



Barnes Rural Water District

Valley City, North Dakota

Audit Report

For the Year Ended September 30, 2018

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

BARNES RURAL WATER DISTRICT

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BARNES RURAL WATER DISTRICT

District Officials and Audit Personnel

September 30, 2018

DISTRICT OFFICIALS

Chris Kvilvang
Ervand Andersen

President
Vice President

Scott Andersen
Joel Owen
Jim Drong
Dean Stenson

Board Member
Board Member
Board Member
Board Member

Perry Kapaun
Lisa Olstad/Angie Elston

Operations Manager
Office Manager

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE
Heath Erickson, CPA

Audit Manager
Audit In-Charge



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

INDEPENDENT AUDITOR'S REPORT

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, 2018, 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 governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Barnes Rural Water District, Valley City, North Dakota, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Other Information

Other information of the Barnes Rural Water District consists of the *schedule of expenditures of federal awards, Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Barnes Rural Water District's basic financial statements. The *other information* is presented for purposes of additional analysis and are not a required part of the financial statements.

The *other information* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *other information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019 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

Fargo, North Dakota
March 25, 2019

BARNES RURAL WATER DISTRICT

Statement of Net Position

September 30, 2018

	<u>Business-Type Activities</u>
ASSETS	
Cash, Cash Equivalents, and Investments	\$ 551,023
Restricted Investments	
Operating and Maintenance	771,726
New Facility	200,000
Capital Improvement	180,000
Short Lived Asset	120,000
Debt Service	439,692
Accounts Receivable	108,803
Capital Assets, Net	<u>18,723,006</u>
Total Assets	<u>\$ 21,094,250</u>
LIABILITIES	
Accounts Payable	\$ 27,602
Other Payables	555
Interest Payable	8,454
Long-Term Liabilities	
Due Within One Year	
Long-Term Debt	316,016
Compensated Absences	997
Due After One Year	
Long-Term Debt	5,284,877
Compensated Absences	<u>18,937</u>
Total Liabilities	<u>\$ 5,657,438</u>
NET POSITION	
Net Investment in Capital Assets	\$ 13,122,113
Restricted	
Debt Service	439,692
Capital Projects	500,000
Operations & Maintenance	771,726
Unrestricted	<u>603,281</u>
Total Net Position	<u>\$ 15,436,812</u>

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

BARNES RURAL WATER DISTRICT

Statement of Activities

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		Total Business-Type Activities
		Charges for Services	Capital Grants and Contributions	
Business-Type Activities				
Water System	\$ 1,604,028	\$ 1,907,414	\$ 365,706	\$ 669,092
Interest and Fees on Long-Term Debt	150,808	-	-	(150,808)
	<u>\$ 1,754,836</u>	<u>\$ 1,907,414</u>	<u>\$ 365,706</u>	<u>\$ 518,284</u>
General Revenues				
Earnings on Investments				\$ 2,603
Miscellaneous Revenue				<u>4,248</u>
Total General Revenues				<u>\$ 6,851</u>
Change in Net Position				<u>\$ 525,135</u>
Net Position - October 1				<u>\$ 14,911,677</u>
Net Position - September 30				<u><u>\$ 15,436,812</u></u>

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

BARNES RURAL WATER DISTRICTStatement of Net Position – Proprietary Fund
September 30, 2018

	<u>Business-Type Activities</u>
	<u>Water System</u>
ASSETS	
Current Assets	
Cash, Cash Equivalents, and Investments	\$ 551,023
Restricted Investments	
Operating and Maintenance	771,726
New Facility	200,000
Capital Improvement	180,000
Short Lived Asset	120,000
Debt Reserve	439,692
Accounts Receivable	<u>108,803</u>
Total Current Assets	<u>\$ 2,371,244</u>
Noncurrent Assets	
Capital Assets, Net	<u>\$ 18,723,006</u>
Total Assets	<u>\$ 21,094,250</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 27,602
Other Payables	555
Interest Payable	8,454
Long-Term Debt	316,016
Compensated Absences	997
Total Current Liabilities	<u>\$ 353,624</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 5,284,877
Compensated Absences	18,937
Total Noncurrent Liabilities	<u>\$ 5,303,814</u>
Total Liabilities	<u>\$ 5,657,438</u>
NET POSITION	
Net Investment in Capital Assets	\$ 13,122,113
Restricted	
Debt Service	439,692
Capital Projects	500,000
Operations & Maintenance	771,726
Unrestricted	<u>603,281</u>
Total Net Position	<u>\$ 15,436,812</u>

