

TM RURAL WATER DISTRICT
P.O. BOX 445
PARKER, SOUTH DAKOTA 57053

AUDIT REPORT

DECEMBER 31, 2020

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TM RURAL WATER DISTRICT
Parker, South Dakota

DISTRICT OFFICIALS
December 31, 2020

<u>BOARD MEMBERS:</u>		<u>TERM EXPIRES:</u>
Greg Wirth	President	February 2023
Dennis R. Johnson	Vice-President	February 2021
Steve Knutson	Secretary	February 2021
Greg Nugteren	Treasurer	February 2021
Robin Christiansen	Member	February 2022
Dennis M. Johnson	Member	February 2023
Curt Matthies	Member	February 2023

MANAGER:
Jay Jorgensen

Schoenfish & Co., Inc.

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P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

CERTIFIED PUBLIC ACCOUNTANTS
Phone: 605-928-7241
FAX No.: 605-928-6241
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
TM Rural Water District
Parker, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the TM Rural Water District (District), as of December 31, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 24, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
May 24, 2021

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Finding Number 2019-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2020-001.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT AUDIT FINDINGS:Internal Control – Related Finding – Material Weakness:Finding Number 2020-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is a continuing audit comment since 2015.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Bookkeeper collects receipts and makes deposits. The Bookkeeper records receipts, posts receipts in the accounting records, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

RECOMMENDATION:

1. We recommend that the TM Rural Water District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The TM Rural Water District Board President, Greg Wirth, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the TM Rural Water District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and will be developing policies to address the issue.

CLOSING CONFERENCE

The contents of this report were discussed with the Manager and the Bookkeeper during the course of the audit and at the conclusion of the audit.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
TM Rural Water District
Parker, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of TM Rural Water District (District), as of December 31, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of TM Rural Water District as of December 31, 2020, and the respective changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

We have previously audited the TM Rural Water District's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2020. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), on pages 7 through 11, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on financial statements that collectively comprise the District's financial statements. The Schedule of Operating Expenses listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2021 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the District's internal control over financial reporting and compliance.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
May 24, 2021

Schoenfish & Co., Inc.

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TM RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

Our discussion and analysis of the TM Rural Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis

Overview of the Basic Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements include four components:

- *Statement of Net Position*
- *Statement of Revenues, Expenses and Changes in Net Position.*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

The *Statement of Net Position* includes all of the District's assets and liabilities, with the difference between the two reported as net position. Net position is displayed in three categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The *Statement of Net Position* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.

The *Statement of Revenue, Expenses and Changes in Net Position* presents information that shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The *Statement of Revenues, Expenses and Changes in Net Position* measures the success of the District's operations over the past year and determines whether the District has recovered its costs through water sales, user fees and other charges. It also can be used to determine the District's creditworthiness.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital Financing
- Capital Financing
- Investing

This statement differs from the *Statement of Revenues, Expenses and Changes in Net Position* in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to the Financial Statements* provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ending December 31, 2020, the District's operating revenues increased \$290,132, operating expenses increased by \$2,409, and capital contributions and construction income increased by \$40,818, resulting in a \$180,283 increase in net position.

Financial Analysis of the District

Net Position

The District's net position increased between fiscal years 2019 and 2020 by \$180,283 mainly due to a an increase in Charges for Goods and Services.

Table A-1
TM Rural Water District
Statement of Net Position

	2018	2019	2020
Current Assets	\$ 3,354,779	\$ 2,979,944	\$ 2,821,868
Capital Assets, Net of Accumulated Depreciation	18,955,738	18,621,706	18,422,493
Other Assets	1,144,735	1,089,657	1,002,965
Total Assets	\$ 23,455,252	\$ 22,691,307	\$ 22,247,326
Current Liabilities	\$ 696,805	\$ 662,995	\$ 676,394
Non-current Liabilities	3,128,789	2,507,172	1,869,509
Total Liabilities	\$ 3,825,594	\$ 3,170,167	\$ 2,545,903
Net Investment in Capital Assets	\$ 15,243,146	\$ 15,510,999	\$ 15,934,334
Restricted	333,000	275,500	217,000
Unrestricted	4,053,512	3,734,641	3,550,089
Total Net Position	\$ 19,629,658	\$ 19,521,140	\$ 19,701,423
Beginning Net Position	\$ 19,299,462	\$ 19,629,658	\$ 19,521,140
Prior Period Adjustment			
Adjusted Beginning Net Position	\$ 19,299,462	\$ 19,629,658	\$ 19,521,140
Change in Net Position	\$ 330,196	\$ (108,518)	\$ 180,283

