



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, 2019

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 and Audit Personnel

September 30, 2019

DISTRICT OFFICIALS

Chris Kvilvang
Ervand Andersen

President
Vice President

Scott Andersen
Joel Owen
Tyler Van Bruggen
Dean Stenson

Board Member
Board Member
Board Member
Secretary

Perry Kapaun
Dave Sather
Lisa Olstad
Angie Elston

Operations Manager
Assistant Manager
Office Manager
Office Manager

AUDIT PERSONNEL

Heath Erickson, CPA
Rick Kremer

Audit Manager
Audit In-Charge

STATE AUDITOR
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INDEPENDENT AUDITOR'S REPORT

Governing Board
Barnes Rural Water District
Valley City, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and major fund of Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Barnes Rural Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of Barnes Rural Water District, Valley City, North Dakota, as of September 30, 2019, 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.

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Independent Auditor's Report - Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020 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 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 Barnes Rural Water District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
March 12, 2020

BARNES RURAL WATER DISTRICTStatement of Net Position – Proprietary Fund
September 30, 2019

	<u>Business-Type Activities</u>
	<u>Water System</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 234,817
Restricted Investments	
Operating and Maintenance	1,183,407
New Facility	200,000
Capital Improvement	200,000
Short Lived Asset	120,000
Debt Reserve	442,288
Accounts Receivable	90,965
Total Current Assets	<u>\$ 2,471,477</u>
Noncurrent Assets	
Depreciable	\$ 649,248
Nondepreciable, Net	17,824,954
Total Noncurrent Assets	<u>\$ 18,474,202</u>
Total Assets	<u>\$ 20,945,679</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 43,401
Interest Payable	9,585
Long-Term Debt	330,264
Compensated Absences	1,037
Total Current Liabilities	<u>\$ 384,287</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 4,948,773
Compensated Absences	19,703
Total Noncurrent Liabilities	<u>\$ 4,968,476</u>
Total Liabilities	<u>\$ 5,352,763</u>
NET POSITION	
Net Investment in Capital Assets	\$ 13,195,165
Restricted	
Debt Service	442,288
Capital Projects	520,000
Operations & Maintenance	1,183,407
Unrestricted	<u>252,056</u>
Total Net Position	<u>\$ 15,592,916</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, 2019

	Business-Type Activities
	Water System
OPERATING REVENUES	
Water Sales	\$ 1,750,705
Connection Charges	12,311
Service Calls	3,552
Member Fees	4,000
Hookup Income	33,250
Late Charges	19,209
Sale of Material	3,501
Meter Estimate Charges	23,790
Special Water Income	6,493
Other Operating Revenues	<u>7,228</u>
Total Operating Revenues	<u>\$ 1,864,039</u>
OPERATING EXPENSES	
Salaries	417,116
Operating Supplies	\$ 125,610
Power	127,709
Insurance	136,288
Professional Services	29,523
Office Expense	43,405
Repairs	32,969
Transportation	20,894
Site Maintenance	11,826
Warehouse Rent	16,500
Miscellaneous	20,650
Employee Benefits	35,361
Payroll Taxes	32,871
Other Employee Expenses	6,122
Depreciation Expense	<u>541,017</u>
Total Operating Expenses	<u>\$ 1,597,861</u>
Operating Income	<u>\$ 266,178</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital Contribution and Grants	
Interest Income	20,759
Miscellaneous Revenue	3,825
Projects Expense	(7,219)
Interest and Fees on Long-Term Debt	(137,439)
Gain of Sale of Capital Asset	<u>10,000</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (110,074)</u>
Change in Net Position	<u>\$ 156,104</u>
Net Position - October 1	<u>\$ 15,436,812</u>
Net Position - September 30	<u>\$ 15,592,916</u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICTStatement of Cash Flows – Proprietary Fund
September 30, 2019

