



Burleigh County Water Resource District

Bismarck, North Dakota

Audit Report

For the Year Ended December 31, 2018

**JOSHUA C. GALLION
STATE AUDITOR**

Office of the State Auditor
Division of Local Government

BURLEIGH COUNTY WATER RESOURCE DISTRICT

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BURLEIGH COUNTY WATER RESOURCE DISTRICT

Water Resource District Officials and Audit Personnel

December 31, 2018

WATER RESOURCE DISTRICT OFFICIALS

Greg Larson	Chairman
Dennis Reep	Vice Chairman
Rick Detwiller	Manager/Treasurer
Rodney Beck	Manager
James Landenberger, PE	Manager
Mona Livdahl	Secretary/Treasurer
David R. Bliss	Attorney
Michael Gunsch	Engineer

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Burleigh County Water Resource District
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Burleigh County Water Resource District, Bismarck, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Burleigh County Water Resource 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. 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 governmental activities and the major fund of Burleigh County Water Resource District, Bismarck, North Dakota, as of December 31, 2018, 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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules* and *notes to the required supplementary information* on pages 15-16 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.

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 10, 2019 on our consideration of Burleigh County Water Resource 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 Burleigh County Water Resource District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 10, 2019

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Statement of Net Position

December 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,917,468
Intergovernmental Receivable	23,928
Taxes Receivable	8,010
Capital Assets, Net	<u>3,622,351</u>
Total Assets	<u>\$ 7,571,757</u>
LIABILITIES	
Accounts Payable	\$ 25,892
Salaries Payable	765
Retainages Payable	36,240
Long-Term Liabilities	
Due Within One Year	
Long-Term Debt	50,335
Due After One Year	
Long-Term Debt	<u>830,545</u>
Total Liabilities	<u>\$ 943,777</u>
DEFERRED INFLOWS OF RESOURCES	
Grants Received in Advance	<u>\$ 1,784,402</u>
NET POSITION	
Net Investment in Capital Assets	\$ 3,586,111
Restricted	
Conservation of Natural Resources	<u>1,257,467</u>
Total Net Position	<u><u>\$ 4,843,578</u></u>

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities				Governmental Activities
Conservation of Natural Resources	\$ 538,749	\$ 141,984	\$ 511,591	\$ 114,826
Interest on Long-Term Debt	20,434	-	-	(20,434)
Total Governmental Activities	\$ 559,183	\$ 141,984	\$ 511,591	\$ 94,392
General Revenues				
Taxes				\$ 731,908
Non-restricted Grants and Contributions				91,510
Interest Earnings				2,836
Miscellaneous Revenues				41,044
Total General Revenues				\$ 867,298
Special Item				
Loss on Impairment of Construction in Progress				\$ (195,560)
Change in Net Position				\$ 766,130
Net Position - January 1				\$ 4,077,448
Net Position - December 31				\$ 4,843,578

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Balance Sheet – Governmental Funds

December 31, 2018

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 3,917,468
Intergovernmental Receivable	23,928
Taxes Receivable	<u>8,010</u>
Total Assets	<u><u>\$ 3,949,406</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 25,892
Salaries Payable	<u>765</u>
Total Liabilities	<u>\$ 26,657</u>
Deferred Inflows of Resources:	
Taxes Receivable	\$ 8,010
Grants Received in Advance	<u>1,784,402</u>
Total Deferred Inflows of Resources	<u>\$ 1,792,412</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 1,819,069</u>
Fund Balances	
Restricted	
Conservation of Natural Resources	<u>\$ 2,130,337</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 3,949,406</u></u>

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total Fund Balances for Governmental Funds \$ 2,130,337

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 3,622,351

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds. 8,010

Long-term liabilities applicable to the Water District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

Retainage Payable	\$ (36,240)	
Long-Term Debt	(880,880)	(917,120)

