

# **OFFICE OF STATE AUDITOR**

## **AUDIT REPORT**

**BARNES RURAL WATER DISTRICT  
VALLEY CITY, NORTH DAKOTA**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**



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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

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For the Year Ended September 30, 2013

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

**LIST OF OFFICIALS**

September 30, 2013

Chris Kvilvang	President
Ervand Andersen	Vice-President
Vernon Anderson	Board Member
Joel Owen	Board Member
Jim Drong	Board Member
Dean Stenson	Board Member
Perry Kapaun	Operatons Manager
Sandy Nelson	Office Manager

**STATE AUDITOR**

ROBERT R. PETERSON  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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INDEPENDENT AUDITOR'S REPORT

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Governing Board  
Barnes Rural Water District  
Valley City, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2013, and related notes to the financial statements, which collectively comprise the Water District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014 on our consideration of the Barnes Rural Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Barnes Rural Water District's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 8, 2014

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF NET POSITION  
September 30, 2013

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	Business-Type Activities
<b><u>ASSETS:</u></b>	
Cash	\$ 167,733
Investments Restricted for:	
Operating and Maintenance	195,873
Reserve for New Facility	200,000
Reserve for Equipment	180,000
Reserve for Construction	120,000
Reserve for Loan Requirements	407,650
Accounts Receivable	100,772
Other Assets	107
Capital Assets:	
<i>Not Being Depreciated</i>	
Land	253,116
Construction in Progress	27,552
<i>Being Depreciated</i>	
Buildings	281,215
Equipment	261,362
Vehicles	27,525
Infrastructure	5,704,372
Total Capital Assets	<u>\$ 6,555,142</u>
Total Assets	<u>\$ 7,927,277</u>
<b><u>LIABILITIES:</u></b>	
Customer Deposits	\$ 2,162
Accounts Payable	4,761
Interest Payable	4,396
Long-Term Liabilities:	
Due Within One Year:	
Loans Payable	175,234
GO Bonds Payable	145,000
Compensated Absences	940
Due After One Year:	
Loans Payable	728,620
GO Bonds Payable	1,965,000
Compensated Absences	<u>17,858</u>
Total Liabilities	<u>\$ 3,043,971</u>
<b><u>NET POSITION:</u></b>	
Net Investment in Capital Assets	\$ 3,541,288
Restricted for:	
Debt Service	407,650
Capital Projects	500,000
Operations & Maintenance	195,873
Unrestricted	<u>238,495</u>
Total Net Position	<u><u>\$ 4,883,306</u></u>

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues Charges for Services	Total Business-Type Activities
<u>Primary Government:</u>			
<u>Business-Type Activities:</u>			
Water System	\$ 1,339,771	\$ 1,445,455	\$ 105,684
Interest on Long-Term Debt	116,028	-	(116,028)
	<u>\$ 1,455,799</u>	<u>\$ 1,445,455</u>	<u>\$ (10,344)</u>
<u>General Revenues:</u>			
Earnings on Investments			\$ 12,269
Miscellaneous Revenue			<u>76,348</u>
Total General Revenues			<u>\$ 88,617</u>
Change in Net Position			<u>\$ 78,273</u>
Net Position - January 1			\$ 4,837,222
Prior Period Adjustment			<u>(32,189)</u>
Net Position - January 1, as restated			<u>\$ 4,805,033</u>
Net Position - December 31			<u><u>\$ 4,883,306</u></u>