Change in Net Position

The District's revenues primarily come from water sales.

The District's operating revenue increased in 2020 by \$290,132 to \$2,533,864. Operating expense increased by \$2,409 in 2020, due to a decrease in purchased water and treatment/district costs.

The District's non-operating revenue (expense) decreased by \$39,741, due to the decrease in interest expense and a decrease in the fair value of the NTCA prepaid retirement account.

Table A-2
TM Rural Water District
Statement of Revenue, Expense and Change in Net Position

	2018	2019	2020
Operating Revenue			
Charges for Goods and Services	\$ 2,542,520	\$ 2,223,271	\$ 2,517,221
Miscellaneous Income	7,915	20,461	16,643
Total Operating Revenue	<u>\$ 2,550,435</u>	<u>\$ 2,243,732</u>	<u>\$ 2,533,864</u>
Operating Expenses	<u>\$ 2,518,859</u>	<u>\$ 2,483,111</u>	<u>\$ 2,485,520</u>
Operating Income (Loss)	<u>\$ 31,576</u>	<u>\$ (239,379)</u>	<u>\$ 48,344</u>
Nonoperating Revenue (Expenses)			
Interest Income	\$ 31,551	\$ 51,317	\$ 13,041
Miscellaneous Fees	28,756	31,720	36,930
Gain on Disposal of Assets	7,504	0	6,556
Interest Expense	(106,651)	(91,205)	(75,853)
Net Increase (Decrease) in FV of NTCA Account	(13,898)	57,329	28,747
Total Nonoperating Revenue (Expenses)	<u>\$ (52,738)</u>	<u>\$ 49,161</u>	<u>\$ 9,421</u>
Income/(Loss) Before Contributions	\$ (21,162)	\$ (190,218)	\$ 57,765
Capital Contributions & Construction Income	351,358	81,700	122,518
Change in Net Position	<u>\$ 330,196</u>	<u>\$ (108,518)</u>	<u>\$ 180,283</u>
Net Position Ending	<u>\$19,629,658</u>	<u>\$ 19,521,140</u>	<u>\$ 19,701,423</u>

Capital Assets

As of December 31, 2020, the District had invested \$18,422,493 in capital assets, net of accumulated depreciation. This represents a net decrease of \$199,213, mostly due to depreciation.

Table A-3
TM Rural Water District
Capital Assets

	2018	2019	2020
Land	\$ 214,126	\$ 214,126	\$ 214,126
Wells	\$ 1,153,390	\$ 1,153,390	\$ 1,459,504
Storage	1,573,911	1,887,606	2,471,052
Treatment Plant Building	12,036,814	12,057,964	12,057,964
Distribution System	19,371,938	20,248,339	20,436,467
Total Utility Plant	\$ 34,136,053	\$ 35,347,298	\$ 36,424,987
Less: Accumulated Depreciation	(16,568,512)	(17,532,885)	(18,513,367)
Construction Work in Progress	797,893	294,582	38,492
Total Utility Plant Assets, Net of Depreciation	\$ 18,365,434	\$ 18,108,995	\$ 17,950,112
Buildings	\$ 116,995	\$ 116,995	\$ 116,995
Vehicles	206,623	206,623	220,056
Office Equipment	74,523	78,205	83,180
Other Equipment	452,093	471,093	487,148
Total Other Assets	\$ 850,234	\$ 872,916	\$ 907,379
Less: Accumulated Depreciation	(474,056)	(574,331)	(649,124)
Total Other Assets, Net of Depreciation	\$ 376,178	\$ 298,585	\$ 258,255
Total Capital Assets, Net of Depreciation	\$ 18,955,738	\$ 18,621,707	\$ 18,422,493

Debt Administration

Long Term Debt

At December 31, 2020, the District had \$2,505,616 in debt outstanding, a decrease of \$622,892 from the prior year. More detailed information about the District's long-term debt is presented in Note 6 to the Financial Statements.