	<u>Business-Type Activities</u>
	<u>Water System</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,881,878
Cash Payments to Suppliers for Goods and Services	(624,484)
Cash Payments to Employees for Services	<u>(416,310)</u>
Net Cash Provided by Operating Activities	<u>\$ 841,084</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ 3,825
Interest Received	20,759
Increase in Investments	<u>(434,277)</u>
Net Cash Used by Non-Capital and Related Financing Activities	<u>\$ (409,693)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (282,214)
Project Expense	(7,219)
Principal on Long-Term Debt	(321,856)
Interest and Fees Paid on Long-Term Debt	<u>(136,308)</u>
Net Cash Used by Capital and Related Financing Activities	<u>\$ (747,597)</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (316,206)</u>
Cash and Cash Equivalents, October 1	<u>\$ 551,023</u>
Cash and Cash Equivalents, September 30	<u><u>\$ 234,817</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	<u>\$ 266,178</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 541,017
Change in Assets and Liabilities	
Decrease in Accounts Receivable	17,839
Increase in Accounts Payable	15,244
Increase in Compensated Absences	<u>806</u>
Total Adjustments	<u>\$ 574,906</u>
Net Cash Provided by Operating Activities	<u><u>\$ 841,084</u></u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements
For the Year Ended September 30, 2019

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

Government-wide statements. The statement of net position and the statement of activities 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.

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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Notes to the Financial Statements – Continued

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 plant and equipment. Assets are reported in the in the government-wide and 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
Vehicles	3-5 years
Infrastructure	75 years
Equipment	5-10 years

Long-Term Obligations

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

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 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.

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.

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Notes to the Financial Statements – Continued

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, 2019, the District's carrying amount of deposits totaled \$2,380,442, and the bank balances totaled \$2,407,328. Of the bank balances, \$999,215 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 CAPITAL ASSETS**Primary Government**

The following is a summary of changes in capital assets for the year ended September 30, 2019:

	Balance Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Capital Assets Not Being Depreciated					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	189,307	179,274	-	-	368,581
Total Capital Assets, Not Being Depreciated	\$ 469,974	\$ 179,274	\$ -	\$ -	\$ 649,248
Capital assets, being depreciated					
Buildings	\$ 5,021,680	\$ 56,000	\$ -	\$ -	\$ 5,077,680
Equipment	1,760,519	27,417	-	-	1,787,936
Vehicles	134,881	29,522	25,929	-	138,474
Infrastructure	18,812,569	-	-	-	18,812,569
Total Capital Assets, Being Depreciated	\$ 25,729,649	\$ 112,939	\$ 25,929	\$ -	\$ 25,816,659
Less Accumulated Depreciation					
Buildings	\$ 907,423	\$ 105,130	\$ -	\$ -	\$ 1,012,553
Equipment	1,380,890	36,097	-	-	1,416,987
Vehicles	67,767	27,695	25,929	-	69,533
Infrastructure	5,120,537	372,095	-	-	5,492,632
Total Accumulated Depreciation	\$ 7,476,617	\$ 541,017	\$ 25,929	\$ -	\$ 7,991,705
Total Capital Assets Being Depreciated, Net	\$ 18,253,032	\$ (428,078)	\$ -	\$ -	\$ 17,824,954
Capital Assets, Net	\$ 18,723,006	\$ (248,804)	\$ -	\$ -	\$ 18,474,202

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

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Notes to the Financial Statements – Continued

NOTE 4 LONG-TERM LIABILITIES**Primary Government**

During the year ended September 30, 2019, 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	\$ 403,893	\$ -	\$ 14,856	\$ 389,037	\$ 15,264
GO Bonds Payable	5,197,000	-	307,000	4,890,000	315,000
Total Long-Term Debt	\$ 5,600,893	\$ -	\$ 321,856	\$ 5,279,037	\$ 330,264
Compensated Absences *	19,934	806	-	20,740	1,037
Total Enterprise Activities	\$ 5,620,827	\$ 806	\$ 321,856	\$ 5,299,777	\$ 331,301

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

Year Ending Sept 30	Loans Payable		GO Bonds Payable	
	Principal	Interest	Principal	Interest
2020	\$ 14,959	\$ 11,004	\$ 315,000	\$ 93,625
2021	15,068	10,895	325,000	86,700
2022	15,183	10,780	335,000	79,575
2023	15,304	10,659	340,000	72,225
2024	78,580	51,235	295,000	64,750
2025 - 2029	82,777	47,038	1,120,000	236,975
2030 - 2034	88,262	41,553	1,055,000	149,475
2035 - 2039	78,904	34,384	360,000	72,300
2040-2044	-	-	400,000	44,175
2045-2049	-	-	345,000	12,975
Total	\$ 389,037	\$ 217,548	\$ 4,890,000	\$ 912,775

NOTE 5 OPERATING LEASES

The District is engaged in various operating leases Total lease payments made during 2019 totaled \$16,500. Future lease payments are as follows:

Year Ending Sept 30	Amount
2018	\$ 16,500
2019	16,500
2020	16,500
2021	8,250
Total	\$ 57,750

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Notes to the Financial Statements – Continued

NOTE 6 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, 2019, 2018, and 2017 were \$35,361, \$36,091, and \$40,478, respectively.

