3,517
Pension expense	7,946	7,296
Depreciation	6,887	7,061
Amortization	300	300
Miscellaneous	6,422	6,010
Total Administrative Expenses	\$ 322,396	\$ 296,620

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2009 and 2008

SCHEDULE OF MEMBERS

Number			Amount	
2009	2008		2009	2008
	1,360	Membership Fees		
	14	\$50 Members (after refunds)	\$	\$ 68,000
	(184)	New		700
	(1,185)	Transfer to memberships no hookup		(9,200)
	(5)	Transfer to user fees		(59,250)
		Terminated net of reinstated		(250)
		Balance		
		Membership Fees - No Curb Stops		
	1	\$50 Members	\$	\$ 50
	(1)	Transfer to user fees		(50)
		Balance		
		Users Fees		
1,185	1,174	\$350 Members (after refunds)	\$ 414,750	\$ 352,200
28	16	New	9,800	4,800
2		New from nonqualified	700	59,250
1		New from Phase III	350	
(5)	(5)	Terminated	(1,750)	(1,500)
1,211	1,185	Balance	423,850	414,750
		Users Fees - No Curb Stops		
1	1	\$350 Members	\$ 350	\$ 300
				50
1	1	Balance	350	350
		Forfeited member and user fees	\$ 81,200	\$ 79,450
		Memberships		
184	184	Memberships no hookups	\$ 9,200	\$ 9,200
(2)		Transfer to user fees	(100)	
(3)		Transfer to Phase III	(150)	
179	184		\$ 8,950	\$ 9,200
		Memberships Phase III	\$	\$
3		Transfer from nonqualified	150	
468		New	24,460	
(1)		Transfer to user fees	(50)	
470			\$ 24,560	\$
		Total Fees and Users Equity	\$ 538,910	\$ 503,750

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2009 and 2008

SCHEDULE OF COSTS PER 1,000 GALLONS SOLD

	2009		2008	
	Total	Per 1,000 Gallons Sold	Total	Per 1,000 Gallons Sold
Gallons Sold	88,757,182		87,276,530	
Operation and Maintenance Expenses	\$ 158,105	\$ 1.78	\$ 114,662	\$ 1.31
Administrative Expenses	315,509	3.55	289,559	3.32
Interest Expense	76,984	0.87	84,094	0.96
Depreciation Expense	270,985	3.05	268,731	3.08
	<u>\$ 821,583</u>	<u>\$ 9.25</u>	<u>\$ 757,046</u>	<u>\$ 8.67</u>

STUTSMAN RURAL WATER DISTRICT
 SUPPLEMENTARY INFORMATION - continued
 Years Ended June 30, 2009 and 2008

SCHEDULE OF OPERATIONS - MANAGEMENT BASIS

	2009	2008
REVENUE		
Metered water sales	\$ 301,208	\$ 293,845
Service charge	477,804	469,644
Other charges	70,667	45,039
Total Revenue	849,679	808,528
OPERATIONS AND MAINTENANCE EXPENSES		
Operating supplies	18,338	6,039
Water purchase, Ramsey Rural Water	2,616	1,544
Power for pumping	53,729	47,403
Small tools expense	2,490	1,500
Chemicals	22,018	18,090
Repairs and maintenance	35,582	19,424
Mobile and site telephone	3,061	2,806
Water testing	1,604	935
Vehicle and travel expense	17,940	13,949
On call pay		2,645
Consumer confidence report	728	327
Depreciation	264,098	261,670
Total Operation and Maintenance Expenses	422,203	376,332
ADMINISTRATIVE EXPENSES		
Salaries	170,512	150,276
Payroll taxes	14,779	13,587
Insurance, general	5,462	3,764
Insurance, group	52,771	44,388
Board and employee training	2,777	2,636
Office supplies and expense	2,231	2,612
Employee uniforms	921	
Postage	5,725	5,280
Telephone	3,292	2,971
Professional services	19,594	28,433
Licenses, fees and permits	1,229	1,511
Directors' fees	11,582	9,880
Repairs and maintenance	3,352	3,631
Dues and subscriptions	1,619	1,535
Travel and meetings	1,074	1,815
Bad debts	366	118
Utilities	3,555	3,517
Pension expense	7,946	7,296
Depreciation	6,887	7,061
Amortization expense	300	300
Miscellaneous	6,422	6,010
Total Administrative Expenses	322,396	296,620
Total Expenses	744,599	672,952
INCOME FROM OPERATIONS	\$ 105,080	\$ 135,576

STUTSMAN RURAL WATER DISTRICT
SUPPLEMENTARY INFORMATION - continued
Years Ended June 30, 2009 and 2008