Table A-4
TM Rural Water District
Long Term Debt

	Debt Payable 12/31/2019	Additions	Deletions	Debt Payable 12/31/2020
Revenue Bond - Series 2013	2,319,686		600,000	1,719,686
SRF - DW#1	791,021		22,549	768,472
Compensated Absences	17,801	20,798	21,141	17,458
	<u>\$3,128,508</u>	<u>\$20,798</u>	<u>\$643,690</u>	<u>\$2,505,616</u>

Economic Factors

The District's excellent financial condition continues as the District proceeds through another year. Water rates for the District's customers have been set to provide the District with an adequate cash flow to finance operating expenses as well as providing for the coverage of the debt incurred by the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, ratepayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the TM Rural Water District's Office at Box 445 Parker, South Dakota 57053, (605) 297-3334.

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF NET POSITION
December 31, 2020 and December 31, 2019

	2020	2019
ASSETS:		
<u>Current Assets</u>		
Cash and Cash Equivalents	2,205,485	2,375,439
Investments	300,000	300,000
Accounts Receivable	223,412	202,624
Plant Material Inventory	76,702	84,659
Prepaid Expenses	16,269	17,222
Total Current Assets	2,821,868	2,979,944
<u>Capital Assets, Net of Accumulated Depreciation</u>	<u>18,422,493</u>	<u>18,621,706</u>
<u>Other Assets</u>		
Prepaid B-Y Water Fees	446,167	534,979
Prepaid NTCA Surcharges	354,127	346,018
Notes Receivable - City of Viborg	202,671	208,660
Total Other Assets	1,002,965	1,089,657
TOTAL ASSETS	22,247,326	22,691,307
LIABILITIES:		
<u>Current Liabilities</u>		
Accrued Payroll Payable	13,545	10,475
Accrued Excise and Sales Tax Payable	560	115
Prepaid Water Sales & Income	6,598	12,055
Accrued Compensated Absences Payable	17,458	17,801
Current Portion of Long-Term Debt	638,233	622,549
Total Current Liabilities	676,394	662,995
<u>Long-Term Liabilities</u>		
State Revolving Fund, Net of Current Portion	745,239	768,472
Bonds Payable, Net of Current Portion	1,104,686	1,719,686
Total Long-Term Debt, Net of Current Portion	1,849,925	2,488,158
Customer Deposits	19,584	19,014
Total Long-Term Liabilities	1,869,509	2,507,172
TOTAL LIABILITIES	2,545,903	3,170,167
NET POSITION:		
<u>Net Investment in Capital Assets</u>	<u>15,934,334</u>	<u>15,510,999</u>
<u>Restricted Net Position, Restricted For:</u>		
<u>Restricted per Bond Agreements:</u>		
Reserved for Revenue Bonds Payable	217,000	275,500
Total Restricted Net Position	217,000	275,500
<u>Unrestricted Net Position</u>	<u>3,550,089</u>	<u>3,734,641</u>
TOTAL NET POSITION	19,701,423	19,521,140

The notes to the financial statements are an integral part of this statement.

