



# Barnes Rural Water District

Valley City, North Dakota

## Audit Report

For the Year Ended September 30, 2016

**ROBERT R. PETERSON**  
STATE AUDITOR

Office of the State Auditor  
Division of Local Government

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

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For the Year Ended September 30, 2016

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

**LIST OF OFFICIALS**

September 30, 2016

Chris Kvilvang	President
Ervand Andersen	Vice-President
Scott Anderson	Board Member
Joel Owen	Board Member
Jim Drong	Board Member
Dean Stenson	Board Member
Perry Kapaun	Operatons Manager
Sandy Nelson	Office Manager

**STATE AUDITOR**

ROBERT R. PETERSON  
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Local Government Division:  
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MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**INDEPENDENT AUDITOR'S REPORT**

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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 the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2016, and related notes to the financial statements, which collectively comprise the Water District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of September 30, 2016, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the 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 the Barnes Rural Water District's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
November 30, 2016

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF NET POSITION  
September 30, 2016

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	<u>Business-Type Activities</u>
<b><u>ASSETS:</u></b>	
Cash	\$ 522,973
Investments Restricted for:	
Operating and Maintenance	432,102
Capital Projects	500,000
Debt Service	341,875
Accounts Receivable	97,748
Bond Proceeds Receivable	34,335
Other Assets	167
Capital Assets:	
<i>Not Being Depreciated</i>	
Land	280,667
Construction in Progress	6,352,279
<i>Being Depreciated</i>	
Buildings	4,316,678
Equipment	432,272
Vehicles	56,519
Infrastructure	5,404,051
Total Capital Assets	<u>\$ 16,842,466</u>
Total Assets	<u>\$ 18,771,666</u>
<b><u>LIABILITIES:</u></b>	
Accounts Payable	\$ 193,588
Interest Payable	6,759
Retainages Payable	310,216
Long-Term Liabilities:	
Due Within One Year:	
GO Bonds Payable	245,000
Compensated Absences	1,178
Due After One Year:	
Loans Payable	1,546,820
GO Bonds Payable	3,395,000
Compensated Absences	22,381
Total Liabilities	<u>\$ 5,720,942</u>
<b><u>NET POSITION:</u></b>	
Net Investment in Capital Assets	\$ 11,655,646
Restricted for:	
Debt Service	341,875
Capital Projects	500,000
Operations & Maintenance	432,102
Unrestricted	<u>121,101</u>
Total Net Position	<u>\$ 13,050,724</u>

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		Total Business-Type Activities
		Charges for Services	Capital Grants and Contributions	
<u>Primary Government:</u>				
<u>Business-Type Activities:</u>				
Water System	\$ 1,396,970	\$ 1,670,527	\$ 3,825,419	\$ 4,098,976
Interest and Fees on Long-Term Debt	73,029	-	-	(73,029)
	<u>\$ 1,469,999</u>	<u>\$ 1,670,527</u>	<u>\$ 3,825,419</u>	<u>\$ 4,025,947</u>
<u>General Revenues:</u>				
Earnings on Investments				\$ 9,465
Miscellaneous Revenue				<u>13,018</u>
Total General Revenues				<u>\$ 22,483</u>
Change in Net Position				<u>\$ 4,048,430</u>
Net Position - January 1				<u>\$ 9,002,294</u>
Net Position - December 31				<u><u>\$ 13,050,724</u></u>

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

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF NET POSITION  
PROPRIETARY FUND - WATER SYSTEM  
September 30, 2016

