



# Barnes Rural Water District

Valley City, North Dakota

## Audit Report

For the Year Ended September 30, 2017

**JOSHUA C. GALLION**  
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, 2017

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

**LIST OF OFFICIALS**

September 30, 2017

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	Operations Manager
Sandy Nelson	Office Manager



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, 2017, 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, 2017, 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 17, 2017 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.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
November 17, 2017

BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

STATEMENT OF NET POSITION  
September 30, 2017

	<u>Business-Type Activities</u>
<b>ASSETS:</b>	
Cash	\$ 633,961
Investments Restricted for:	
Operating and Maintenance	518,087
New Facility	200,000
Capital Improvement	180,000
Short Lived Asset	120,000
Debt Service	353,316
Accounts Receivable	107,686
Other Assets	1
Capital Assets:	
<i>Not Being Depreciated</i>	
Land	280,667
Construction in Progress	8,462,526
<i>Being Depreciated</i>	
Buildings	4,217,951
Equipment	396,465
Vehicles	55,756
Infrastructure	5,312,216
Total Capital Assets	<u>\$ 18,725,581</u>
Total Assets	<u>\$ 20,838,632</u>
<b>LIABILITIES:</b>	
Accounts Payable	\$ 23,420
Other Payables	66
Retainages Payable	351,789
Interest Payable	6,283
Long-Term Liabilities:	
Due Within One Year:	
Loans Payable	33,387
GO Bonds Payable	250,000
Compensated Absences	1,285
Due After One Year:	
Loans Payable	2,091,312
GO Bonds Payable	3,145,000
Compensated Absences	24,413
Total Liabilities	<u>\$ 5,926,955</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	\$ 13,205,882
Restricted for:	
Debt Service	353,316
Capital Projects	500,000
Operations & Maintenance	518,087
Unrestricted	<u>334,392</u>
Total Net Position	<u>\$ 14,911,677</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, 2017

Functions/Programs	Expenses	<u>Program Revenues</u>		Total Business-Type Activities
		Charges for Services	Capital Grants and Contributions	
<u>Primary Government:</u>				
<u>Business-Type Activities:</u>				
Water System	\$ 1,389,131	\$ 1,845,395	\$ 1,513,203	\$ 1,969,467
Interest and Fees on Long-Term Debt	106,489	-	-	(106,489)
	<u>\$ 1,495,620</u>	<u>\$ 1,845,395</u>	<u>\$ 1,513,203</u>	<u>\$ 1,862,978</u>
<u>General Revenues:</u>				
Earnings on Investments				\$ 8,892
Miscellaneous Revenue				<u>1,464</u>
Total General Revenues				<u>\$ 10,356</u>
Change in Net Position				<u>\$ 1,873,334</u>
Net Position - October 1				<u>\$ 13,050,724</u>
Prior Period Adjustment				<u>\$ (12,381)</u>
Net Position - October 1, as restated				<u>\$ 13,038,343</u>
Net Position - September 30				<u><u>\$ 14,911,677</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, 2017

	Business-Type Activities
	Water System
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 633,961
Investments Restricted for:	
Operating and Maintenance	518,087
New Facility	200,000
Capital Improvement	180,000
Short Lived Asset	120,000
Debt Reserve	353,316
Accounts Receivable	107,686
Other Assets	1
Total Current Assets	\$ 2,113,051
<u>Noncurrent Assets:</u>	
Capital Assets (not being depreciated):	
Land	\$ 280,667
Construction In Progress	8,462,526
Capital Assets (net of accumulated depreciation):	
Buildings	4,217,951
Equipment	396,465
Vehicles	55,756
Infrastructure	5,312,216
Total Capital Assets	\$ 18,725,581
Total Noncurrent Assets	\$ 18,725,581
Total Assets	\$ 20,838,632
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 23,420
Other Payables	66
Retainages Payable	351,789
Interest Payable	6,283
Loans Payable	33,387
GO Bonds Payable	250,000
Compensated Absences	1,285
Total Current Liabilities	\$ 666,230
<u>Noncurrent Liabilities:</u>	
Loans Payable	\$ 2,091,312
GO Bonds Payable	3,145,000
Compensated Absences	24,413
Total Noncurrent Liabilities	\$ 5,260,725
Total Liabilities	\$ 5,926,955
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 13,205,882
Restricted for:	
Debt Service	353,316
Capital Projects	500,000
Operations & Maintenance	518,087
Unrestricted	334,392
Total Net Position	\$ 14,911,677

