



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, 2022

Client Code: PS2010



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Office of the
State Auditor

BARNES RURAL WATER DISTRICT

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BARNES RURAL WATER DISTRICT

District Officials
September 30, 2022

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

STATE AUDITOR
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INDEPENDENT AUDITOR'S REPORT

Governing Board
Barnes Rural Water District
Valley City, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Barnes Rural Water District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Barnes Rural Water District, Valley City, North Dakota as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2021 financial statements have been restated to correct a misstatement. Our opinion is not modified with the respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with GAS we have also issued our report dated February 3, 2023 on our consideration of Barnes Rural Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Barnes Rural Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GAS in considering Barnes Rural Water District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 3, 2023

BARNES RURAL WATER DISTRICT

Statement of Net Position – Proprietary Fund

September 30, 2022

	<u>Business-Type Activities</u> <u>Water System</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 699,295
Restricted Investments	
Operating and Maintenance	1,278,015
New Facility	200,000
Capital Improvement	200,000
Short Lived Asset	386,665
Debt Reserve	445,973
Accounts Receivable	144,881
Intergovernmental Receivable	583,385
Loan Drawdown Receivable	194,462
Total Current Assets	<u>\$ 4,132,676</u>
Noncurrent Assets	
Nondepreciable	\$ 3,384,120
Depreciable, Net	17,714,032
Total Noncurrent Assets	<u>\$ 21,098,152</u>
Total Assets	<u>\$ 25,230,828</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 914,123
Payroll Liability	202
Unearned Revenue	29,040
Retainages Payable	140,588
Interest Payable	7,663
Long-Term Debt	372,676
Compensated Absences	1,174
Total Current Liabilities	<u>\$ 1,465,466</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 4,489,301
Compensated Absences	22,299
Total Noncurrent Liabilities	<u>\$ 4,511,600</u>
Total Liabilities	<u>\$ 5,977,066</u>
NET POSITION	
Net Investment in Capital Assets	\$ 16,087,924
Restricted	
Debt Service	445,973
Capital Projects	786,665
Operations & Maintenance	1,278,015
Unrestricted	<u>655,185</u>
Total Net Position	<u>\$ 19,253,762</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, 2022

	<u>Business-Type Activities</u> <u>Water System</u>
OPERATING REVENUES	
Water Sales	\$ 1,922,731
Connection Charges	15,287
Service Calls	9,711
Member Fees	5,000
Hookup Income	29,500
Late Charges	18,152
Sale of Material	11,672
Meter Estimate Charges	25,840
Special Water Income	9,736
Other Operating Revenues	<u>8,438</u>
Total Operating Revenues	<u>\$ 2,056,067</u>
OPERATING EXPENSES	
Salaries	\$ 472,903
Operating Supplies	164,772
Power	141,622
Insurance	156,278
Professional Services	23,922
Office Expense	68,123
Repairs	47,252
Transportation	27,572
Site Maintenance	12,960
Warehouse Rent	16,500
Miscellaneous	14,597
Employee Benefits	38,515
Payroll Taxes	36,018
Other Employee Expenses	4,781
Depreciation Expense	<u>562,739</u>
Total Operating Expenses	<u>\$ 1,788,554</u>
Operating Income	<u>\$ 267,513</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital Contribution and Grants	\$ 1,922,671
Interest Income	60,761
Miscellaneous Revenue	26,014
Projects Expense	(121,580)
Interest and Fees on Long-Term Debt	(111,490)
Gain of Sale of Capital Asset	<u>25,296</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 1,801,672</u>
Change in Net Position	<u>\$ 2,069,185</u>
Net Position - October 1	<u>\$ 17,068,378</u>
Prior Period Adjustment	<u>\$ 116,199</u>
Net Position - October 1, As Restated	<u>\$ 17,184,577</u>
Net Position - September 30	<u>\$ 19,253,762</u>

See notes to the financial statements.