	Business-Type Activities
	Water System
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash	\$ 522,973
Investments Restricted for:	
Operating and Maintenance	432,102
Capital Projects	500,000
Debt Service	341,875
Accounts Receivable	97,748
Bond Proceeds Receivable	34,335
Other Assets	167
Total Current Assets	\$ 1,929,200
<b>Noncurrent Assets:</b>	
Capital Assets (not being depreciated):	
Land	\$ 280,667
Construction In Progress	6,352,279
Capital Assets (net of accumulated depreciation):	
Buildings	4,316,678
Equipment	432,272
Vehicles	56,519
Infrastructure	5,404,051
Total Capital Assets	\$ 16,842,466
Total Noncurrent Assets	\$ 16,842,466
Total Assets	\$ 18,771,666
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 193,588
Interest Payable	6,759
Retainages Payable	310,216
GO Bonds Payable	245,000
Compensated Absences	1,178
Total Current Liabilities	\$ 756,741
<b>Noncurrent Liabilities:</b>	
Loans Payable	\$ 1,546,820
GO Bonds Payable	3,395,000
Compensated Absences	22,381
Total Noncurrent Liabilities	\$ 4,964,201
Total Liabilities	\$ 5,720,942
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 11,655,646
Restricted for:	
Debt Service	341,875
Capital Projects	500,000
Operations & Maintenance	432,102
Unrestricted	121,101
Total Net Position	\$ 13,050,724

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



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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION - PROPRIETARY FUND - WATER SYSTEM  
For the Year Ended September 30, 2016

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	Business-Type Activities
	Water System
<u>Operating Revenues:</u>	
Water Sales	\$ 1,514,906
Connection Charges	8,609
Service Calls	11,884
Member Fees	25,000
Hookup Income	35,250
Late Charges	18,879
Sale of Material	34,051
Meter Estimate Charges	20,990
Other Operating Revenues	958
	<hr/>
Total Operating Revenues	\$ 1,670,527
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<u>Operating Expenses:</u>	
Operating Supplies	\$ 28,852
Power	136,688
Office Expense	25,574
Chemicals	85,886
Repairs	45,113
Transportation	11,682
Site Maintenance	10,445
Warehouse Rent	14,640
Professional Services	21,448
Combining Billing Supplies	5,048
Insurance	94,508
Miscellaneous	17,108
Salaries	390,898
Employee Benefits	33,311
Payroll Taxes	57,085
Depreciation Expense	414,620
	<hr/>
Total Operating Expenses	\$ 1,392,906
	<hr/>
Operating Income (Loss)	\$ 277,621
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<u>Non-Operating Revenues (Expenses):</u>	
Capital Contribution and Grants	\$ 3,825,419
Interest Income	9,465
Miscellaneous Revenue	13,018
Interest on Long-Term Debt	(73,029)
Other Non-Operating Revenues (Expenses)	(4,064)
	<hr/>
Total Non-Operating Revenues (Expenses)	\$ 3,770,809
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Change in Net Position	\$ 4,048,430
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Total Net Position - January 1	\$ 9,002,294
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Total Net Position - December 31	\$ 13,050,724
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The notes to the financial statements are an integral part of this statement.

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND - WATER SYSTEM  
For the Year Ended September 30, 2016

	<u>Business-Type Activities</u>
	<u>Water System</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 1,682,360
Cash Payments to Suppliers for Goods and Services	(571,615)
Cash Payments to Employees for Services	(389,907)
Net Cash Provided by Operating Activities	<u>\$ 720,838</u>
<u>Cash Flows from Non-capital and Related Financing Activities:</u>	
Miscellaneous	\$ 9,971
Interest Received	9,465
Change in Investments	(8,087)
Net Cash Provided (Used) by Non-capital and Related Financing Activities	<u>\$ 11,349</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	\$ (5,501,282)
Capital Contributions	3,825,419
Principal on Long-Term Debt	(779,347)
Interest Paid	(74,444)
Debt Proceeds	1,481,079
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,048,575)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (316,388)</u>
Cash and Cash Equivalents, January 1	<u>\$ 839,361</u>
Cash and Cash Equivalents, December 31	<u>\$ 522,973</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	<u>\$ 277,621</u>
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation Expense	\$ 414,620
Change in Assets and Liabilities:	
Change in Other Assets	167
Change in Accounts Receivable	11,666
Change in Accounts Payable	15,773
Change in Compensated Absence	991
Total Adjustments	<u>\$ 443,217</u>
Net Cash Provided by Operating Activities	<u>\$ 720,838</u>

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

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Barnes Rural Water District was created pursuant to administrative order 99-3. The district was organized for the express 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 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 Barnes Rural Water 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 Barnes Rural Water 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 Barnes Rural Water District.