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



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, 2017

	Business-Type Activities
	Water System
<u>Operating Revenues:</u>	
Water Sales	\$ 1,723,704
Connection Charges	7,963
Service Calls	10,643
Member Fees	6,450
Hookup Income	21,500
Late Charges	21,575
Sale of Material	21,260
Meter Estimate Charges	22,580
Other Operating Revenues	9,719
Total Operating Revenues	\$ 1,845,394
<u>Operating Expenses:</u>	
Operating Supplies	\$ 29,496
Power	117,191
Office Expense	34,317
Chemicals	80,456
Repairs	37,710
Transportation	14,426
Site Maintenance	8,740
Warehouse Rent	13,420
Professional Services	24,731
Combining Billing Supplies	2,867
Insurance	98,017
Miscellaneous	14,632
Salaries	398,497
Employee Benefits	40,478
Payroll Taxes	49,455
Depreciation Expense	421,534
Total Operating Expenses	\$ 1,385,967
Operating Income (Loss)	\$ 459,427
<u>Non-Operating Revenues (Expenses):</u>	
Capital Contribution and Grants	\$ 1,513,203
Interest Income	8,892
Miscellaneous Revenue	1,464
Interest on Long-Term Debt	(106,489)
Other Non-Operating Revenues (Expenses)	(3,163)
Total Non-Operating Revenues (Expenses)	\$ 1,413,907
Change in Net Position	\$ 1,873,334
Total Net Position - October 1	\$ 13,050,724
Prior Period Adjustment	(12,381)
Net Position - October 1, As Restated	\$ 13,038,343
Total Net Position - September 30	\$ 14,911,677

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, 2017

	Business-Type Activities
	Water System
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 1,835,622
Cash Payments to Suppliers for Goods and Services	(572,881)
Cash Payments to Employees for Services	(396,358)
Net Cash Provided by Operating Activities	\$ 866,383
<u>Cash Flows from Non-capital and Related Financing Activities:</u>	
Miscellaneous	\$ (1,700)
Interest Received	8,892
Change in Investments	(97,426)
Net Cash Provided (Used) by Non-capital and Related Financing Activities	\$ (90,234)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	\$ (2,446,543)
Loss on Sale of Capital Assets	7,930
Capital Contributions	1,513,203
Principal on Long-Term Debt	(2,116,528)
Interest Paid	(106,965)
Debt Proceeds	2,483,742
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (665,161)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 110,988
Cash and Cash Equivalents, October 1	\$ 522,973
Cash and Cash Equivalents, September 30	\$ 633,961
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ 459,427
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation Expense	\$ 421,534
Change in Assets and Liabilities:	
Change in Other Assets	166
Change in Accounts Receivable	(9,938)
Change in Accounts Payable	(7,011)
Change in Other Payables	66
Change in Compensated Absences	2,139
Total Adjustments	\$ 406,956
Net Cash Provided by Operating Activities	\$ 866,383

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, 2017

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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 (\$353,316), capital projects (\$500,000), and operations & maintenance (\$518,087). Debt bond indentures require restricted funds.

Unrestricted net position totaling \$334,392 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, 2017, the Water District's carrying amount of deposits was \$2,005,308 and the bank balances totaled \$2,061,922. Of the bank balances, \$853,415 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.

**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, 2017, the Water District held certificates of deposit in the amount of \$1,376,416, 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.

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**BARNES RURAL WATER DISTRICT**

Notes to the Financial Statements – Continued

**NOTE 3: RESTRICTED CASH AND INVESTMENTS**

According to terms of the loan agreement, Barnes Rural Water District must maintain \$353,316 in a reserve account (CD's) restricted for debt service. At September 30, 2017, \$353,316 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 reserve (totaling \$500,000), and operations and maintenance (totaling \$518,087).

The \$353,316 required to be held in debt reserve 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
- \$8,845 as dictated by the USDA Rural Development Program. (Note 6)
- \$2,596 as dictated by the USDA Rural Development Program. (Note 6)

The \$500,000 in capital projects amounts 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 \$518,087 at September 30, 2017.