BARNES RURAL WATER DISTRICTStatement of Cash Flows – Proprietary Fund
September 30, 2022

	Business-Type Activities
	Water System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 2,042,036
Cash Payments to Suppliers for Goods and Services	275,390
Cash Payments to Employees for Services	<u>(472,804)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,844,622</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ 26,014
Interest Received	60,761
Net Change in Investments	<u>21,383</u>
Net Cash Provided by Non-Capital and Related Financing Activities	<u>\$ 108,158</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (2,729,913)
Project Expense	(121,580)
Capital Contributions	1,339,286
Principal on Long-Term Debt	(351,116)
Debt Proceeds	410,545
Interest and Fees Paid on Long-Term Debt	<u>(111,279)</u>
Net Cash Used by Capital and Related Financing Activities	<u>\$ (1,564,057)</u>
Net Increase in Cash and Cash Equivalents	<u>\$ 388,723</u>
Cash and Cash Equivalents, October 1	<u>\$ 310,572</u>
Cash and Cash Equivalents, September 30	<u><u>\$ 699,295</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	<u>\$ 267,513</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 562,739
Change in Assets and Liabilities	
Net Change in Accounts Receivable	(14,031)
Net Change in Accounts Payable	858,674
Net Change in Unearned Revenue	29,040
Net Change in Retainage Payable	140,588
Net Change in Compensated Absences	<u>99</u>
Total Adjustments	<u>\$ 1,577,109</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,844,622</u></u>
See notes to the financial statements.	

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements
For the Year Ended September 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Presentation

Proprietary Fund Statements. The *statement of net position – proprietary fund* and the *statement of revenues, expenses, and changes in fund position – proprietary fund* display information about the primary government, the District. These statements include the financial activities of the overall government business-type activities are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Cash, Cash Equivalents, and Investments

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

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

Capital Assets

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

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

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

Long-Term Obligations

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

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, 2021 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	\$ 17,068,378
Capital Assets, Net	116,199
Beginning Net Position, as Restated	\$ 17,184,577

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, 2022, the District's carrying amount of deposits totaled \$3,209,871, and the bank balances totaled \$3,233,468. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance. The remaining bank balances, besides \$22,700 of the bank balances which were uninsured and uncollateralized, 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 \$445,973 in a reserve account (CD's) restricted for debt service. At September 30, 2022, \$445,973 was held in the required reserve.

The District also maintains other amounts in restricted investments for capital reserve (totaling \$786,665), and operations and maintenance (totaling \$1,278,015).

\$445,973 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 North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-16
- \$92,625 as dictated by North Dakota Municipal Bond Bank loan resolution – maximum amount accumulated at 9-30-18
- \$11,473 as dictated by the USDA Rural Development Program

The District has chosen to restrict \$786,665 in capital reserve, which consist of the following:

- Reserve for New Facility - \$200,000
- Reserve for Capital improvement - \$200,000
- Reserve for Short Lived Asset as dictated by the USDA Rural Development Program - \$386,665

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$1,278,015 at September 30, 2022.

NOTE 5 CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the year ended September 30, 2022:

	Restated Balance Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Capital Assets Not Being Depreciated					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	457,201	2,688,840	-	(42,588)	3,103,453
Total Capital Assets, Not Being Depreciated	\$ 737,868	\$ 2,688,840	\$ -	\$ (42,588)	\$ 3,384,120
Capital assets, being depreciated					
Buildings	\$ 5,077,680	\$ -	\$ -	\$ -	\$ 5,077,680
Equipment	1,794,370	-	-	-	1,794,370
Vehicles	136,798	75,020	(74,145)	-	137,673
Infrastructure	20,225,996	-	-	42,588	20,268,584
Total Capital Assets, Being Depreciated	\$ 27,234,844	\$ 75,020	\$ (74,145)	\$ 42,588	\$ 27,278,307
Less Accumulated Depreciation					
Buildings	\$ 1,222,814	\$ 105,130	\$ -	\$ -	\$ 1,327,944
Equipment	1,482,227	30,533	-	-	1,512,760
Vehicles	89,781	27,534	(65,441)	-	51,874
Infrastructure	6,272,155	399,542	-	-	6,671,697
Total Accumulated Depreciation	\$ 9,066,977	\$ 562,739	\$ (65,441)	\$ -	\$ 9,564,275
Total Capital Assets Being Depreciated, Net	\$ 18,167,867	\$ (487,719)	\$ (8,704)	\$ 42,588	\$ 17,714,032
Capital Assets, Net	\$ 18,905,735	\$ 2,201,121	\$ (8,704)	\$ -	\$ 21,098,152