Based on these criteria, there are no component units to be included within the Barnes Rural Water 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, Barnes Rural Water 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 (a) fees and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including interest income 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.

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 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 governmental activities column in the government-wide 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:

<b>Classification</b>	<b>Years</b>
Buildings	30-50 years
Machinery	5-10 years
Vehicles	3-5 years
Land	Indefinite
Infrastructure	75 years
Equipment	5-10 years

F. Long-Term Obligations

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

G. Net Position

When both restricted and unrestricted resources are available for use, it is the Water 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 and any related debt (bonds payable and loans payable) issued to construct capital assets. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restricted net position is reported for amounts restricted for debt service (\$341,875), capital projects (\$500,000), and operations & maintenance (\$432,102). Debt bond indentures require restricted funds.

Unrestricted net position totaling \$121,101 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**

In accordance with North Dakota Statutes, the Water District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions 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 park, 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, 2016, the Water District's carrying amount of deposits was \$1,796,895 and the bank balances totaled \$1,822,609. Of the bank balances, \$761,203 were 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.

**BARNES RURAL WATER DISTRICT**

Notes to the Financial Statements – Continued

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Credit Risk:

The Water 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 30, 2016, the Water District held certificates of deposit in the amount of \$1,273,977, all of which are included in restricted cash and investments as outlined in more detail in note 3.

Concentration of Credit Risk:

The Water District does not have a limit on the amount the district may invest in any one issuer.

**NOTE 3: RESTRICTED CASH AND INVESTMENTS**

According to terms of the loan agreement, Barnes Rural Water District must maintain \$341,875 in a reserve account (CD's) restricted for debt service. At September 30, 2015, \$341,875 was held in the required reserve.

Barnes Rural Water District also maintains other amounts in restricted cash and restricted certificates of deposit (investments) for capital projects (totaling \$500,000), and operations and maintenance (totaling \$432,102).

The \$341,875 for debt service restricted amounts consists of the following:

- \$132,500 as dictated by loan resolution with ND Municipal Bond Bank Loan (note 6) – maximum amount accumulated at 9-30-16
- \$55,000 as dictated by North Dakota Municipal Bond Bank loan resolution (note 6) – maximum amount accumulated at 9-30-14
- \$154,375 as dictated by North Dakota Municipal Bond Bank loan resolution (note 6) – Maximum amount accumulated at 9-30-14

The \$500,000 in capital projects amounts consists of the following:

- Reserve for new facility - \$200,000
- Reserve for Equipment - \$180,000
- Reserve for Construction - \$120,000

Operation and maintenance investments represent excess operating and maintenance funds held in savings and totaled \$432,102 at 9-30-16.

**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements – Continued

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts owed to the Water District from private individuals for billings for water.

**NOTE 5: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended September 30, 2016:

<b>Governmental Activities:</b>	<b>Balance 10-1-16</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 9-30-16</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 280,667	\$ -	\$ -	\$ 280,667
Construction in Progress	5,632,092	4,804,080	4,083,893	6,352,279
<b>Total Capital Assets, Not Being</b>	<b>\$ 5,912,759</b>	<b>\$ 4,804,080</b>	<b>\$ 4,083,893</b>	<b>\$ 6,632,946</b>
<i>Capital assets, being depreciated:</i>				
Buildings	\$ 931,337	\$ 4,083,893	\$ -	\$ 5,015,230
Equipment	1,741,715	-	-	1,741,715
Vehicles	95,764	34,807	25,402	105,169
Infrastructure	9,704,658	190,742	-	9,895,400
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 12,473,474</b>	<b>\$ 4,309,442</b>	<b>\$ 25,402</b>	<b>\$ 16,757,514</b>
<i>Less accumulated depreciation for:</i>				
Buildings	\$ 593,503	\$ 105,049	\$ -	\$ 698,552
Equipment	1,273,636	35,807	-	1,309,443
Vehicles	50,187	19,977	21,514	48,650
Infrastructure	4,237,563	253,786	-	4,491,349
<b>Total Accumulated Depreciation</b>	<b>\$ 6,154,889</b>	<b>\$ 414,619</b>	<b>\$ 21,514</b>	<b>\$ 6,547,994</b>
<b>Total Capital Assets Being Depreciated,</b>	<b>\$ 6,318,585</b>	<b>\$ 3,894,823</b>	<b>\$ 3,888</b>	<b>\$ 10,209,520</b>
<b>Governmental Activities-Capital Assets,</b>	<b>\$ 12,231,344</b>	<b>\$ 8,698,903</b>	<b>\$ 4,087,781</b>	<b>\$ 16,842,466</b>

