



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, 2021

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, 2021

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
Izabelle Knoll

Audit Manager
Audit In-Charge

STATE AUDITOR
Joshua C. Gallion



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STATE CAPITOL
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INDEPENDENT AUDITOR'S REPORT

Governing Board
Barnes Rural Water District
Valley City, North Dakota

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, 2021, 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 and the standards applicable to financial audits contained in the Government Auditing Standards, Issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of Barnes Rural Water District, Valley City, North Dakota, as of September 30, 2021, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, fiscal year 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2022 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
February 4, 2022

BARNES RURAL WATER DISTRICT

Statement of Net Position – Proprietary Fund

September 30, 2021

	Business-Type Activities Water System
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 310,572
Restricted Investments	
Operating and Maintenance	1,564,556
New Facility	200,000
Capital Improvement	200,000
Short Lived Asset	120,000
Debt Reserve	447,480
Accounts Receivable	130,850
Total Current Assets	<u>\$ 2,973,458</u>
Noncurrent Assets	
Nondepreciable	\$ 621,616
Depreciable, Net	18,167,867
Total Noncurrent Assets	<u>\$ 18,789,483</u>
Total Assets	<u>\$ 21,762,941</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 55,449
Payroll Liability	202
Interest Payable	7,452
Long-Term Debt	351,166
Compensated Absences	1,169
Total Current Liabilities	<u>\$ 415,438</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 4,256,920
Compensated Absences	22,205
Total Noncurrent Liabilities	<u>\$ 4,279,125</u>
Total Liabilities	<u>\$ 4,694,563</u>
NET POSITION	
Net Investment in Capital Assets	\$ 14,173,945
Restricted	
Debt Service	447,480
Capital Projects	520,000
Operations & Maintenance	1,564,556
Unrestricted	<u>362,397</u>
Total Net Position	<u>\$ 17,068,378</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, 2021

	Business-Type Activities Water System
OPERATING REVENUES	
Water Sales	\$ 1,964,201
Connection Charges	21,053
Service Calls	7,302
Member Fees	6,750
Hookup Income	33,250
Late Charges	18,532
Sale of Material	14,516
Meter Estimate Charges	20,920
Special Water Income	17,747
Other Operating Revenues	1,056
Total Operating Revenues	<u>\$ 2,105,327</u>
OPERATING EXPENSES	
Salaries	\$ 448,987
Operating Supplies	162,665
Power	133,481
Insurance	154,009
Professional Services	32,878
Office Expense	63,654
Repairs	22,257
Transportation	20,252
Site Maintenance	12,374
Warehouse Rent	16,500
Miscellaneous	12,891
Employee Benefits	38,612
Payroll Taxes	45,774
Other Employee Expenses	3,216
Depreciation Expense	563,387
Total Operating Expenses	<u>\$ 1,730,937</u>
Operating Income	<u>\$ 374,390</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital Contribution and Grants	\$ 191,307
Interest Income	23,968
Miscellaneous Revenue	9,147
Projects Expense	(15,163)
Interest and Fees on Long-Term Debt	(119,099)
Gain of Sale of Capital Asset	15,000
Total Non-Operating Revenues (Expenses)	<u>\$ 105,160</u>
Change in Net Position	<u>\$ 479,550</u>
Net Position - October 1	<u>\$ 16,586,151</u>
Prior Period Adjustment	<u>\$ 2,677</u>
Net Position - October 1, As Restated	<u>\$ 16,588,828</u>
Net Position - September 30	<u><u>\$ 17,068,378</u></u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICT

Statement of Cash Flows – Proprietary Fund

September 30, 2021

	Business-Type Activities Water System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 2,232,711
Cash Payments to Suppliers for Goods and Services	(816,882)
Cash Payments to Employees for Services	(448,837)
Net Cash Provided by Operating Activities	\$ 966,992
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ 9,147
Interest Received	23,968
Net Change in Investments	(252,237)
Net Cash Used by Non-Capital and Related Financing Activities	\$ (219,122)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (571,373)
Project Expense	(15,163)
Capital Contributions	191,307
Principal on Long-Term Debt	(340,685)
Interest and Fees Paid on Long-Term Debt	(119,729)
Net Cash Used by Capital and Related Financing Activities	\$ (855,643)
Net Decrease in Cash and Cash Equivalents	\$ (107,773)
Cash and Cash Equivalents, October 1	\$ 418,345
Cash and Cash Equivalents, September 30	\$ 310,572
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 374,390
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 563,387
Change in Assets and Liabilities	
Net Change in Accounts Receivable	(24,272)
Net Change in Intergovernmental Receivable	151,656
Net Change in Accounts Payable	(30,956)
Net Change in Unearned Revenue	(50,842)
Net Change in Payroll Liability	(1,500)
Net Change in Retainage Payable	(16,521)
Net Change in Compensated Absences	1,650
Total Adjustments	\$ 592,602
Net Cash Provided by Operating Activities	\$ 966,992
See notes to the financial statements.	

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2021

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 – 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

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

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

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

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
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 government-wide and proprietary financial statements.

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.

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Net position of the District as of October 1, 2020 has been restated for net capital asset adjustments as shown below. The results of the adjustment increased the beginning net position of the District.