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Operating Revenue:</u>		
Charges for Goods and Services Pledged as Security for Revenue Debt	2,517,221	2,223,271
Miscellaneous Income	16,643	20,461
Total Operating Revenue	<u>2,533,864</u>	<u>2,243,732</u>
<u>Operating Expenses:</u>		
Personnel	473,183	479,898
Administrative	84,443	83,966
Professional Services	12,459	15,806
Purchased Water	597,794	496,992
Treatment/Distribution	195,763	194,676
Maintenance	38,583	147,125
Depreciation	1,083,294	1,064,648
Total Operating Expenses	<u>2,485,520</u>	<u>2,483,111</u>
Operating Income (Loss)	<u>48,344</u>	<u>(239,379)</u>
<u>Nonoperating Revenue (Expense):</u>		
Interest Income	13,041	51,317
Feasibility/Application Fees	35,260	30,075
Relocation/Service Charges	959	945
Transfer Fees	711	700
Gain on Disposal of Assets	6,556	0
Net Increase (Decrease) in the Fair Value of NTCA Prefunding Account	28,747	57,329
Interest Expense	(75,853)	(91,205)
Total Nonoperating Revenue (Expense)	<u>9,421</u>	<u>49,161</u>
Net Income Before Contributions	<u>57,765</u>	<u>(190,218)</u>
Construction Income - Add-Ons - Distribution System	<u>122,518</u>	<u>81,700</u>
Change in Net Position	<u>180,283</u>	<u>(108,518)</u>
Net Position - Beginning	<u>19,521,140</u>	<u>19,629,658</u>
NET POSITION - ENDING	<u>19,701,423</u>	<u>19,521,140</u>

The notes to the financial statements are an integral part of this statement.

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Cash Receipts from Customers	2,491,546	2,360,386
Cash Payments to Employees for Services	(478,564)	(515,707)
Cash Payments to Suppliers of Goods and Services	(830,878)	(919,185)
Miscellaneous Income	16,643	20,461
Net Cash Provided (Used) by Operating Activities	1,198,747	945,955
Cash Flows From Non-Capital Financing Activities:		
Feasibility/Application Fees	35,260	30,075
Relocation/Service Charges Income	959	945
Transfer Fees	711	700
Net Cash Provided (Used) by Non-Capital Financing Activities	36,930	31,720
Cash Flows From Capital and Related Financing Activities:		
Contributions from Customers, Other Governments and Construction Income	122,518	81,700
Acquisition of Utility Plant Assets	(821,598)	(707,934)
Purchase of Equipment and Buildings	(62,482)	(22,682)
Sale of Equipment and Buildings	6,556	0
Principal Paid on Bonds	(622,549)	(601,885)
Interest Paid	(75,853)	(91,205)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,453,408)	(1,342,006)
Cash Flows From Investing Activities:		
Principle Received on Notes Receivable	5,989	5,811
Decrease in Certificates of Deposits	0	0
Net Increase (Decrease) in the Fair Value of NTCA Prefunding Account	28,747	57,329
Interest Income	13,041	51,317
Net Cash Provided (Used) by Investing Activities	47,777	114,457
Net Increase (Decrease) in Cash and Cash Equivalents	(169,954)	(249,874)
Cash Balance at Beginning of Year	2,375,439	2,625,313
Cash Balance at End of Year	2,205,485	2,375,439
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating Income (Loss)	48,344	(239,379)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	1,083,294	1,064,648
(Increase) Decrease in Accounts Receivable	(20,788)	133,506
(Increase) Decrease in Material Inventory	7,957	(8,388)
(Increase) Decrease In Prepaid Expenses	952	(157)
(Increase) Decrease In Prepaid NTCA Surcharges	(8,109)	(39,545)
Increase (Decrease) in Accounts Payable	444	(60,886)
Increase (Decrease) in Prepaid Water Sales	(5,457)	2,677
Increase (Decrease) in Customer Deposits	570	932
Increase (Decrease) in Accrued Payroll, Vacation, & Benefits	2,728	3,735
(Increase) Decrease in Prepaid Water Fees	88,812	88,812
Net Cash Provided (Used) by Operating Activities	1,198,747	945,955
Cash and Cash Equivalents are presented on the Statement of Net Position as follows:		
Cash and Cash Equivalents	2,205,485	2,375,439
	2,205,485	2,375,439

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The TM Rural Water District (the "District") is organized under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district.