Total Net Position of Governmental Activities \$ 4,843,578

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2018

	General Fund
Revenues	
Taxes	\$ 786,043
Intergovernmental	689,099
Interest Income	2,836
Miscellaneous	41,044
	<hr/>
Total Revenues	\$ 1,519,022
Expenditures	
Current	
Payroll	\$ 19,668
Management Services	25,997
McDowell Dam	219,338
Projects	584,424
Drainage Complaints	54,814
Legal Fees	12,367
Engineering Administration	14,302
Miscellaneous	40,685
Debt Service	
Principal	36,000
Interest	22,925
	<hr/>
Total Expenditures	\$ 1,030,520
Net Change in Fund Balances	\$ 488,502
Fund Balance - January 1	\$ 1,641,835
	<hr/>
Fund Balance - December 31	\$ 2,130,337
	<hr/>

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 488,502

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 575,877	
Depreciation Expense	106,791	469,086

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the loss on the capital assets sold. (195,560)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 36,000

Bond discounts are amortized over the life of the bond as interest expense using the straight-line method. (665)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Retainage Payable	\$ (36,240)	
Net Increase in Interest Payable	3,156	(33,084)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Increase in Taxes Receivable	\$ 1,916	
Net Decrease in Special Assessments Receivable	(65)	1,851

Change in Net Position of Governmental Activities \$ 766,130

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

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Burleigh County Water Resource District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 District's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities 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 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. These criteria include 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.

B. Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, service charges, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. 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 and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the District's fund. Separate statements are provided for the governmental fund. The emphasis of fund financial statements is on the major governmental fund.

The District reports the following major governmental fund:

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government.

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

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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 property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

BURLEIGH COUNTY WATER RESOURCE DISTRICT
 Notes to the Financial Statements – Continued

Governmental Fund Financial Statements. The governmental fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

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 consists of amounts in demand deposit and money market accounts.

E. Capital Assets

Capital assets include property, plant, and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical 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. 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:

ASSETS	YEARS
Land Improvements	15 – 40
Buildings	40
Building Improvements	15 – 40
Machinery & Equipment	3 – 15
Infrastructure	40 – 50
Vehicles & Office Equipment	3 – 10

F. Long-Term Obligations

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

In the fund financial statements, the face amount of the debt is reported as other financing sources. When applicable, premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

G. Fund Balances

Fund Balance Spending Policy. It is the policy of the District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

H. Net Position

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.

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 restricted tax levies and restricted federal & state grants/reimbursements.

NOTE 2: DEPOSITS

Custodial Credit Risk

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 December 31, 2018, the District's carrying amount of deposits totaled \$3,917,468, and the bank balances totaled \$3,917,817. Of the bank balances, \$500,000 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: PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

BURLEIGH COUNTY WATER RESOURCE DISTRICT
Notes to the Financial Statements – Continued

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Land	\$ 112,481	\$ -	\$ -	\$ 112,481
Construction in Progress	635,282	575,877	195,560	1,015,599
Total Capital Assets, Not Being Depreciated	\$ 747,763	\$ 575,877	\$ 195,560	\$ 1,128,080
Capital assets, being depreciated				
Infrastructure	\$ 1,608,191	\$ -	\$ -	\$ 1,608,191
Land Improvements	1,810,033	-	-	1,810,033.00
Building	187,660	-	-	187,660.00
Office Furniture & Equip.	144,209	-	-	144,209.00
Total Capital Assets, Being Depreciated	\$ 3,750,093	\$ -	\$ -	\$ 3,750,093
Less accumulated depreciation				
Infrastructure	\$ 93,490	\$ 40,205	\$ -	\$ 133,695
Land Improvements	816,120	57,723	-	873,843.00
Building	146,388	1,645	-	148,033.00
Office Furniture & Equip.	93,033	7,218	-	100,251.00
Total Accumulated Depreciation	\$ 1,149,031	\$ 106,791	\$ -	\$ 1,255,822
Total Capital Assets Being Depreciated, Net	\$ 2,601,062	\$ (106,791)	\$ -	\$ 2,494,271
Total Capital Assets, Net	\$ 3,348,825	\$ 469,086	\$ 195,560	\$ 3,622,351

Depreciation expense was charged to conservation of natural resources.