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 coverage is limited to \$11,235,621 for building property, personal property, and outdoor property.

The State Bonding Fund through the North Dakota Insurance Department currently provides the District with blanket fidelity bond coverage in the amount of \$900,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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.

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

Independent Auditor's Report

Governing Board
Barnes Rural Water District
Valley City, 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 business-type activities and major fund of Barnes Rural Water District as of and for the year ended September 30, 2019, 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 March 12, 2020.

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) 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying *schedule of audit findings* as item 2019-004 to be a significant deficiency.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Barnes Rural Water District's Response to Findings

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

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
March 12, 2020

BARNES RURAL WATER DISTRICT

Summary of Auditor's Results

For the Year Ended September 30, 2019

Financial Statements

Type of Report Issued?

Business-Type Activities

Unmodified

Major Fund

Unmodified

Internal control over financial reporting

Material weaknesses identified?

 X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

 X Yes 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, 2019

2018-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition

Barnes Rural Water District currently does not prepare 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 and note disclosures.

Effect

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

Cause

Management chooses not to allocate school district resources for preparation of the financial statements.

Criteria

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

Prior Recommendation

Yes.

Recommendation

We recommend Barnes Rural Water District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

Barnes Rural Water District's Response

Agree. Barnes Rural Water District is aware that there is a risk having the State Auditor's Office prepare our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS

Condition

Barnes Rural Water District currently does not prepare the various adjusting entries to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the auditors assist in the adjusting entries to the financial statements.

Effect

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

Cause

Management chooses not to allocate school district resources for the preparation of the adjusting entries for the financial statements.

Criteria

Barnes Rural Water District is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Prior Recommendation

Yes.

Recommendation

We recommend Barnes Rural Water District consider the additional risk of having the auditors assist in the preparation of the adjusting entries to the financial statements and consider preparing them in the future.

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.

2018-003 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Barnes Rural Water 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.

Effect

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

Cause

There is no segregation of duties as two employees are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Criteria

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

Prior Recommendation

Yes.

Recommendation

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

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and reviewed 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.

Barnes Rural Water District's Response

Agree. If/when it becomes feasible to segregate to additional personnel, it will be done.

2019-004 FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY

Condition

Barnes Rural Water District does not currently prepare a fraud risk assessment of the entire entity.

Effect

If Barnes Rural Water District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Barnes Rural Water District may not have considered preparing a fraud risk assessment.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the Committee of Sponsoring Organizations of the Treadway Commission (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 entities goals in reporting, reliance, and accountability.

Prior Recommendation

No.

Recommendation

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

Barnes Rural Water District's Response

Agree. Barnes Rural Water District will look into performing a fraud risk assessment.

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GOVERNANCE COMMUNICATION

Governing Board
Barnes Rural Water District
Valley City, North Dakota

We have audited the financial statements of the business-type activities and major fund of Barnes Rural Water District, North Dakota, for the year ended September 30, 2019 which collectively comprise Barnes Rural Water District's basic financial statements, and have issued our report thereon dated March 12, 2020. 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 January 27, 2020, 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 Barnes Rural Water 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 Barnes Rural Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 Barnes Rural Water District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended September 30, 2019. 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.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
Expenses	43,401	-	30,325	-	73,726	-
Accounts Payable	-	43,401	-	-	-	43,401
Interest Payable	-	-	-	9,585	-	9,585
Compensated Absences Payable	-	-	-	20,740	-	20,740
Capital Assets	-	-	18,474,202	-	18,474,202	-
Depreciation Expense	-	-	541,017	-	541,017	-
Bonds Payable	-	-	-	4,890,000	-	4,890,000
Loans Payable	-	-	-	389,037	-	389,037
Accumulated Depreciation	-	-	-	541,017	-	541,017
Net Position	-	-	-	13,195,165	-	13,195,165
Principal Payments	-	-	321,856	-	321,856	-
Capital Assets	-	-	292,214	-	292,214	-
Expense	-	-	-	604,070	-	604,070
Gain on Sale of Capital Assets	-	-	-	10,000	-	10,000

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 March 12, 2020.

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.

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
March 12, 2020



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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