The District was organized to construct or acquire a water system to conserve, control and distribute potable water to homes, pastures, feedlots, and elsewhere deemed feasible. The system consists of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other water works deemed necessary to pump, filter, treat, store and distribute potable water.

The District provides water to users in primarily Turner and McCook counties in South Dakota and has its office in Parker, South Dakota. An elected Board of Directors consisting of seven directors governs the District. The District is authorized to exercise the power of eminent domain, and is a political subdivision of the State of South Dakota.

The District has no taxing powers and has no power to levy assessments. No governmental authority will have the power to levy or collect taxes of assessments for the purpose of paying, in whole or in part, any indebtedness or obligations incurred by the District in which the District is in any manner liable. Nor any privately owned property within or outside the District, or the owner thereof, nor any city, town, county, irrigation district, political subdivision, or public or private corporations will be liable for any such District indebtedness or obligation beyond the liability to perform the obligations of any express contract between such owner or public or private organizations and the District.

b. Financial Reporting Entity

The reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based on the above criteria, the District does not have any component units that require inclusion in the financial statements. Conversely, the District is not a component unit of another government.

c. Basis of Presentation

The accounting policies of the TM Rural Water District conform to U.S. generally accepted accounting principles applicable to governmental enterprise funds.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

d. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The District, as a utility enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The accompanying financial statements reflect the flow of economic resources measurement focus, applied on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues consist principally of water sales to customers. Expenses include the costs of operating the District, including the purchase and treatment of water, personnel, administration, professional services, maintenance, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses or contributions. Non-operating revenues and expenses include interest income and interest expense amounts and contributions include construction revenue from customers and grants.

e. Deposits and Investments, Fair Value Measurement, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits — The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments — In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

Fair Value Measurement – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level one inputs are quoted prices in active markets for identical assets; Level two inputs are significant other observable inputs; Level three inputs are significant unobservable inputs. The district does not have any investments that are subject to the fair value measurement standards of GASB Statement 72.

The District's investments, carried at market, at December 31, 2020 were as follows:

<u>External Investment Pool</u>	<u>Credit Rating</u>	<u>2020</u>
South Dakota Public Funds Investment Trust	Unrated	<u>\$ 1,616,486</u>
Total Investments		<u><u>\$ 1,616,486</u></u>

The South Dakota Public Funds Investment Trust (SD FIT) is an external investment pool that was established under SDCL 1-24. A nine-member board regulates it with representation from municipalities, school districts, and counties.

The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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 — State law limits eligible investments for the District, as discussed above. The District's investment policy is to invest funds in excess of amounts needed for day to day operations in CDs purchased from banks offering the best rates, or in the South Dakota Public Funds Investment Trust.

Concentration of Credit Risk — The District places no limit on the amount that may be invested in any one issuer.

f. Accounts Receivable

No allowance for bad debt has been provided because estimated uncollectible receivables are not considered material. Accounts receivable consists of the following at December 31, 2020:

	<u>2020</u>
Water	\$ 220,539
Construction charges	2,873
	<u><u>\$ 223,412</u></u>

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

g. Inventory

Inventory consists of material and supplies used in the construction and maintenance of the utility plant and water lines and are valued at the lower of cost or market using the first-in, first-out method.

h. Capital Assets:

All capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. As of December 31, 2020, there were no costs determined by estimations of the original cost. The cost of the distribution system includes the primary construction and installation of the water lines, pits, meters, engineering services, legal expenditures directly related to construction, and other items necessary in the distribution of the water. Also included in the cost of the distribution system was interest that was paid during the period of construction. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. The District's policy is to capitalize those assets with a useful life greater than one year. The District generally capitalized assets with an initial acquisition cost of \$1,000 or more.

Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Construction costs of water lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet.

Depreciation has been provided over the following estimated useful lives using the straight-line method.

Utility Plant:	Wells	20 – 28 years
	Storage	35 years
	Treatment Plant	20 – 35 years
	Distribution System	15 – 40 years
Other Property:	Office Building	31.5 years
	Vehicles	5 years
	Office Equipment	5 – 12 years
	Other Equipment	5 – 7 years

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

i. Net Position Classifications

Equity is classified as net position and is displayed in three components.