All depreciation expense of \$414,619 was charged to the water system enterprise fund and business-type activities.

**NOTE 6: LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities** - During the year ended September 30, 2016, the following changes occurred in liabilities reported in long-term business-type liabilities:

<b>Enterprise Activities:</b>	<b>Balance 10-1-16</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 9-30-16</b>	<b>Due Within One Year</b>
SRF Bond 2003	\$ 380,000	\$ -	\$ 45,000	\$ 335,000	\$ 45,000
SRF Bond 2009	1,435,000	-	110,000	1,325,000	115,000
SRF Bond 2015 (Draw)	1,843,634	219,399	83,033	1,980,000	85,000
Berkadia Loan	541,314	-	541,314	-	-
Dakotah Bank (Draw)	406,799	1,140,021	-	1,546,820	-
Compensated Absences *	22,568	991	-	23,559	1,178
<b>Total Governmental Activities</b>	<b>\$ 4,629,315</b>	<b>\$ 1,360,411</b>	<b>\$ 779,347</b>	<b>\$ 5,210,379</b>	<b>\$ 246,178</b>

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

**BARNES RURAL WATER DISTRICT**

Notes to the Financial Statements – Continued

Outstanding business-type activities long-term liabilities (excluding compensated absences) at September 30, 2016 is comprised of the following individual issues:

**Loans and Bonds Payable:**

\$755,000 State Revolving Fund Revenue Bond for the SE Expansion Project due in annual installments of \$35,000 to \$50,000 through 2023, interest at 2.5%.	\$ 335,000
\$1,950,000 State Revolving Fund Revenue Bond for water system project due in annual installments of \$95,000 to \$150,000 through 2026, interest at 2.5%.	1,325,000
\$1,980,000 State Revolving Fund Revenue Bond (Draw) for a water system project due in annual installments. The amortization schedule will be created when the project is closed, interest at 2%.	1,980,000
\$1,546,820 Dakota Bank loan (draw) for the new member water system expansion project that will be paid in full on December 30, 2017. Interest payments will be made periodically at an interest rate of 2.85%.	<u>1,546,820</u>
<b>Total Loans &amp; Bonds Payable</b>	<b><u>\$5,186,820</u></b>

Debt service requirements on business-type activity long-term liabilities at September 30, 2016 are as follows (excluding the \$1,546,820 Dakota Bank Loan and compensated absences):

<b>BUSINESS TYPE ACTIVITIES</b>						
<b>Year Ending Sept. 30</b>	<b>SRF Bond 2003</b>		<b>SRF Bond 2009</b>		<b>SRF Bond 2015</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 45,000	\$ 8,375	\$ 115,000	\$ 33,125	\$ 85,000	\$ 39,600
2018	45,000	7,250	120,000	30,250	85,000	37,900
2019	45,000	6,125	125,000	27,250	85,000	36,200
2020	50,000	5,000	125,000	24,125	90,000	34,500
2021	50,000	3,750	130,000	21,000	90,000	32,700
2022-2026	100,000	3,750	710,000	54,125	495,000	135,200
2027-2031	-	-	-	-	555,000	83,300
2032-2036	-	-	-	-	495,000	24,900
<b>Total</b>	<b>\$ 335,000</b>	<b>\$ 34,250</b>	<b>\$ 1,325,000</b>	<b>\$ 189,875</b>	<b>\$ 1,980,000</b>	<b>\$ 424,300</b>

**Berkadia Loan/Mortgage Payable:**

Barnes Rural Water District has contracted with the Rural Development Agency for construction financing of the water distribution system. Total loan funds of \$3,700,000 were approved with all funds having been drawn down by September 30, 2016. The loan was purchased by Berkadia. Original terms of repayment were \$18,167 per month beginning August 27, 1980, a term of 40 years, at a rate of 5%.