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

BARNES RURAL WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
For the Year Ended September 30, 2018

	<u>Business-Type Activities</u>
	<u>Water System</u>
OPERATING REVENUES	
Water Sales	\$ 1,782,281
Connection Charges	11,085
Service Calls	7,516
Member Fees	3,750
Hookup Income	20,250
Late Charges	20,564
Sale of Material	10,619
Meter Estimate Charges	23,950
Special Water Income	21,027
Other Operating Revenues	<u>6,373</u>
Total Operating Revenues	<u>\$ 1,907,415</u>
OPERATING EXPENSES	
Operating Supplies	\$ 32,990
Power	126,460
Office Expense	44,611
Chemicals	87,830
Repairs	47,513
Transportation	3,239
Site Maintenance	10,185
Warehouse Rent	15,725
Professional Services	31,808
Combining Billing Supplies	3,472
Insurance	135,868
Miscellaneous	14,240
Salaries	378,258
Employee Benefits	36,091
Payroll Taxes	63,994
Depreciation Expense	<u>538,406</u>
Total Operating Expenses	<u>\$ 1,570,690</u>
Operating Income	<u>\$ 336,725</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital Contribution and Grants	\$ 365,706
Interest Income	2,603
Miscellaneous Revenue	4,248
Projects Expense	(13,694)
Interest on Long-Term Debt	(150,808)
Other Non-Operating Expenses	<u>(19,645)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 188,410</u>
Change in Net Position	<u>\$ 525,135</u>
Total Net Position - October 1	<u>\$ 14,911,677</u>
Total Net Position - September 30	<u><u>\$ 15,436,812</u></u>

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

BARNES RURAL WATER DISTRICTStatement of Cash Flows – Proprietary Funds
September 30, 2018

	<u>Business-Type Activities</u>
	<u>Water System</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,906,299
Cash Payments to Suppliers for Goods and Services	(657,296)
Cash Payments to Employees for Services	(384,022)
	<hr/>
Net Cash Provided by Operating Activities	\$ 864,981
	<hr/>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Miscellaneous	\$ (15,397)
Interest Received	2,603
Change in Investments	(340,015)
	<hr/>
Net Cash Provided (Used) by Non-capital and Related Financing Activities	\$ (352,809)
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	\$ (898,559)
Loss on Sale of Capital Assets	5,186
Capital Contributions	365,706
Principal on Long-Term Debt	(2,233,719)
Interest Paid	(148,637)
Debt Proceeds	2,314,913
	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (595,110)
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (82,938)
	<hr/>
Cash and Cash Equivalents, October 1	\$ 633,961
	<hr/>
Cash and Cash Equivalents, September 30	\$ 551,023
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 336,725
	<hr/>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation Expense	\$ 538,406
Change in Assets and Liabilities:	
Change in Accounts Receivable	(1,116)
Change in Accounts Payable	(3,759)
Change in Other Payables	489
Change in Compensated Absences	(5,764)
	<hr/>
Total Adjustments	\$ 528,256
	<hr/>
Net Cash Provided by Operating Activities	\$ 864,981
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The notes to the financial statements are an integral part of this statement.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Barnes Rural Water District (“District”) was created pursuant to administrative order 99-3. The District was organized for the expressed purpose of providing water service in the state of North Dakota for the use and benefits of its members. Effective July 1, 1999 the organization reorganized as a water district under the authority of the North Dakota Century Code (NDCC chapter 61-35). Becoming a water district would enable the District to issue tax exempt bonds at a rate of 2% less than taxable rates. The District is exempt on all non-highway gas and motor fuel and sales taxes. The District is also eligible for general insurance under the North Dakota state insurance pool. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). 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 entity's accounting policies are described below.

A. 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.

B. 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.

C. 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.

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements – Continued

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.

D. 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.

E. 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

F. Long-Term Obligations

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

K. 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

Credit Risk

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

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended September 30, 2018, the District's carrying amount of deposits totaled \$2,262,391, and the bank balances totaled \$2,306,517. Of the bank balances, \$949,574 was covered by Federal Depository Insurance, and the remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The District does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

The District may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of September 31, 2018, the District held certificates of deposit in the amount of \$1,743,069, all of which are considered deposits.

NOTE 3: RESTRICTED INVESTMENTS

According to terms of the District's loan agreements, the District must maintain \$439,692 in a reserve account (CD's) restricted for debt service. At September 30, 2018, \$439,692 was held in the required reserve.

The District also maintains other amounts in restricted investments for capital reserve (totaling \$500,000), and operations and maintenance (totaling \$771,726).