NOTE 5: LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in liabilities reported in long-term liabilities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long Term Debt					
Loans Payable	\$ 192,000	\$ -	\$ 11,000	\$ 181,000	\$ 11,000
Bonds Payable	735,000	-	25,000	710,000	40,000
Bond Discount	(10,785)	-	(665)	(10,120)	(665)
Total Long Term Debt	\$ 916,215	\$ -	\$ 35,335	\$ 880,880	\$ 50,335

Debt Service requirement on long-term debt at December 31, 2018 are as follows:

Year Ending December 31	Loans Payable		Bonds Payable		Bond Discount
	Principal	Interest	Principal	Interest	
2019	\$ 11,000	\$ 4,520	\$ 40,000	\$ 17,563	\$ 665
2020	10,000	4,250	40,000	16,637	665
2021	10,000	4,000	40,000	15,713	665
2022	10,000	3,750	40,000	14,787	665
2023	10,000	3,500	40,000	13,863	665
2024 - 2028	70,000	13,000	235,000	53,538	3,325
2029 - 2033	60,000	3,750	225,000	21,437	2,930
2034 - 2038	-	-	50,000	1,500	540
Total	\$ 181,000	\$ 36,770	\$ 710,000	\$ 155,038	\$ 10,120

NOTE 6: GRANTS RECEIVED IN ADVANCE

In fiscal year 2015, \$2.8 million in grants were received in advance from the State Water Commission for the Fox Island Project. At December 31, 2018, \$1,015,598 had been expended leaving an unexpended balance of \$1,784,402. This amount is reported as deferred inflows of resources on both the fund financial statements as well as the statement of net position.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss relating 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 (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRF for liability coverage. The coverage by NDRF is limited to losses of \$1,000,000.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The 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 two million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$366,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

NOTE 8: SPECIAL ITEM – LOSS ON IMPAIRMENT OF CONSTRUCTION IN PROGRESS

The District reported an impairment loss of \$195,560 on the Hay Creek Pines project. This loss represents engineering and legal fees that were charged to the project before it was canceled at the request of taxpayers.

NOTE 9: TAX ABATEMENTS

Burleigh County and political subdivisions within the County can negotiate property tax abatement agreements with individuals and various commercial entities/businesses. Burleigh County and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at December 31, 2018.

The District will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs.

Charitable Organization

Under NDCC §57-02-08(8), buildings belonging to institutions of public charity, including public hospitals and nursing homes licensed pursuant to NDCC §23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with the land actually occupied by such institutions not leased or otherwise used with a view to profit may be exempt.

Under this program, there was a total reduction in property taxes of \$30,823, which was due to agreements with other local governments.

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Favorable/ (Unfavorable) Variance with Final Budget
Revenues				
Taxes	\$ 755,000	\$ 755,000	\$ 786,043	\$ 31,043
Intergovernmental	54,000	54,000	689,099	635,099
Interest Income	100	100	2,836	2,736
Miscellaneous	11,800	11,800	41,044	29,244
Total Revenues	\$ 820,900	\$ 820,900	\$ 1,519,022	\$ 698,122
Expenditures				
Current				
Payroll	\$ 33,000	\$ 33,000	\$ 19,668	\$ 13,332
Management Services	25,000	25,000	25,997	(997)
McDowell Dam	299,025	299,025	219,338	79,687
McDowell Dam - Capital Improvements	145,000	145,000	-	145,000
Projects	106,075	315,695	584,424	(268,729)
Drainage Complaints	70,000	70,000	54,814	15,186
Legal Fees	24,000	24,000	12,367	11,633
Engineering Administration	20,000	20,000	14,302	5,698
Miscellaneous	98,800	98,800	40,685	58,115
Debt Service				
Principal	-	-	36,000	(36,000)
Interest	-	-	22,925	(22,925)
Total Expenditures	\$ 820,900	\$ 1,030,520	\$ 1,030,520	\$ -
Net Changes in Fund Balances	\$ -	\$ (209,620)	\$ 488,502	\$ 698,122
Fund Balance - January 1	\$ 1,641,835	\$ 1,641,835	\$ 1,641,835	\$ -
Fund Balance - December 31	\$ 1,641,835	\$ 1,432,215	\$ 2,130,337	\$ 698,122

The accompanying required supplementary information notes are an integral part of this schedule.