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – Consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets." Unlike the restricted net position, the Board of Directors has discretion in determining the use of any unrestricted net position. The Board may at any time change or eliminate amounts established for these purposes.

j. Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

k. Fund Revenue and Expense Classifications

In the Statements of Revenues and Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

l. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

m. Cash Flows

For the purpose of financial reporting, the District considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Investments in money market open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

n. Budgets

The District is not legally required to adopt a budget; however, the District is contractually required by Rural Development to approve an annual operating budget. The budgets are prepared in accordance with Rural Development requirements and, therefore, are not comparable to the GAAP financial presentation in this report. Therefore, budgetary data is not included in the basic financial statements.

o. Accumulated Unpaid Vacation and Sick Pay

Employees earn annual leave at the rate of one week after one year of employment, two weeks after two years and three weeks after five years of employment. Upon termination employees are entitled to receive compensation for their accrued annual leave. This liability is reflected in the financial statements. Employees are allowed to carry over three weeks of vacation to be used in the subsequent year. Sick leave is earned by the employees at the rate of twelve days per year cumulative to sixty days. Upon termination, employees are not entitled to receive compensation for their accrued sick leave.

2. EMPLOYEE RETIREMENT PLANS

The District is a member system in the National Telephone Cooperative Association. The National Telephone Cooperative Association sponsors cost-sharing multiple employer retirement plans that the District has adopted for its employees pursuant to SDCL 46A-9-78. One is the Retirement and Security Program. All employees with over six months of service and who have worked over 1,000 hours in the plan year are eligible to participate. The program provides retirement and survivors' benefits and is considered a defined benefit plan.

There is no requirement for vesting. Authority for the plan is under IRS code sections 414(b), (c), (m) or (o). The organization issues a financial report that includes financial statements and required supplementary information. This report may be obtained at NTCA, BBT Building, Suite 300, Asheville, North Carolina, 28801.

Each participating organization may choose its amount of contribution. The contribution is determined on the basis of the employee's salary. In 2020, the District contributed 16.45% of the employees' salary (9.9% plus a 6.55% surcharge). The employee is not required to contribute to the plan. Contributions expensed for the years ended December 31, 2020, 2019, and 2018 were \$51,830, \$44,109, and \$41,728, respectively.

The District also participates in the Money Purchase Segment of the Savings Plan sponsored by the National Telephone Cooperative Association. This multiple employer plan allows eligible employees to make a post-tax contribution of 1% of their compensation to the plan, which the District is required to match. The employee may make additional voluntary contributions up to 10% of compensation. The District does not match these voluntary contributions. For the years ended December 31, 2020, 2019, and 2018, contributions for the 1% match were \$3,088, \$3,040, and \$2,946, respectively.

3. NOTE RECEIVABLE

The District entered into a note receivable agreement with the City of Viborg for the Southeast Improvement Project in February 2014 for \$240,629.19 with monthly payments of \$1,016.45 to be

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

paid over a thirty year period. A summary of the change in note receivable for the year ended December 31, 2021 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities:					
Note Receivable- City of Viborg	208,659.69		5,988.61	202,671.08	6,171.68
Total Business-Type Activities	<u>208,659.69</u>	<u>0.00</u>	<u>5,988.61</u>	<u>202,671.08</u>	<u>6,171.68</u>

The following are the minimum payments required to be paid to the District for the existing note receivable:

Year Ending December 31,	Note Receivable City of Viborg	
	Principal	Interest
2021	6,171.68	6,025.72
2022	6,360.40	5,837.00
2023	6,554.81	5,642.59
2024	6,755.17	5,442.23
2025	6,961.70	5,235.70
2026-2030	38,133.85	22,853.15
2031-2035	44,330.03	16,656.97
2036-2040	51,533.13	9,453.87
2041-2044	35,870.31	1,737.92
Totals	<u>202,671.08</u>	<u>78,885.15</u>