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements – Continued

\$439,692 required to be held in debt reserve consists of the following:

- \$132,500 as dictated by loan resolution with ND Municipal Bond Bank Loan – maximum amount accumulated at 9-30-16
- \$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
- \$92,625 as dictated by the USDA Rural Development Program.
- \$5,192 as dictated by the USDA Rural Development Program.

The District has chosen to restrict \$500,000 in capital reserve, which consists of the following:

- Reserve for New Facility - \$200,000
- Reserve for Capital Improvement - \$180,000
- Reserve for Short Lived Asset - \$120,000

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$771,726 at September 30, 2018.

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2018:

	Balance Oct 1	Increases	Decreases	Transfers	Ending Sept 30
Capital Assets Not Being Depreciated					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	8,462,526	452,371	-	(8,725,590)	189,307
Total Capital Assets, Not Being Depreciated	\$ 8,743,193	\$ 452,371	\$ -	\$ (8,725,590)	\$ 469,974
Capital assets, being depreciated					
Buildings	\$ 5,021,680	\$ -	\$ -	\$ -	\$ 5,021,680
Equipment	1,741,715	18,804	-	-	1,760,519
Vehicles	117,290	43,520	25,929	-	134,881
Infrastructure	10,060,657	26,322	-	8,725,590	18,812,569
Total Capital Assets, Being Depreciated	\$ 16,941,342	\$ 88,646	\$ 25,929	\$ 8,725,590	\$ 25,729,649
Less Accumulated Depreciation					
Buildings	\$ 803,729	\$ 103,694	\$ -	\$ -	\$ 907,423
Equipment	1,345,250	35,640	-	-	1,380,890
Vehicles	61,534	26,976	20,743	-	67,767
Infrastructure	4,748,441	372,096	-	-	5,120,537
Total Accumulated Depreciation	\$ 6,958,954	\$ 538,406	\$ 20,743	\$ -	\$ 7,476,617
Total Capital Assets Being Depreciated, Net	\$ 9,982,388	\$ (449,760)	\$ 5,186	\$ 8,725,590	\$ 18,253,032
Capital Assets, Net	\$ 18,725,581	\$ 2,611	\$ 5,186	\$ -	\$ 18,723,006

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

BARNES RURAL WATER DISTRICT
Notes to the Financial Statements – Continued

NOTE 5: LONG-TERM LIABILITIES

During the year ended September 30, 2018, the following changes occurred in liabilities reported in long-term business-type liabilities:

Enterprise Activities:	Balance Oct 1	Increases	Decreases	Ending Sept 30	Due Within One Year
Long-Term Debt					
Loans Payable	\$ 2,124,699	\$ 262,913	\$ 1,983,719	\$ 403,893	\$ 9,016
GO Bonds Payable	3,395,000	2,052,000	250,000	5,197,000	307,000
Total Long-Term Debt	\$ 5,519,699	\$ 2,314,913	\$ 2,233,719	\$ 5,600,893	\$ 316,016
Compensated Absences *	25,698	-	5,764	19,934	997
Total Enterprise Activities	\$ 5,545,397	\$ 2,314,913	\$ 2,239,483	\$ 5,620,827	\$ 317,013

Debt service requirements on business-type activity long-term liabilities at September 30, 2018 are as follows:

Year Ending Sept 30	Loans Payable		GO Bonds Payable	
	Principal	Interest	Principal	Interest
2019	\$ 9,016	\$ 1,330	\$ 307,000	\$ 99,576
2020	9,265	-	315,000	93,625
2021	9,520	-	325,000	86,700
2022	9,781	-	335,000	79,575
2023	10,050	-	340,000	72,225
2024 -2028	54,553	-	1,245,000	262,600
2029 - 2033	62,478	-	905,000	163,475
2034 - 2038	71,554	-	605,000	85,125
2039 - 2043	81,949	-	390,000	50,025
2044 - 2048	85,727	-	430,000	19,425
Total	\$ 403,893	\$ 1,330	\$ 5,197,000	\$1,012,351

NOTE 6: OPERATING LEASE

The Barnes Rural Water District entered into a lease during FY2018 for building space for \$1,375 per month that commenced April 1, 2018 and runs through March 31, 2023. Lease payments made in FY2018 totaled \$8,250. The remaining future minimum lease payment obligations are as follows:

Year Ending Sept 30	Amount
2018	\$ 16,500
2019	16,500
2020	16,500
2021	16,500
2022	8,250
Total	\$ 74,250

BARNES RURAL WATER DISTRICT

Notes to the Financial Statements – Continued

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, 2018, 2017, and 2016 were \$36,091, \$40,478, and \$33,311, respectively.

