



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Barnes Rural Water District

Valley City, North Dakota

Audit Report for the Year Ended September 30, 2023

Client Code: PS2010



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Office of the
State Auditor

BARNES RURAL WATER DISTRICT

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BARNES RURAL WATER DISTRICT

District Officials
September 30, 2023

DISTRICT OFFICIALS

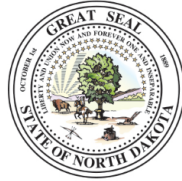
Chris Kvilvang
Ervand Andersen
Scott Andersen
Dean Stenson
Tyler Van Bruggen
Deb Burchill

Perry Kapaun
Dave Sather
Lisa Olstad
Angie Elston

President
Vice President
Board Member
Board Member
Board Member
Secretary/Treasurer

Operations Manager
Assistant Manager
Office Manager
Office Manager

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

INDEPENDENT AUDITOR'S REPORT

Governing Board
Barnes Rural Water District
Valley City, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Barnes Rural Water District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Barnes Rural Water District, Valley City, North Dakota as of September 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Barnes Rural Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Barnes Rural Water District adopted new accounting guidance GASB Statement No. 87, Lease Accounting. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Barnes Rural Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of Barnes Rural Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Barnes Rural Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 GAS we have also issued our report dated February 2, 2024 on our consideration of 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 solely 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 effectiveness of Barnes Rural Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GAS in considering Barnes Rural Water District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 2, 2024

BARNES RURAL WATER DISTRICT

Statement of Net Position – Proprietary Fund
September 30, 2023

	<u>Business-Type Activities</u> <u>Water System</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 403,302
Restricted Investments	
Operating and Maintenance	1,756,937
New Facility	200,000
Capital Improvement	200,000
Short Lived Asset	463,998
Debt Reserve	393,570
Accounts Receivable	144,169
Intergovernmental Receivable	124,207
Loan Drawdown Receivable	72,695
Total Current Assets	<u>\$ 3,758,878</u>
Noncurrent Assets	
Capital Assets	
Nondepreciable	\$ 1,033,733
Depreciable, Net	20,375,744
Amortized, Net	73,273
Total Noncurrent Assets	<u>\$ 21,482,750</u>
Total Assets	<u>\$ 25,241,628</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 248,603
Payroll Liability	299
Unearned Revenue	19,665
Interest Payable	7,086
Long-Term Debt	332,015
Lease Payable	13,940
Compensated Absences	1,256
Total Current Liabilities	<u>\$ 622,864</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 4,353,397
Lease Payable	60,452
Compensated Absences	23,865
Total Noncurrent Liabilities	<u>\$ 4,437,714</u>
Total Liabilities	<u>\$ 5,060,578</u>
NET POSITION	
Net Investment in Capital Assets	\$ 16,790,252
Restricted	
Debt Service	393,570
Capital Projects	863,998
Operations & Maintenance	1,756,937
Unrestricted	<u>376,293</u>
Total Net Position	<u>\$ 20,181,050</u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Year Ended September 30, 2023

	<u>Business-Type Activities</u> <u>Water System</u>
OPERATING REVENUES	
Water Sales	\$ 2,060,233
Connection Charges	21,178
Service Calls	17,231
Member Fees	5,750
Hookup Income	25,000
Late Charges	16,551
Sale of Material	21,817
Meter Estimate Charges	29,860
Special Water Income	8,966
Other Operating Revenues	<u>44,018</u>
Total Operating Revenues	<u>\$ 2,250,604</u>
OPERATING EXPENSES	
Salaries	\$ 483,771
Operating Supplies	176,494
Power	146,798
Insurance	163,858
Professional Services	24,048
Office Expense	71,784
Repairs	26,900
Transportation	20,811
Site Maintenance	15,134
Warehouse Rent	8,250
Miscellaneous	12,185
Employee Benefits	39,266
Payroll Taxes	37,664
Other Employee Expenses	6,040
Depreciation Expense	607,036
Amortization Expense	<u>8,142</u>
Total Operating Expenses	<u>\$ 1,848,181</u>
Operating Income	<u>\$ 402,423</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital Contribution and Grants	\$ 611,785
Interest Income	18,439
Miscellaneous Revenue	8,375
Projects Expense	(9,007)
Interest and Fees on Long-Term Debt	(116,323)
Gain of Sale of Capital Asset	<u>11,596</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 524,865</u>
Change in Net Position	<u>\$ 927,288</u>
Net Position - October 1	<u>\$ 19,253,762</u>
Net Position - September 30	<u>\$ 20,181,050</u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICTStatement of Cash Flows – Proprietary Fund
September 30, 2023