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- The water resource district board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund.
- The budget includes proposed expenditures and means of financing them.
- The water resource district, on or before the October meeting shall determine the amount of taxes that shall be levied for district purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the operations coordinator at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: BUDGET AMENDMENTS

The Burleigh County Water Resource District Board of Commissioners amended the expenditures budget for the year ended December 31, 2018 as follows:

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 820,900	\$ 209,620	\$ 1,030,520

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

**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

Board of Commissioners
Burleigh County Water Resource District
Bismarck, North 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 governmental activities and the major fund of Burleigh County Water Resource District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Burleigh County Water Resource District's basic financial statements, and have issued our report thereon dated May 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Burleigh County Water Resource 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 Burleigh County Water Resource District's internal control. Accordingly, we do not express an opinion on the effectiveness of Burleigh County Water Resource 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Burleigh County Water Resource 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*.

BURLEIGH COUNTY WATER RESOURCE 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

Burleigh County Water Resource District's Response to Findings

Burleigh County Water Resource District's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Burleigh County Water Resource 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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 10, 2019

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Major Funds	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Schedule of Audit Findings

For the Year Ended December 31, 2018

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Burleigh County Water Resource District does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of the financial statements.

Criteria

Management of Burleigh County Water Resource District is responsible for establishing proper internal control over the preparation of Burleigh County Water Resource District's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

This deficiency is due to limited resources coupled with the fact that Burleigh County Water Resource District may not know how to prepare basic financial statements that comply with GAAP.

Effect

There is an increased risk of material misstatement to the Burleigh County Water Resource District's financial statements.

Recommendation

We recognize Burleigh County Water Resource District is not staffed with personnel fully knowledgeable of GAAP. However, it is important that the District is aware of this weakness and that management accepts responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP, even if the auditor assisted in drafting those financial statements. We recommend Burleigh County Water Resource District obtain the knowledge to prepare GAAP statements.

Burleigh County Water Resource District's Response

Agree. We recognize that Burleigh County Water Resource District is not currently staffed with personnel fully knowledgeable of GAAP. Burleigh County Water Resource District is in the initial phase of structuring a request for proposal to provide certified accounting services to meet current GAAP and assist in providing the required financial statements.

2018-002 – LACK OF SEGREGATION OF DUTIES

Condition

Burleigh County Water Resource District has limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

Criteria

Internal control guidance provided by the Committee of Sponsoring Organizations (COSO) indicates that the following functions should be separated: custody of assets, posting, reconciliation, and authorization.

BURLEIGH COUNTY WATER RESOURCE DISTRICT

Schedule of Audit Findings – Continued

Cause

The Burleigh County Water Resource District has no full-time staff. It outsources its secretarial and bookkeeping duties to Personalized Management Services, Inc. Personalized Management Services, Inc. has limited staff which makes segregating duties difficult.

Effect

Limited segregation of duties exposes Burleigh County Water Resource District to risk of loss of assets, potential liabilities, and damage to the reputation, whether due to error or fraud.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Burleigh County Water Resource District's Response

Agree. As stated above, Burleigh County Water Resource District will take action to seek certified accounting services to improve our current process where possible.



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GOVERNANCE COMMUNICATION

Board of Commissioners
Burleigh County Water Resource District
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Burleigh County Water Resource District, North Dakota, for the year ended December 31, 2018 which collectively comprise Burleigh County Water Resource District's basic financial statements, and have issued our report thereon dated May 10, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated April 8, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Burleigh County Water Resource District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Burleigh County Water Resource 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 and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Burleigh County Water Resource District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented 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 is useful lives of capital assets.

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. Management has corrected all such misstatements. The schedule below lists all misstatements detected as a result of audit procedures that were corrected by management.

Audit Adjustments		
Revenue	\$ 1,784,401	
Unearned Revenue		\$ 1,784,401
Intergovernmental Receivable	23,928	
Revenue		23,928
Expenditure	25,892	
Accounts Payable		25,892

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 disagreements 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 May 10, 2019.

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 the 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.

Difficulties Encountered in Performing the Audit

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

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 the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following presents our informal recommendations:

FRAUD RISK ASSESSMENT

Burleigh County Water Resource District does not currently prepare a fraud risk assessment of the entire entity. If the District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the District's goals in reporting, reliance, and accountability.

We recommend Burleigh County Water Resource District prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

This information is intended solely for the use of the Board of Commissioners and management of Burleigh County Water Resource 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 Burleigh County Water Resource 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 Burleigh County Water Resource District.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 10, 2019

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Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2220