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2020, is as follows:

	Balance 1/1/2020	Increases	Decreases	Balance 12/31/2020
Capital Assets, Not Being Depreciated:				
Land	214,126			214,126
Construction Work in Progress	294,582	778,462	(1,034,552)	38,492
Total Capital Assets, Not Being Depreciated	508,708	778,462	(1,034,552)	252,618
Capital Assets, Being Depreciated:				
Utility Plant Assets:				
Wells	1,153,389	306,114		1,459,503
Storage	1,887,606	583,447		2,471,053
Treatment Plant Building	12,057,964			12,057,964
Distribution System	20,248,339	188,128		20,436,467
Total Utility Plant Assets	35,347,298	1,077,689	0	36,424,987
Less Accumulated Depreciation for:				
Wells	(839,529)	(50,737)		(890,266)
Storage	(981,548)	(55,031)		(1,036,579)
Treatment Plant Building	(5,332,402)	(367,680)		(5,700,082)
Distribution System	(10,379,406)	(507,034)		(10,886,440)
Total Accumulated Depreciation	(17,532,885)	(980,482)	0	(18,513,367)
Total Utility Plant Assets, Net	17,814,413	97,207	0	17,911,620
Other Assets:				
Buildings	116,995			116,995
Vehicles	206,623	41,452	(28,019)	220,056
Office Equipment	78,205	4,975		83,180
Other Equipment	471,093	16,055		487,148
Total Other Assets	872,916	62,482	(28,019)	907,379
Less Accumulated Depreciation for:				
Buildings	(85,882)	(3,714)		(89,596)
Vehicles	(136,259)	(29,772)	28,019	(138,012)
Office Equipment	(73,655)	(1,880)		(75,535)
Other Equipment	(278,535)	(67,446)		(345,981)
Total Accumulated Depreciation	(574,331)	(102,812)	28,019	(649,124)
Total Other Assets, Net	298,585	(40,330)	0	258,255
Total Capital Assets Being Depreciated, Net	18,112,998	56,877	0	18,169,875
Total Capital Assets, Net	18,621,706	835,339	(1,034,552)	18,422,493

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Project Name	Project Authorization	Expended thru 12/31/2020	Committed	Required Future Financing
North Booster	\$ 364,820.00	\$ 38,492	\$ 326,328	\$ -
TOTAL	\$ 364,820.00	\$ 38,492	\$ 326,328	\$ -

5. CUSTOMER DEPOSITS

Customers who do not own their property but rent must make a deposit of \$100 before the water is hooked up. When the customer moves and if the water bill is current, they are refunded their deposit.

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities:					
Revenue Bonds, Series 2013	2,319,686		600,000	1,719,686	615,000
SRF - Drinking Water # 1	791,021		22,549	768,472	23,233
Total Debt	<u>3,110,707</u>	<u>0</u>	<u>622,549</u>	<u>2,488,158</u>	<u>638,233</u>
Accrued Compensated Absences	17,801	20,798	21,141	17,458	17,458
Total Business-Type Activities	<u>3,128,508</u>	<u>20,798</u>	<u>643,690</u>	<u>2,505,616</u>	<u>655,691</u>

The debt payable at December 31, 2020, is comprised of the following individual issues:

Revenue Bonds 2013

The District has a loan from First Bank & Trust of Brookings, SD, for \$1,719,686 at an interest rate of 2.5 percent. The loan is due in quarterly payments beginning January 2014 through July 2023.