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
September 30, 2013

	Business-Type Activities
	Water System
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash	\$ 167,733
Investments Restricted for:	
Operating and Maintenance	195,873
Reserve for New Facility	200,000
Reserve for Equipment	180,000
Reserve for Construction	120,000
Reserve for Loan Requirements	407,650
Accounts Receivable	100,772
Other Assets	107
Total Current Assets	\$ 1,372,135
<b><u>Noncurrent Assets:</u></b>	
Capital Assets (not being depreciated):	
Land	\$ 253,116
Construction In Progress	27,552
Capital Assets (net of accumulated depreciation):	
Buildings	281,215
Equipment	261,362
Vehicles	27,525
Infrastructure	5,704,372
Total Capital Assets	\$ 6,555,142
Total Noncurrent Assets	\$ 6,555,142
Total Assets	\$ 7,927,277
<b><u>LIABILITIES</u></b>	
<b><u>Current Liabilities:</u></b>	
Customer Deposits	\$ 2,162
Accounts Payable	4,761
Interest Payable	4,396
Loans Payable	175,234
GO Bonds Payable	145,000
Compensated Absences	940
Total Current Liabilities	\$ 332,493
<b><u>Noncurrent Liabilities:</u></b>	
Loans Payable	\$ 728,620
GO Bonds Payable	1,965,000
Compensated Absences	17,858
Total Noncurrent Liabilities	\$ 2,711,478
Total Liabilities	\$ 3,043,971
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	\$ 3,541,288
Restricted for:	
Debt Service	407,650
Capital Projects	500,000
Other Purposes	195,873
Unrestricted	238,495
Total Net Position	\$ 4,883,306

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
For the Year Ended September 30, 2013

	Business-Type Activities
	Water System
<u>Operating Revenues:</u>	
Water Sales	\$ 1,360,253
Connection Charges	11,672
Service Calls	7,742
Hookup Income	33,000
Late Charges	15,407
Sale of Material	24,137
Meter Estimate Charges	17,380
Total Operating Revenues	\$ 1,469,591
<u>Operating Expenses:</u>	
Operating Supplies	\$ 183,751
Power	97,573
Propane for Generators	5,013
Office Expense	31,422
Chemicals	56,557
Repairs	92,936
Transportation	30,710
Grass Mowing	5,715
Board Training Directors and Employees	2,495
Warehouse Rent	13,208
Professional Services	38,630
Combining Billing Supplies	2,605
Insurance	65,892
Miscellaneous	26,091
Salaries	323,230
Employee Training	60
Employee Benefits	26,220
Payroll Taxes	21,247
Depreciation Expense	314,357
Total Operating Expenses	\$ 1,337,712
Operating Income (Loss)	\$ 131,879
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	\$ 12,269
Miscellaneous Revenue	52,211
Miscellaneous Expenses	(2,058)
Interest and Service Charges	(116,028)
Total Non-Operating Revenues (Expenses)	\$ (53,606)
Change in Net Position	\$ 78,273
Total Net Position - January 1	\$ 4,837,222
Prior Period Adjustment	(32,189)
Net Position - January 1, As Restated	\$ 4,805,033
Total Net Position - December 31	\$ 4,883,306

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2013

	Business-Type Activities
	Water System
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 1,468,611
Cash Payments to Suppliers for Goods and Services	(692,485)
Cash Payments to Employees for Services	(321,473)
	<u>\$ 454,653</u>
<u>Cash Flows from Non-capital and Related Financing Activities:</u>	
Payments of Long Term Debt	
Miscellaneous	\$ 101,717
Interest Received	12,269
	<u>\$ 113,986</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	\$ (65,749)
Principal on Long-Term Debt	(312,967)
Interest Paid	(116,028)
	<u>\$ (494,744)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 73,895</u>
Cash and Cash Equivalents, January 1	<u>\$ 93,838</u>
Cash and Cash Equivalents, December 31	<u>\$ 167,733</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	<u>\$ 131,879</u>
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation Expense	\$ 314,357
Change in Assets and Liabilities:	
Change in Prepaid Assets	3,590
Change in Other Assets	(107)
Change in Rental Deposits	150
Change in Accounts Receivable	(1,023)
Change in Accounts Payable	4,050
Change in Compensated Absence	1,757
	<u>\$ 322,774</u>
Net Cash Provided by Operating Activities	<u>\$ 454,653</u>

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

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2013

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Barnes Rural Water District was created pursuant to administrative order 99-3. The district was organized for the express purpose of providing water service in the state of North Dakota for the use and benefits of its members. Effective July 1, 1999 the organization reorganized as a water district under the authority of the North Dakota Century Code (NDCC chapter 61-35). Becoming a water district would enable the district to issue tax exempt bonds at rate of 2% less than taxable rates. The district is exempt on all non-highway gas and motor fuel and sales taxes. The district is also eligible for general insurance under the North Dakota state insurance pool. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the entity's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities and water system operating fund of the Barnes Rural Water District. The district has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Barnes Rural Water District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Barnes Rural Water District.