	Business-Type Activities Water System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 2,251,316
Cash Payments to Suppliers for Goods and Services	(1,564,715)
Cash Payments to Employees for Services	(482,026)
	<u>204,575</u>
Net Cash Provided by Operating Activities	\$ 204,575
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ 8,375
Interest Received	18,439
Net Change in Investments	(503,852)
	<u>(477,038)</u>
Net Cash Used by Non-Capital and Related Financing Activities	\$ (477,038)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (906,765)
Project Expense	(9,007)
Capital Contributions	1,070,963
Principal on Long-Term Debt	(384,581)
Debt Proceeds	322,760
Interest and Fees Paid on Long-Term Debt	(116,900)
	<u>(23,530)</u>
Net Cash Used by Capital and Related Financing Activities	\$ (23,530)
Net Decrease in Cash and Cash Equivalents	\$ (295,993)
Cash and Cash Equivalents, October 1	\$ 699,295
Cash and Cash Equivalents, September 30	<u>\$ 403,302</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 402,423
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 607,036
Amortization Expense	8,142
Change in Assets and Liabilities	
Net Change in Accounts Receivable	712
Net Change in Accounts Payable	(665,520)
Net Change in Unearned Revenue	(9,375)
Net Change in Payroll Liability	97
Net Change in Retainage Payable	(140,588)
Net Change in Compensated Absences	1,648
	<u>1,648</u>
Total Adjustments	\$ (197,848)
Net Cash Provided by Operating Activities	<u>\$ 204,575</u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Barnes Rural Water District (hereafter referred to as "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities and water system operating fund of the 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 the 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 the District.

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

Basis of Presentation

Proprietary Fund Statements. The *statement of net position – proprietary fund* and the *statement of revenues, expenses, and changes in fund position – proprietary fund* display information about the primary government, the 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.

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 District. All activities and balances of the entity are accounted for in this fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The 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.

Cash, Cash Equivalents, 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.

Capital Assets

Capital assets include property, plant, and equipment. Assets are reported in the in the proprietary 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:

Buildings	30-50 years
Machinery	5-10 years
Land & Land Improvements	Indefinite
Vehicles	3-5 years
Infrastructure	75 years
Furniture and Equipment	5-10 years

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the proprietary financial statements.

Leases

The District leases buildings. Leased right-to-use assets and the corresponding lease liability are recorded at the present value of future payments over the shorter of the lease term or the assets useful life. The future lease payments are discounted using the implicit rate identified in the lease, or if not identified, then the District's incremental borrowing rate is used. The leased right-to-use assets are amortized on a straight-line basis. When applicable, lease right-to-use assets are reported as capital assets and lease liabilities are reported as long-term liabilities in the statement of net position.

Net Position

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restrictions by outside parties.

Unrestricted net position 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.

New Accounting Pronouncement

During the year ended September 30, 2023 the District adopted new accounting guidance by implementing the provisions of GASB Statement No. 87. Lease Accounting, which establishes a single model for lease accounting based on the foundation principal that leases are financings of the right to use an underlying asset.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements - Continued

NOTE 2 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The District does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution 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 county, 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, 2023, the District's carrying amount of deposits totaled \$3,417,729, and the bank balances totaled \$3,436,296. Of the bank balances, \$1,250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 3 RESTRICTED INVESTMENTS

According to the terms of the District's loan agreements, the District must maintain \$393,570 in a reserve account (CD's) restricted for debt service. At September 30, 2023, \$393,570 was held in the required reserve.

The District also maintains other amounts in restricted investments for capital reserve (totaling \$863,968), and operations and maintenance (totaling \$756,937).

\$393,570 required to be held in debt reserve consists of the following:

- \$154,375 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-14
- \$132,500 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-16
- \$92,625 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-18
- \$14,070 as dictated by the USDA Rural Development Program

The District has chosen to restrict \$863,998 in capital reserve, which consist of the following:

- Reserve for New Facility - \$200,000
- Reserve for Capital improvement - \$200,000
- Reserve for Short Lived Asset as dictated by the USDA Rural Development Program - \$463,998

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$756,937 at September 30, 2023.