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, 2022, 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	\$ 358,086	\$ 605,007	\$ 16,116	\$ 946,977	\$ 32,676
GO Bonds Payable	4,250,000	-	335,000	3,915,000	340,000
Total Long-Term Debt	\$ 4,608,086	\$ 605,007	\$ 351,116	\$ 4,861,977	\$ 372,676
Compensated Absences	\$ 23,374	\$ 99	\$ -	\$ 23,473	\$ 1,174
Total Enterprise Activities	\$ 4,631,460	\$ 605,106	\$ 351,116	\$ 4,885,450	\$ 373,850

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
2023	32,676	18,479	340,000	72,225
2024	33,373	17,782	295,000	64,750
2025	34,087	17,068	300,000	58,425
2026	34,816	16,339	315,000	51,975
2027	35,563	15,592	165,000	45,225
2028-2032	189,641	66,134	885,000	179,600
2033-2037	211,109	44,655	720,000	97,800
2038-2042	143,387	23,634	385,000	55,800
2043-2047	111,841	14,119	425,000	25,800
2048-2052	120,484	5,476	85,000	1,275
Total	\$ 946,977	\$ 239,278	\$ 3,915,000	\$ 652,875

The District entered into an agreement with the North Dakota Public Finance Authority for a loan request of \$806,000 during fiscal year 2022. The loan is through the Public Finance Authority’s Drinking Water State Revolving Fund and the money will be used for the Reservoir Storage Capacity Improvement Project. During fiscal year 2022, the district received \$605,006 from the loan with \$200,994 available for use at the end of fiscal year 2022.

NOTE 7 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, 2022, 2021, and 2020 were \$38,515, \$38,572, and \$37,127, respectively.

NOTE 8 RISK MANAGEMENT

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

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

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Barnes Rural Water District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,219,808 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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 9 OPEN CONSTRUCTION CONTRACTS

Primary Government

The District had one construction project open at year-end:

Project	Contract Amount	Change Orders	Total Contract Amount	Total Completed	Retainage	Remaining Balance
Reservoir Storage Capacity Improvement Project	\$ 2,793,000	\$ 18,766	\$ 2,811,766	\$ 2,333,013	\$ 140,588	\$ 619,341

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Barnes Rural Water District as of and for the year ended September 30, 2022, 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 3, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not 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

Report on Compliance and Other Matters

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

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 3, 2023

BARNES RURAL WATER DISTRICT

Summary of Auditor's Results

For the Year Ended September 30, 2022

Financial Statements

Type of Report Issued:

Business-Type Activities

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

STATE AUDITOR
Joshua C. Gallion



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GOVERNANCE COMMUNICATION

February 3, 2023

Governing Board
Barnes Rural Water District
Valley City, North Dakota

We have audited the financial statements of the business-type activities of Barnes Rural Water District, Valley City, North Dakota. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 5, 2022. Professional standards also require that we communicate to you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Barnes Rural Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by Barnes Rural Water District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all know and likely misstatements to identified during the audit, other than those that are trivial, and report them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

	<u>Debit</u>	<u>Credit</u>
Accounts Payable	18,375	
Expenditures		18,375

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

	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	29,040	-
Unearned Revenue	-	29,040

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 3, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Restriction on Use

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

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 3, 2023



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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