Primary Government	
Beginning Net Position, as Previously Reported	\$ 16,586,151
Capital Assets, Net	2,677
Beginning Net Position, as Restated	\$ 16,588,828

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements - Continued

NOTE 3 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, 2021, the District's carrying amount of deposits totaled \$2,842,530, and the bank balances totaled \$2,900,950. 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 4 RESTRICTED INVESTMENTS

According to the terms of the District's loan agreements, the District must maintain \$447,480 in a reserve account (CD's) restricted for debt service. At September 30, 2021, \$447,480 was held in the required reserve.

The District also maintains other amounts in restricted investments for capital reserve (totaling \$520,000), and operations and maintenance (totaling \$1,564,556).

\$447,480 required to be held in debt reserve consists of the following:

- \$55,000 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-14
- \$154,375 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-14
- \$132,500 as dictated by loan resolution with ND Municipal Bond Bank loan – maximum amount accumulated at 9-30-16
- \$92,625 as dictated by the USDA Rural Development Program
- \$12,980 as dictated by the USDA Rural Development Program

The District has chosen to restrict \$520,000 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 - \$120,000

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$1,564,556 at September 30, 2021.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements - Continued

NOTE 5 CAPITAL ASSETS**Primary Government**

The following is a summary of changes in capital assets for the year ended September 30, 2021:

	Restated Balance Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Capital Assets Not Being Depreciated					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	848,014	553,242	-	(1,060,307)	340,949
Total Capital Assets, Not Being Depreciated	\$ 1,128,681	\$ 553,242	\$ -	\$ (1,060,307)	\$ 621,616
Capital assets, being depreciated					
Buildings	\$ 5,077,680	\$ -	\$ -	\$ -	\$ 5,077,680
Equipment	1,794,370	-	-	-	1,794,370
Vehicles	138,474	33,131	(34,807)	-	136,798
Infrastructure	19,165,689	-	-	1,060,307	20,225,996
Total Capital Assets, Being Depreciated	\$ 26,176,213	\$ 33,131	\$ (34,807)	\$ 1,060,307	\$ 27,234,844
Less Accumulated Depreciation					
Buildings	\$ 1,117,684	\$ 105,130	\$ -	\$ -	\$ 1,222,814
Equipment	1,451,694	30,533	-	-	1,482,227
Vehicles	97,228	27,360	(34,807)	-	89,781
Infrastructure	5,871,791	400,364	-	-	6,272,155
Total Accumulated Depreciation	\$ 8,538,397	\$ 563,387	\$ (34,807)	\$ -	\$ 9,066,977
Total Capital Assets Being Depreciated, Net	\$ 17,637,816	\$ (530,256)	\$ -	\$ 1,060,307	\$ 18,167,867
Capital Assets, Net	\$ 18,766,497	\$ 22,986	\$ -	\$ -	\$ 18,789,483

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

NOTE 6 LONG-TERM LIABILITIES**Primary Government**

During the year ended September 30, 2021, 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	\$ 373,771	\$ -	\$ 15,685	\$ 358,086	\$ 16,166
GO Bonds Payable	4,575,000	-	325,000	4,250,000	335,000
Total Long-Term Debt	\$ 4,948,771	\$ -	\$ 340,685	\$ 4,608,086	\$ 351,166
Compensated Absences *	\$ 21,724	\$ 1,650	\$ -	\$ 23,374	\$ 1,169
Total Enterprise Activities	\$ 4,970,495	\$ 1,650	\$ 340,685	\$ 4,631,460	\$ 352,335

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
2022	16,116	9,847	335,000	79,575
2023	16,559	9,404	340,000	72,225
2024	17,015	8,948	295,000	64,750
2025	17,483	8,480	300,000	58,425
2026	17,963	8,000	315,000	51,975
2027-2031	97,504	32,311	865,000	195,350
2032-2036	111,668	18,147	835,000	112,800
2037-2041	63,778	3,245	375,000	61,425
2042-2046	-	-	415,000	32,025
2047-2051	-	-	175,000	3,900
Total	\$ 358,086	\$ 98,382	\$ 4,250,000	\$ 732,450

NOTE 7 OPERATING LEASES

The District is engaged in various operating leases. Total lease payments made during 2021 totaled \$16,500. Future lease payments are as follows:

Year Ending Sept 30	Amount
2022	16,500
2023	8,250
Total	\$ 24,750

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, 2021, 2020, and 2019 were \$38,572, \$37,127, and \$35,361, respectively.

NOTE 9 RISK MANAGEMENT

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

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

The 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 \$1,069,665 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 10 SUBSEQUENT EVENTS

Subsequent to September 30, 2021, the Water District entered into a \$2,793,000 construction contract with Swanberg Construction for the Reservoir Storage Capacity Improvement Project.

Subsequent to September 30, 2021, the Water District issued a revenue bond in the amount of \$806,000 for the Reservoir Storage Capacity Improvement Project.



**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, 2021, 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 4, 2022.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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*.

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 4, 2022

BARNES RURAL WATER DISTRICT

Summary of Auditor's Results

For the Year Ended September 30, 2021

Financial Statements

Type of Report Issued?

Business-Type Activities

Major Fund

Unmodified

Unmodified

Internal control over financial reporting

Material weaknesses identified?

 Yes X 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

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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, 2021 which collectively comprise Barnes Rural Water District's basic financial statements, and have issued our report thereon dated February 4, 2022. 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 December 1, 2021, 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, 2021. 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. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 February 4, 2022.

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
February 4, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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