NOTE 4 CAPITAL ASSETS/RIGHT-TO-USE ASSETS

Primary Government

The following is a summary of changes in capital assets for the year ended September 30, 2023:

	Beginning Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Capital Assets Not Being Depreciated					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	3,103,453	870,058	-	(3,220,445)	753,066
Total Capital Assets, Not Being Depreciated	\$ 3,384,120	\$ 870,058	\$ -	\$ (3,220,445)	\$ 1,033,733
Capital assets, Being Depreciated					
Buildings	\$ 5,077,680	\$ -	\$ -	\$ -	\$ 5,077,680
Equipment	1,794,370	7,747	-	-	1,802,117
Vehicles	137,673	46,460	(29,521)	-	154,612
Infrastructure	20,268,584	-	-	3,220,445	23,489,029
Total Capital Assets, Being Depreciated	\$ 27,278,307	\$ 54,207	\$ (29,521)	\$ 3,220,445	\$ 30,523,438
Less Accumulated Depreciation					
Buildings	\$ 1,327,944	\$ 105,130	\$ -	\$ -	\$ 1,433,074
Equipment	1,512,760	31,308	-	-	1,544,068
Vehicles	51,874	30,922	(23,617)	-	59,179
Infrastructure	6,671,697	439,676	-	-	7,111,373
Total Accumulated Depreciation	\$ 9,564,275	\$ 607,036	\$ (23,617)	\$ -	\$ 10,147,694
Total Capital Assets Being Depreciated, Net	\$ 17,714,032	\$ (552,829)	\$ (5,904)	\$ 3,220,445	\$ 20,375,744
Capital Assets, Net	\$ 21,098,152	\$ 317,229	\$ (5,904)	\$ -	\$ 21,409,477

Primary Government	Beginning Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Right-to-use assets being amortized					
Building	\$ -	\$ 81,415	\$ -	\$ -	\$ 81,415
Total Right-to-Assets, Being Amortized	\$ -	\$ 81,415	\$ -	\$ -	\$ 81,415
Less Accumulated Amortization for					
Building	\$ -	\$ 8,142	\$ -	\$ -	\$ 8,142
Total Accumulated Amortization	\$ -	\$ 8,142	\$ -	\$ -	\$ 8,142
Total Right-to-Use Assets Being Amortized, Net	\$ -	\$ 73,273	\$ -	\$ -	\$ 73,273
Total Capital Assets and Right-to-Use Assets, Net	\$ 21,098,152	\$ 390,502	\$ (5,904)	\$ -	\$ 21,482,750

Depreciation and amortization expense was charged to the water system enterprise fund and business-type activities.

NOTE 5 LONG-TERM LIABILITIES

Primary Government

During the year ended September 30, 2023, the following changes occurred in governmental activities long-term liabilities:

	Balance Oct 1	Increases	Decreases	Ending Sept 30	Due Within One Year
Long-Term Debt					
Loans Payable	\$ 946,977	\$ 200,994	\$ 37,559	\$ 1,110,412	\$ 37,015
GO Bonds Payable	3,915,000	-	340,000	3,575,000	295,000
Total Long-Term Debt	\$ 4,861,977	\$ 200,994	\$ 377,559	\$ 4,685,412	\$ 332,015
Compensated Absences	\$ 23,473	\$ 1,648	\$ -	\$ 25,121	\$ 1,256
Leases Payable	-	81,416	7,024	74,392	13,940
Total Long Term Liabilities	\$ 4,885,450	\$ 284,058	\$ 384,583	\$ 4,784,925	\$ 347,211

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements - Continued

Debt service requirements on long-term debt is as follows:

Year Ending Sept 30	Loans Payable		GO Bonds Payable	
	Principal	Interest	Principal	Interest
2024	37,015	20,505	295,000	64,750
2025	37,483	19,955	300,000	58,425
2026	37,963	19,175	315,000	51,975
2027	38,457	18,381	165,000	45,225
2028	38,965	17,573	170,000	42,225
2029-2033	222,940	74,800	905,000	163,475
2034-2038	242,895	50,545	605,000	85,125
2039-2043	159,695	29,204	390,000	50,025
2044-2048	155,000	17,625	430,000	19,425
2049-2053	139,999	5,250	-	-
Total	\$ 1,110,412	\$ 273,013	\$ 3,575,000	\$ 580,650