Total payments (including interest) of \$543,836 were made in FY2016 consisting of \$541,314 in principal, and \$2,522 in interest. Monthly payments of \$18,167 per month were made each month in FY2016. This loan was paid off in FY2016.



**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements – Continued

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North Dakota Municipal Bond Bank-State Revolving Loan Fund Bond Issue 2003 - Reserve:

Barnes Rural Water District has been authorized to issue improvement bonds in the amount of \$816,000 through the North Dakota Municipal Bond Bank-State Revolving Loan Fund. The proceeds will be used for system improvements and expansion. The bonds were issued starting 2003. The district shall be required to maintain a reserve in the amount of \$55,000. This reserve is to be accumulated in the amount of \$11,000 per year (see Note 3). As of September 30, 2015, \$755,000 of these bonds were issued.

North Dakota Municipal Bond Bank-State Revolving Loan Fund Bond Issue 2009 – Reserve:

Barnes Rural Water District has been authorized to issue improvement bonds in the amount of \$2,205,000 through the North Dakota Municipal Bond Bank-State Revolving Loan Fund. The proceeds will be used for the acquisition of the South East Water Users District. The bonds were issued starting October 2009. The district shall be required to maintain a reserve in the amount of \$154,375. This reserve is to be accumulated in the amount of \$30,350 per year (see Note 3). As of September 30, 2016, \$1,950,000 of these bonds were issued.

North Dakota Municipal Bond Bank-State Revolving Loan Fund Bond Issue 2015 – Reserve:

Barnes Rural Water District has been authorized to issue improvement bonds in the amount of \$2,605,171 through the North Dakota Municipal Bond Bank-State Revolving Loan Fund. The proceeds will be used for Res A water infrastructure projects. The bonds were issued starting December 2014. The district shall be required to maintain a reserve in the amount of \$132,500. As of September 30, 2016, all of the bonds were issued.

**NOTE 7: OPERATING LEASE**

The Barnes Rural Water District entered into a lease during FY2014 for building space for \$1,220 per month that commenced April 1, 2013 and runs through March 31, 2018. This lease is considered for accounting purposes to be an operating lease. Lease payments made in FY2016 totaled \$14,640. The remaining future minimum lease payment obligations are as follows:

<b>Year Ending September 30</b>	<b>Amount</b>
2017	\$14,640
2018	7,320
Total	\$21,960

**NOTE 8: ACCOUNTS PAYABLE**

Accounts payable consists of amounts on open account for goods and services received prior to September 30, 2016 and chargeable to the appropriations for the years then ended, but paid for subsequent to that date.

**NOTE 9: INTEREST PAYABLE**

Interest payable consists of the portion of interest accrued on loans payable balances outstanding at September 30, 2016.

**NOTE 10: RETAINAGES PAYABLE**

Retainages payable consists of amounts on open construction contracts for the water treatment plant improvements project.

**BARNES RURAL WATER DISTRICT**Notes to the Financial Statements – Continued

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**NOTE 11: RETIREMENT PLAN**

The rural water 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, 2016, 2015, and 2014 were \$33,311, \$29,254, and \$27,755, respectively.

**NOTE 12: 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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Barnes Rural Water District pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per accident for general liability and automobile.

Barnes Rural Water 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 \$10,322,175 for building property, personal property, and outdoor property.

The State Bonding Fund through the North Dakota Insurance Department currently provides the Water District with blanket fidelity bond coverage in the amount of \$613,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Barnes Rural Water 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.

**NOTE 13: SERVICE OF SOUTH EAST DISTRICT MEMBERS**

Barnes Rural Water District has entered into an agreement with South East Water District to purchase the memberships of 53 users of South East Water District. The agreement was effected October 1, 2003 and is to pay \$45 per month per user through July 31, 2040. Upon compliance with the terms of the agreement, South East Water District shall pay to Barnes Rural Water District the membership equity of each member in the amount of \$350. This agreement ended as of August 12, 2009. Barnes has purchased these users for the amount of \$1,950,000 and has issued bonds to pay for this acquisition.