NOTE 8: RISK MANAGEMENT

The Barnes Rural Water 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 \$10,868,765 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 years.

BARNES RURAL WATER DISTRICT

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

CFDA Number	Program Title	Pass-Through Grantor's Number	Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the State Public Finance Authority			
66.468	Capitalization Grants for Drinking Water State Revolving Funds	N/A	<u>\$ 2,052,000</u>

The notes to the Schedule of Expenditures of Federal Awards are an intergral part of this statement

BARNES RURAL WATER DISTRICT

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

NOTE 1: BASIS OF PRESENTATION / ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District under programs of the federal government for the year ended September 30, 2018. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3: PASS-THROUGH GRANT NUMBER

For federal programs marked "N/A", the District was unable to obtain a pass-through grant number.

STATE AUDITOR

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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, 2018, 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 25, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings and questioned costs* as items 2018-001, 2018-002, and 2018-003 that we consider to be material weaknesses.

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*.

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 and questioned costs*. 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

Fargo, North Dakota
March 25, 2019



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAMS; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

Governing Board
Barnes Rural Water District
Valley City, North Dakota

Report on Compliance for the Major Federal Program

We have audited the Barnes Rural Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Barnes Rural Water District's major federal program for the year ended September 30, 2018. The Barnes Rural Water District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Barnes Rural Water District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Barnes Rural Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Barnes Rural Water District's compliance.

Opinion on the Major Federal Program

In our opinion, the Barnes Rural Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2018.

BARNES RURAL WATER DISTRICT

Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance – Continued

Report on Internal Control Over Compliance

Management of the Barnes Rural Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Barnes Rural Water District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Barnes Rural Water District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Barnes Rural Water District as of and for the year ended September 30, 2018, and have issued our report thereon dated March 25, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

/s/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 25, 2019

BARNES RURAL WATER DISTRICT

Summary of Auditor's Results
For the Year Ended September 30, 2018

Financial Statements

Type of Report Issued?
Business-Type Activities Unmodified
Major Business-Type Fund Unmodified

Internal control over financial reporting

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

Federal Awards

Internal Control Over Major Programs

Material weaknesses identified? Yes X None Noted
Reportable conditions identified not considered to be material weaknesses? Yes X None Noted
Type of auditor's report issued on compliance for the major program: Unmodified
Any audit findings disclosed that are required to be reported in accordance with CFR §200.516 (Uniform Guidance) requirements? Yes X None Noted

Identification of Major Programs

CFDA Number Name of Federal Program or Cluster
66.468 Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes X No

Section I - Financial Statement Findings

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

We recognize Barnes Rural Water District is not staffed with personnel fully knowledgeable of GAAP. However, it is important that they are aware of this weakness and that management accepts responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP, even if the auditor assisted in drafting those financial statements. We further recommend that management carefully review the draft financial statements and related note disclosures to ensure all financial data is proper and accurate.

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 and approve 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

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

Barnes Rural Water District is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Cause

Management of Barnes Rural Water District does not have adequate resources to obtain proper internal controls and training to ensure fair presentation of the Barnes Rural Water District's financial statements in accordance with GAAP.

Effect

Inadequate internal controls over recording of transactions affects Barnes Rural Water District's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation

We recognize Barnes Rural Water District is not staffed with personnel fully knowledgeable of GAAP. However, it is important that they are aware of this weakness and that management accepts responsibility for the audit adjustments.

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.

BARNES RURAL WATER DISTRICT

Schedule of Audit Findings and Questioned Costs – Continued

2018-003 – LACK OF SEGREGATION OF DUTIES

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.

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.

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.

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.

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.

Section II - Federal Award Findings and Questioned Costs

No matters were reported.

STATE AUDITOR

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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, Valley City, North Dakota, for the year ended September 30, 2018 which collectively comprise Barnes Rural Water District's basic financial statements and have issued our report thereon dated March 25, 2019. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated December 3, 2018, 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, 2018. Application of existing policies was not changed during the year ended September 30, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedule below lists all misstatements detected as a result of audit procedures that were corrected by management.

AUDIT ADJUSTMENTS		
Client Provided		
Expenses	23,420	
Accounts Payable		23,420

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 25, 2019.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

Other Audit Findings or Issues

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

The following presents our informal recommendations:

* * * * *

FRAUD RISK ASSESSMENT

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

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

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

* * * * *

This information is intended solely for the use of the 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

Fargo, North Dakota
March 25, 2019

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