NOTE 6 LEASES PAYABLE

The District entered into an agreement to lease a building for 5 years beginning on April 1, 2023, totaling \$97,500. Due in monthly principal and interest installments ranging from \$1,575 to \$1,675 at 7.5% interest until March 31, 2028. Payments are to be made from the Water Fund.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2023 were as follows:

Year Ending Sept 30	Leases Payable	
	Principal	Interest
2024	13,940	5,110
2025	15,333	4,017
2026	16,834	2,816
2027	18,452	1,498
2028	9,833	216
Total	\$ 74,392	\$ 13,657

NOTE 7 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.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), 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 NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per accident for general liability and automobile.

The 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 is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,219,808 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements - Continued

The District has worker's 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 fiscal years.

NOTE 8 RETIREMENT PLAN

The District provides retirement benefits for all full-time employees through contribution to a designated IRA, SEP, or Keogh 403(B). Employees are able to select which type of 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 September 30, 2023, 2022, and 2021 were \$39,266, \$38,515, and \$38,572, respectively.

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

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*

Independent Auditor's Report

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 of Barnes Rural Water District as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Barnes Rural Water District's basic financial statements, and have issued our report thereon dated February 2, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Barnes Rural Water District's internal control over financial reporting (internal control) as a basis for designing 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 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. We identified a certain deficiency in internal control, described in the accompanying *schedule of audit findings* as item 2023-001 that we consider to be a material weakness.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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 District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Barnes Rural Water District's response to the findings identified in our audit and described in the accompanying schedule of audit findings. Barnes Rural Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 2, 2024

BARNES RURAL WATER DISTRICT

Summary of Auditor's Results

For the Year Ended September 30, 2023

Financial Statements

Type of Report Issued:

Business-Type Activities

Unmodified

Internal control over financial reporting

Material weaknesses identified?

X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

 Yes X None Noted

Noncompliance material to financial statements noted?

 Yes X None Noted

BARNES RURAL WATER DISTRICT

Schedule of Audit Findings

For the Year Ended September 30, 2023

2023-001 AUDIT ADJUSTMENTS – MATERIAL WEAKNESS

Condition

During the audit of the Barnes Rural Water District, we proposed adjusting entries to the financial statements in accordance with generally accepted accounting principles (GAAP) The adjustments were approved by management and are reflected in the financial statements.

Effect

There is an increased risk of material misstatement to the Barnes Rural Water District's financial statements.

Cause

The Barnes Rural Water District may not have procedures in place to ensure the financial statements are complete and accurate.

Criteria

The Barnes Rural Water District is responsible for the preparation of its financial statements and related note disclosures to ensure it is reliable, accurate, free of material misstatement, and in accordance with GAAP.

Prior Recommendation

No.

Recommendation

We recommend the Barnes Rural Water District review its procedures for the preparation of the financial statements to ensure the financial statements are complete and accurate in accordance with GAAP.

Barnes Rural Water District's Response

Agree. Barnes Rural Water District does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

GOVERNANCE COMMUNICATION

February 2, 2024

Governing Board
Barnes Rural Water District
Valley City, North Dakota

We have audited the financial statements of the business-type activities of Barnes Rural Water District, Valley City, North Dakota. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 27, 2023. Professional standards also require that we communicate to you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Barnes Rural Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by Barnes Rural Water District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on past history of each classification of capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. The items listed below summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

	<u>Debit</u>	<u>Credit</u>
Compensated Absences PPA	23,130	-
Expenditures	-	1,001
Compensated Absences	-	22,129

The following material misstatements detected as a result of audit procedures were corrected by management.

	<u>Debit</u>	<u>Credit</u>
Intergovernmental Receivable	124,207	-
Capital Contributions	-	124,207
Capital Assets, Net	99,980	-
Depreciation Expense	42,939	-
Retainage Payable	20,000	-
Accounts Payable	-	162,919

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreement arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 2, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to Barnes Rural Water District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Barnes Rural Water District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of the governing board and management of Barnes Rural Water District, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Barnes Rural Water District for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Barnes Rural Water District.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 2, 2024



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505