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**BARNES RURAL WATER DISTRICT**  
Notes to the Financial Statements – Continued

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**NOTE 14: CONSTRUCTION COMMITMENTS**

The Barnes Rural Water District had the following commitments for construction contract as of September 30, 2016 for the water plant improvements.

<b>Project</b>	<b>Contract Amount</b>	<b>Change Orders</b>	<b>Total Contract</b>	<b>Total Completed</b>	<b>Retainage</b>	<b>Remaining Balance</b>
2015 Expansion Project	\$ 4,969,896	\$ 1,234,419	\$ 6,204,315	\$ 4,823,226	\$ 310,216	\$ 1,691,305

**NOTE 15: SUBSEQUENT EVENT**

The Barnes Rural Water District will continue to collect additional draw down proceeds for the New Member Expansion Project into the next fiscal year. The draws will occur as long as the project are open and will cease once closeout occurs.

**STATE AUDITOR**

ROBERT R. PETERSON  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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*

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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, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Barnes Rural Water District's basic financial statements, and have issued our report thereon dated November 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2016-001].

**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

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**Compliance and Other Matters**

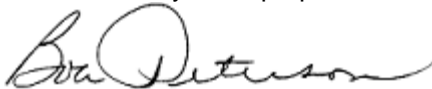
As part of obtaining reasonable assurance about whether the Barnes Rural Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 Resource District's Response to Findings**

Barnes Rural Water District's response to the finding identified in our audit is described in the accompanying *schedule of 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.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
November 30, 2016

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2016

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**Section I - Summary of Auditor's Results**

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Financial Statements

Type of Report Issued:

Business-Type Activities

Unmodified

Major Business-Type Fund

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_ Yes

X  None Noted

Significant deficiencies identified not considered to be material weaknesses?

X  Yes

\_\_\_\_\_ None Noted

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes

X  None Noted

**Section II – Financial Statement Findings**

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**2016-001 - SEGREGATION OF DUTIES**

**Condition:**

The Barnes Rural Water District has two employees responsible for accounting functions and general ledger maintenance.

**Effect:**

Without adequate fraud risk programs and controls the Water District exposes itself to risk of loss of assets, potential liabilities, and damage to the Water District's reputation, whether due to error or fraud.

**Cause:**

There is no segregation of duties as two employees are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the Water District's financial condition.

**Criteria:**

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Water District.

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**Recommendation:**

Due to the size and funding limitations of the Water District, we understand that it may not be feasible to obtain proper separation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the Water District do so. We further recommend that the Water District implement any controls possible to separate the functions of approval, posting of transactions, reconciliation, and custody of assets.

**Client Response:**

I agree with the recommendation. The issuing of check and checks to vendors is approved by the Operations Manager before they are paid by the Office Manager. The financial statements are reviewed monthly by the board of directors.

**STATE AUDITOR**

ROBERT R. PETERSON  
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BISMARCK, NORTH DAKOTA 58505

Governing Board  
Barnes Rural Water District  
Valley City, North Dakota

We have audited the financial statements of the business-type activities, and the major fund of the Barnes Rural Water District, Valley City, North Dakota, for the year ended September 30, 2016 which collectively comprise the Barnes Rural Water District's basic financial statements and have issued our report thereon dated November 30, 2016. 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 AND GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter dated November 3, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the 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, fraud, or other illegal acts 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Barnes Rural Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Barnes Rural Water District's 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 grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Barnes Rural Water District's compliance with those requirements.

**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 the 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, 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.



**DISAGREEMENTS WITH MANAGEMENT**

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

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated November 30, 2016.

**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 governmental 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 our audit.

**OTHER AUDIT FINDINGS OR ISSUES**

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

This information is intended solely for the use of the Governing Board and management of the 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 the 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 the Barnes Rural Water District.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
November 30, 2016

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