Based on these criteria, there are no component units to be included within the Barnes Rural Water District as a reporting entity.

B. Basis of Presentation

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government, Barnes Rural Water District. These statements include the financial activities of the overall government. Business-type activities are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

The statement of activities presents a comparison between direct expenses and program revenues for the business type activities of the District. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including interest income and miscellaneous revenue, are presented as general revenues.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The District reports the following proprietary (business-type enterprise) fund:

*Water System Fund.* This business-type enterprise fund accounts for the operation and maintenance of the water system of the Barnes Rural Water District. All activities and balances of the entity are accounted for in this fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include special assessments, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Cash and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts.

The investments consist of certificates of deposit stated at cost with maturities in excess of three months.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<b>Classification</b>	<b>Years</b>
Buildings	30-50 years
Machinery	5-10 years
Vehicles	3-5 years
Land	Indefinite
Infrastructure	75 years
Equipment	5-10 years

F. Long-Term Obligations

In the government-wide financial statements and in the proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position.

G. Net Position

When both restricted and unrestricted resources are available for use, it is the Water District's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt (bonds payable and loans payable) issued to construct capital assets. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restricted net position is reported for amounts restricted for debt service (\$407,650), capital projects (\$500,000), and operations & maintenance (\$165,423).

Unrestricted net position totaling \$238,495 represents the unrestricted amounts related to the water fund that aren't restricted or reported in net investment in capital assets. The unrestricted net position is available to meet the district's recurring regular ongoing obligations.

**NOTE 2: DEPOSITS**

In accordance with North Dakota Statutes, the Water District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 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, its boards, agencies or instrumentalities or by any park, city, township, school district, park district, or other political subdivision of 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 another state of the United States or such other securities approved by the banking board.

At year ended September 30, 2013, the Water District's carrying amount of deposits was \$1,271,205 and the bank balances totaled \$1,323,604. Of the bank balances, \$797,338 was covered by Federal Depository Insurance, and the remaining bank balances totaling \$526,266, were collateralized with securities held by the pledging financial institution's agent in the government's name.

**BARNES RURAL WATER DISTRICT**

Notes to the Financial Statements - Continued

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Credit Risk:

The Water District may invest idle funds as authorized in North Dakota Statutes, as follows:

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

As of September 30, 2013, the Water District held certificates of deposit in the amount of \$1,070,158, all of which are included in restricted cash and investments as outlined in more detail in note 3.

Concentration of Credit Risk:

The Water District does not have a limit on the amount the district may invest in any one issuer.

**NOTE 3: RESTRICTED CASH AND INVESTMENTS**

According to terms of the loan agreement, Barnes Rural Water District must maintain \$407,650 in a reserve 'account' (CD's) restricted for debt service. At September 30, 2013, \$407,650 was held in the required reserve.

Barnes County also maintains other amounts in restricted cash and restricted certificates of deposit (investments) for capital projects (totaling \$500,000), and operations and maintenance (totaling \$195,873).

The \$407,650 for debt service restricted amounts consists of the following:

- \$231,250 as dictated by loan resolution with CAPMARK (note 6) – maximum amount accumulated at 9-30-13;
- \$55,000 as dictated by North Dakota Municipal Bond Bank loan resolution (note 6) – maximum amount accumulated at 9-30-13;
- \$121,400 (up to \$151,750) as dictated by North Dakota Municipal Bond Bank loan resolution (note 6) – accumulated as \$30,350 per year until \$151,750 is accumulated (beginning in FY2010);

The \$500,000 in capital projects amounts consists of the following:

- Reserve for new facility - \$200,000;
- Reserve for Equipment - \$180,000;
- Reserve for Construction - \$120,000;

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$195,873 at 9-30-13.

**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements - Continued

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts owed to the Water District from private individuals for billings for water.