State Revolving Fund Drinking Water Loan #1

The District has a loan from the State Revolving Fund through US Bank for \$768,472 at an interest rate of 3.00 percent. The loan is due in quarterly installments beginning April 2014 through January 2044.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2020, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2020

Year Ending December 31,	Revenue Bond Series 2013		State Revolving Fund - Drinking Water # 1		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	615,000	37,281	23,233	22,795	638,233	60,076
2022	625,000	21,813	23,938	22,090	648,938	43,903
2023	479,686	6,314	24,665	21,363	504,351	27,677
2024			25,413	20,615	25,413	20,615
2025			26,184	19,844	26,184	19,844
2026-2030			143,328	86,812	143,328	86,812
2031-2035			166,430	63,708	166,430	63,708
2036-2040			193,257	36,883	193,257	36,883
2041-2045			142,024	7,569	142,024	7,569
Totals	<u>1,719,686</u>	<u>65,408</u>	<u>768,472</u>	<u>301,679</u>	<u>2,488,158</u>	<u>367,087</u>

7. COMMITMENTS

B-Y Water District

In 1994, TM Rural Water District and B-Y Water District entered into a 40-year water supply agreement. Under the agreement, TM Rural Water District can purchase up to 640,000 gallons per day. If B-Y Water District deems it has it available, TM Rural Water District can purchase additional gallons up to 1,250,000 gallons per day. In addition to the cost of any water purchases, TM Rural Water District is required to pay a monthly minimum payment of \$7,401 to the B-Y Water District through approximately 2036. In 2013, TM Rural Water District prepaid the balance of their commitment to B-Y Water District. The minimum fee totaling \$88,812 for the year will be included in "Purchased Water" expense for all future years until the commitment expires.

8. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2020 was as follows:

Major Purposes:

Bond Reserve Purposes	<u>\$ 217,000</u>
Total Restricted Net Position	<u>\$ 217,000</u>

These balances are restricted due to loan agreements.

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2020, the District managed its risks as follows:

Employee Health Insurance:

The District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

The following policies are in effect:

	<u>Amount of Insurance</u>
Property Insurance	\$14,445,678
Liability Insurance	\$1,000,000 / \$3,000,000
Crime (Blanket employee dishonesty)	\$ 500,000
Umbrella Insurance	\$3,000,000
Directors and Officers Liability	\$1,000,000 / \$3,000,000

Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation:

The District purchases liability insurance for workmen's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

TM RURAL WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Operating Expenses:</u>		
Personnel		
Salary - Administrative	121,416	120,147
Wages - Operators	187,735	187,858
Employee Benefits	66,939	59,975
Retirement Contributions	52,620	55,166
Directors Fees	15,096	16,375
Payroll Taxes	22,850	23,066
Directors Expense	6,527	17,311
Total Personnel	<u>473,183</u>	<u>479,898</u>
Administrative		
Insurance	23,293	21,964
Dues	12,358	10,554
Newsletter	2,436	2,327
Postage	1,281	2,120
Office - Supplies	2,986	1,480
Billing Costs	25,669	25,511
Office - Telephone	2,539	2,580
Training / Meeting	3,114	9,084
Advertising - Legal and Promotion	592	494
Office - Utilities	2,147	2,190
Copier and Postage Meter Maintenance	755	674
Office - Maintenance	2,549	3,041
Miscellaneous	4,722	1,947
Total Administrative	<u>84,443</u>	<u>83,966</u>
Professional Services		
Accounting & Computer	12,178	14,824
Legal	281	982
Total Professional Services	<u>12,459</u>	<u>15,806</u>
Purchased Water	<u>597,794</u>	<u>496,992</u>
Treatment / Distribution		
Electricity	113,709	115,176
Lab Testing/Water Supplies	4,355	6,094
Chemicals	76,417	72,001
Plant Telephone	1,281	1,405
Total Treatment / Distribution	<u>195,763</u>	<u>194,676</u>
Maintenance		
Distribution Maintenance	17,145	10,393
Vehicle Expense	34,873	35,890
WTP/Warehouse and Generator Maintenance	(24,210)	29,391
Answering Services	3,277	3,182
One Call	1,623	2,023
Well Maintenance	4,336	65,545
Equipment Expense and Repair	1,539	701
Total Maintenance	<u>38,583</u>	<u>147,125</u>
Depreciation	<u>1,083,294</u>	<u>1,064,648</u>
Total Operating Expenses	<u><u>2,485,520</u></u>	<u><u>2,483,111</u></u>