SCHEDULE OF CHANGES IN NET ASSETS

	Fees and Users Equity	Construction Equity	Forfeited Equity	Cumulative Net Income (Loss)	Total Accumulated (Deficit)	Contributed Capital
Balance, June 30, 2007	\$ 420,550	\$ 18,200	\$ 77,700	\$ (542,826)	\$ (26,376)	\$ 5,100,000
New members	6,900		3,150		10,050	
Terminated members	(3,150)		(1,400)		(4,550)	
Net income				83,526	83,526	
Decrease (increase) in accumulated deficit	3,750		1,750	83,526	89,026	
Balance, June 30, 2008	424,300	18,200	79,450	(459,300)	62,650	5,100,000
New members	35,160				35,160	
Terminated members	(1,750)		1,750			
Net income				46,657	46,657	
Decrease (increase) in accumulated deficit	33,410		1,750	46,657	81,817	
Balance, June 30, 2009	\$ 457,710	\$ 18,200	\$ 81,200	\$ (412,643)	\$ 144,467	\$ 5,100,000



Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Ronald R. Fuchs, CF
Duane R. Dunn, CF
Robert A. Platz, CF

**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 the financial statements of **STUTSMAN RURAL WATER DISTRICT**, as of and for the years ended June 30, 2009 and 2008 and have issued our report thereon dated October 6, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **STUTSMAN RURAL WATER DISTRICT'S** internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **STUTSMAN RURAL WATER DISTRICT'S** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **STUTSMAN RURAL WATER DISTRICT'S** financial statements that is more than inconsequential will not be prevented or detected by the **STUTSMAN RURAL WATER DISTRICT'S** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **STUTSMAN RURAL WATER DISTRICT'S** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **STUTSMAN RURAL WATER DISTRICT'S** financial statements are free of 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*.

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

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schauer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 6, 2009



Schauer & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Ronald R. Fuchs, CF
Duane R. Dunn, CF
Robert A. Platz, CF

Board of Directors
STUTSMAN RURAL WATER DISTRICT
Jamestown, ND

Compliance

We have audited the compliance of STUTSMAN RURAL WATER DISTRICT with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of STUTSMAN RURAL WATER DISTRICT'S management. Our responsibility is to express an opinion on STUTSMAN RURAL WATER DISTRICT'S compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on STUTSMAN RURAL WATER DISTRICT'S compliance with those requirements.

In our opinion, STUTSMAN RURAL WATER DISTRICT, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of STUTSMAN RURAL WATER DISTRICT, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered STUTSMAN RURAL WATER DISTRICT'S internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of STUTSMAN RURAL WATER DISTRICT'S internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB A-133 -continued 2**

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type a compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the District, the Board of Directors, State Agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the **STUTSMAN RURAL WATER DISTRICT**, is a matter of public record.

Schaer & Associates, P.C.

SCHAUER & ASSOCIATES, P.C.
Certified Public Accountants

October 6, 2009

STUTSMAN RURAL WATER DISTRICT
 Jamestown, North Dakota
 SUPPLEMENTARY INFORMATION -- continued
 Year Ended June 30, 2009

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 State Department of Health ARRA - Capitalization Grants for Clean Water State Revolving Funds (1) (2)	66.458	380929-01	<u>\$ 1,181,111</u>
(1) Major program			
(2) State Revolving Loan including commingled funds			
Water system improvement revenue bonds series 2000			\$ 440,000
Water system improvement revenue bonds series 2004			169,000
Water system improvement revenue bonds series 2006			1,047,000

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of **STUTSMAN RURAL WATER DISTRICT**.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statement of **STUTSMAN RURAL WATER DISTRICT** were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The Auditors' Report on Compliance for the Major Federal Award Programs for **STUTSMAN RURAL WATER DISTRICT** expresses an unqualified opinion on all major federal programs
6. There were no audit findings relative to the major federal award programs for **STUTSMAN RURAL WATER DISTRICT**.
7. The programs tested as major programs include:

66.458 – ARRA -Capitalization Grants for Clean Water State Revolving Funds

The threshold for distinguishing Type A & B programs was \$300,000.
8. **STUTSMAN RURAL WATER DISTRICT** was determined not to be a low-risk auditee.

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

1. None

C. Findings and Questioned Costs for Federal Awards Which Must Include Audit Findings as Defined in Section 510(a) of Circular A-133.

1. None

STUTSMAN RURAL WATER DISTRICT
Jamestown, North Dakota
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2009

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **STUTSMAN RURAL WATER DISTRICT** and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.