**NOTE 5: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended September 30, 2013:

<b>Business-Type Activities:</b>	<b>Balance January 1</b>	<b>Adjustments</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 253,116	\$ -	\$ -	\$ -	\$ 253,116
Construction in Progress	-	-	27,552	-	27,552
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 253,116</b>	<b>\$ -</b>	<b>\$ 27,552</b>	<b>\$ -</b>	<b>\$ 280,668</b>
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 830,498	\$ -	\$ -	\$ -	\$ 830,498
Equipment	1,630,814	(57,481)	-	-	1,573,333
Vehicles	97,520	-	18,504	25,000	91,024
Infrastructure	9,431,253	(2,181)	19,694	-	9,448,766
<b>Total Capital Assets, Being Depreciated</b>	<b>\$11,990,085</b>	<b>\$(59,662)</b>	<b>\$ 38,198</b>	<b>\$25,000</b>	<b>\$11,943,621</b>
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 528,433	\$ -	\$ 20,850	\$ -	\$ 549,283
Equipment	1,283,604	-	28,367	-	1,311,971
Vehicles	56,083	-	20,101	12,684	63,500
Infrastructure	3,499,354	-	245,039	-	3,744,393
<b>Total Accumulated Depreciation</b>	<b>\$ 5,367,474</b>	<b>\$ -</b>	<b>\$ 314,357</b>	<b>\$12,684</b>	<b>\$ 5,669,147</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 6,622,611</b>	<b>\$(59,662)</b>	<b>\$(276,159)</b>	<b>\$12,316</b>	<b>\$ 6,274,474</b>
<b>Governmental Activities-Capital Assets, Net</b>	<b>\$ 6,875,727</b>	<b>\$(59,662)</b>	<b>\$(248,607)</b>	<b>\$12,316</b>	<b>\$ 6,555,142</b>

All depreciation expense of \$314,357 was charged to the water system enterprise fund and business-type activities.

**NOTE 6: LONG-TERM DEBT**

**Changes in Long-Term Liabilities** - During the year ended September 30, 2013, the following changes occurred in liabilities reported in long-term business-type liabilities:

<b>Governmental Activities:</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
SRF Bond 2003	\$ 500,000	\$ -	\$ 40,000	\$ 460,000	\$ 40,000
SRF Bond 2009	1,755,000	-	105,000	1,650,000	105,000
Berkadian Loan	1,071,821	-	167,967	903,854	175,234
Compensated Absences *	17,041	1,757	-	18,798	940
<b>Total Governmental Activities</b>	<b>\$3,343,862</b>	<b>\$1,757</b>	<b>\$312,967</b>	<b>\$3,032,652</b>	<b>\$321,174</b>

**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements - Continued

Outstanding business-type activities debt at September 30, 2013 is comprised of the following individual issues:

**Loans Payable:**

\$755,000 State Revolving Fund Loan for water system project due in annual installments of \$35,000 to \$50,000 through 2023, interest at 2.5%.	\$ 460,000
\$1,950,000 State Revolving Fund Loan for water system project due in annual installments of \$95,000 to \$150,000 through 2026, interest at 2.5%.	1,650,000
\$1,071,821 Bank loan for water system project due in annual installments of \$18,716 per month with interest at 5%. A new payment schedule is provided each year (see additional information below).	<u>903,854</u>
<b>Total Loans Payable</b>	<b><u>\$3,013,854</u></b>

Debt service requirements on business-type activity long-term debt (SRF loans) at September 30, 2013 are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>SRF 2003 Loan</b>		<b>SRF 2009 Loan</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 40,000	\$11,500	\$ 105,000	\$ 41,250
2015	40,000	10,500	110,000	38,625
2016	45,000	9,500	110,000	35,875
2017	45,000	8,375	115,000	33,125
2018	45,000	7,250	120,000	30,250
2019 - 2023	245,000	18,625	655,000	104,500
2024-2023	-	-	435,000	22,000
<b>Total</b>	<b>\$460,000</b>	<b>\$65,750</b>	<b>\$1,650,000</b>	<b>\$305,625</b>

**Berkadia Loan/Mortgage Payable:**

Barnes Rural Water District has contracted with the Rural Development Agency for construction financing of the water distribution system. Total loan funds of \$3,700,000 were approved with all funds having been drawn down by September 30, 2013. The loan was purchased by Berkadia. Original terms of repayment were \$18,167 per month beginning August 27, 1980, a term of 40 years, at a rate of 5%.

Total payments (including interest) of \$218,004 were made in FY2013 consisting of \$167,937 in principal, and \$50,037 in interest. Monthly payments of \$18,167 per month were made each month in FY2013.

**Revenue Fund Account (Berkadia) – Covenants:**

As soon as the facility becomes revenue producing, the gross revenues and other income, if any, shall be set aside in a separate account to be designated the Revenue Fund Account, and monies so deposited therein shall be expended and used only in the manner and order as follows:

- Debt Service Account – there shall be transferred each month from the revenue fund account, before any other expenditure or transfer therefrom, and credited to the debt service account for payment of the annual installment of the note, a sum equal to at least 1/12 (or such larger amount as necessary) of the annual installment becoming

due on the next succeeding January 1. If the association for any reason shall fail to make such required transfers, than an amount equal to the deficiency shall be set apart and credited to the debt service account out of the gross revenues in the ensuing month or months, which amount shall be in addition to the regular credits required during such succeeding month or months;

- Operation and Maintenance Account – after the transfer require to the debt service account, there shall be set aside and credited to the operation and maintenance account each month a sufficient portion of the balance of the income and revenue remaining in the revenue fund account to pay the reasonable and necessary current expenses of operating and maintaining the facility for the current month;
- Reserve Account – from the balance of funds in the reserve fund account remaining after the transfer required to the debt service account and to the operation and maintenance account, there shall be set aside the sum of \$1,918 each month until there is accumulated in that fund the sum of \$231,250, after which no further credits need be made into said account except to replace withdrawals. The reserve account shall be used and disbursed only for the purposes of paying the costs for the costs of repairing or replacing any damage to the facility which may be caused by any unforeseen catastrophe, for making extensions or improvements to the facility with the prior written approval of CAPMARK, and when necessary for the purpose of making debt service payments on the note in the event the amount in the debt service account is insufficient to make such payments. Whenever disbursements are made from the reserve account monthly credits shall then be resumed until there is again accumulated the maximum amount of \$231,250 at which time credits may be discontinued. Whenever there shall accumulate in the revenue fund account amounts in excess of the requirements for debt service, operations & maintenance, and reserve, such excess may be made to make prepayments on the loan. The accounts required for debt service, operations & maintenance, and reserve may be established and maintained as either bookkeeping accounts or as separate bank accounts at the election of the association unless otherwise directed by the government;

Investments of \$231,250 are designated (restricted) toward the requirements of accumulating \$231,250 toward the reserve (restriction) for debt payment, extension and emergencies under the original \$3,700,000 loan agreements. See Note 3.

North Dakota Municipal Bond Bank-State Revolving Loan Fund Bond Issue - Reserve:

Barnes Rural Water District has been authorized to issue improvement bonds in the amount of \$816,000 through the North Dakota Municipal Bond Bank-State Revolving Loan Fund. The proceeds will be used for system improvements and expansion. The bonds were issued starting 2003. The district shall be required to maintain a reserve in the amount of \$55,000. This reserve is to be accumulated in the amount of \$11,000 per year (see Note 3). As of September 30, 2013, \$816,000 of these bonds were issued.

North Dakota Municipal Bond Bank-State Revolving Loan Fund Bond Issue – Reserve:

Barnes Rural Water District has been authorized to issue improvement bonds in the amount of \$2,205,000 through the North Dakota Municipal Bond Bank-State Revolving Loan Fund. The proceeds will be used for the acquisition of the South East Water Users District. The bonds were issued starting October 2009. The district shall be required to maintain a reserve in the amount of \$151,750. This reserve is to be accumulated in the amount of \$30,350 per year (see Note 3). As of September 30, 2013, \$2,023,650 of these bonds were issued.

**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements - Continued

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**NOTE 7: GRANTS – RURAL DEVELOPMENT AGENCY**

The Rural Development Agency has approved outright grants to Barnes Rural Water District in the amount of \$2,600,000 with such grants to be advanced by the lender or grantor in one or more advances at such time or as the need arises. Any grant funds in excess of required and approved needs will be cancelled/or returned to the grantor. These grants shall start only when all available construction monies loaned to Barnes Rural Water District have been consumed. As of September 30, 2013 all of the grant money has been drawn.

**NOTE 8: OPERATING LEASE**

The Barnes Rural Water District entered into a lease during FY2013 for building space for \$1,220 per month that commenced April 1, 2013 and runs through March 31, 2018. This lease is considered for accounting purposes to be an operating lease. Lease payments made in FY2013 totaled \$7,200. The remaining future minimum lease payment obligations are as follows:

<b>Year Ending September 30</b>	<b>Amount</b>
2014	\$ 14,640
2015	14,640
2016	14,640
2017	14,640
2018	7,320
Total	<u>\$65,880</u>

**NOTE 9: ACCOUNTS PAYABLE**

Accounts payable consists of amounts on open account for goods and services received prior to September 30, 2013 and chargeable to the appropriations for the years then ended, but paid for subsequent to that date.

**NOTE 10: CUSTOMER DEPOSITS**

Customer deposits consist of amounts paid by water users on deposit for water meters and utility billings. These amounts are payable to customers upon termination of water service.

**NOTE 11: INTEREST PAYABLE**

Interest payable consists of the portion of interest accrued on loans payable balances outstanding at September 30, 2013.

**NOTE 12: PENSION PLAN**

The rural water district provides retirement benefits for all full time employees through defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are able to select which IRA account they want and the water district pays 7% of the employee's salary each month.

The Barnes Rural Water District total contributions for the years ended December 31, 2013, 2012, and 2011 were \$26,532, \$25,440, and \$24,002, respectively.

**NOTE 13: RISK MANAGEMENT**

The Barnes Rural Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Barnes Rural Water District pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per accident for general liability and automobile. The coverage for the Water District by NDIRF is limited to losses of two million dollars for general liability and automobile.

Barnes Rural Water District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Barnes Rural Water District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund coverage is limited to \$6,263,506 for building property, personal property, and outdoor property.

The State Bonding Fund through the North Dakota Insurance Department currently provides the Water District with blanket fidelity bond coverage in the amount of \$613,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Barnes Rural Water District has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 14: SERVICE OF SOUTH EAST DISTRICT MEMBERS**

Barnes Rural Water District has entered into an agreement with South East Water District to purchase the memberships of 53 users of South East Water District. The agreement was effected October 1, 2003 and Y is to pay \$45 per month per user through July 31, 2040. Upon compliance with the terms of the agreement, South East Water District shall pay to Barnes Rural Water District the membership equity of each member in the amount of \$350. This agreement ended as of August 12, 2009. Barnes has purchased these users for the amount of \$2,023,650 and has issued bonds to pay for this acquisition.

**NOTE 15: PRIOR PERIOD ADJUSTMENTS**

There were prior period adjustments for the period ending September 30, 2013 for enterprise activities and the water system fund involving adjustments to the beginning net position to include compensated absence balances not previously reported, and for net capital assets missed in the prior year. The total net effect of these adjustments resulted in a \$32,189 decrease to net position.

<b>Business-Type Activities / Water System Fund:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$4,837,222
<b>Adjustments to restate the October 1, 2012 Net Position:</b>	
Compensated Absences (add beginning balance)	(17,041)
Capital Assets (missed assets in prior years)	(15,148)
Net Position – October 1, 2012, as restated	<u>\$4,805,033</u>

STATE AUDITOR

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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*

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Governing Board  
Barnes Rural Water District  
Valley City, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Barnes Rural Water District's basic financial statements, and have issued our report thereon dated May 8, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2013-01].

## **BARNES RURAL WATER DISTRICT**

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

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Barnes Rural Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Barnes Rural Water Resource District's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 8, 2014

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2013

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**Section I - Summary of Auditor's Results**

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Financial Statements

Type of Report Issued:

Business-Type Activities  
Major Business-Type Fund

Unmodified  
Unmodified

Internal Control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_ Yes        X   No

Significant deficiencies identified not considered  
to be material weaknesses?

  X   Yes      \_\_\_\_\_ None reported

Noncompliance material to financial statements  
noted?

\_\_\_\_\_ Yes        X   No

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**Section II - Financial Statement Findings**

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**2013-01 - SEGREGATION OF DUTIES**

**Condition:**

The Barnes Rural Water District has one employee responsible for accounting functions and general ledger maintenance.

**Effect:**

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

**Cause:**

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

**Criteria:**

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

**Recommendation:**

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

**Client Response:**

I agree with the recommendation. The issuing of check and checks to vendors is approved by the Operations Manager before they are paid by the Office Manager. The financial statements are reviewed monthly by the board of directors.