**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, 2017:

<b>Enterprise Activities:</b>	<b>Balance Oct. 1 (Restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending September 30</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 280,667	\$ -	\$ -	\$ -	\$ 280,667
Construction in Progress	6,339,898	2,184,822	-	(62,194)	8,462,526
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 6,620,565</b>	<b>\$2,184,822</b>	<b>\$ -</b>	<b>\$ (62,194)</b>	<b>\$ 8,743,193</b>
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 5,015,230	\$ 6,450	\$ -	\$ -	\$ 5,021,680
Equipment	1,741,715	-	-	-	1,741,715
Vehicles	105,169	30,625	18,504	-	117,290
Infrastructure	9,895,400	103,063	-	62,194	10,060,657
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 16,757,514</b>	<b>\$ 140,138</b>	<b>\$ 18,504</b>	<b>\$ 62,194</b>	<b>\$ 16,941,342</b>
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 698,552	\$ 105,177	\$ -	\$ -	\$ 803,729
Equipment	1,309,443	35,807	-	-	1,345,250
Vehicles	48,650	23,458	10,574	-	61,534
Infrastructure	4,491,349	257,092	-	-	4,748,441
<b>Total Accumulated Depreciation</b>	<b>\$ 6,547,994</b>	<b>\$ 421,534</b>	<b>\$ 10,574</b>	<b>\$ -</b>	<b>\$ 6,958,954</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 10,209,520</b>	<b>\$ (281,396)</b>	<b>\$ 7,930</b>	<b>\$ 62,194</b>	<b>\$ 9,982,388</b>
<b>Governmental Activities-Capital Assets, Net</b>	<b>\$ 16,830,085</b>	<b>\$1,903,426</b>	<b>\$ 7,930</b>	<b>\$ -</b>	<b>\$ 18,725,581</b>

Depreciation expense of \$421,534 was charged to the water system enterprise fund and business-type activities.

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

**NOTE 6: LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities** - During the year ended September 30, 2017, the following changes occurred in liabilities reported in long-term business-type liabilities:

<b>Enterprise Activities:</b>	<b>Balance October 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending September</b>	<b>Due Within One Year</b>
Loans Payable	\$ 1,546,820	\$ 2,449,407	\$ 1,871,528	\$ 2,124,699	\$ 33,387
GO Bonds Payable	3,640,000	-	245,000	3,395,000	250,000
Compensated Absences *	23,559	2,139	-	25,698	1,285
<b>Total Enterprise Activities</b>	<b>\$ 5,210,379</b>	<b>\$ 2,451,546</b>	<b>\$ 2,116,528</b>	<b>\$ 5,545,397</b>	<b>\$ 284,672</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.

Outstanding business-type activities long-term liabilities (excluding compensated absences) at September 30, 2017 is comprised of the following individual issues:

**Loans Payable:**

\$1,964,200 USDA loan; 40-year term with no set payments. Interest payments will be made periodically at an interest rate of 3.25%.	\$ 1,964,200
\$160,499 USDA loan; 40-year term with no set payments. Interest payments will be made periodically at an interest rate of 2.75%.	160,499
<b>Total Loans &amp; Bonds Payable</b>	<b>\$ 2,124,699</b>

**GO Bonds Payable:**

\$755,000 State Revolving Fund Revenue Bond for the SE Expansion Project due in annual installments of \$45,000 to \$50,000 through 2023, interest at 2.5%.	\$ 290,000
\$1,950,000 State Revolving Fund Revenue Bond for water system project due in annual installments of \$120,000 to \$150,000 through 2026, interest at 2.5%.	1,210,000
\$1,980,000 State Revolving Fund Revenue Bond (Draw) for a water system project due in annual installments of \$83,033 to \$125,000, interest at 2%.	1,895,000
<b>Total GO Bonds Payable</b>	<b>\$ 3,395,000</b>

<b>BUSINESS TYPE ACTIVITIES</b>				
<b>Year Ending Dec 31</b>	<b>GO Bonds Payable</b>		<b>Loans Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 250,000	\$ 75,400	\$ 33,387	\$ 63,836
2018	255,000	69,575	34,428	63,037
2019	265,000	63,625	35,502	62,211
2020	270,000	57,450	36,610	61,358
2021	280,000	51,150	37,752	60,477
2022-2026	1,025,000	141,925	207,186	288,147
2027-2031	555,000	83,300	241,863	261,426
2032-2036	495,000	24,900	212,170	230,070
2037-2041	-	-	248,962	193,278
2042-2046	-	-	292,135	150,105
2047-2051	-	-	342,795	99,445
2052-2056	-	-	401,909	40,001
<b>Total</b>	<b>\$ 3,395,000</b>	<b>\$ 567,325</b>	<b>\$ 2,124,699</b>	<b>\$ 1,573,391</b>

**BARNES RURAL WATER DISTRICT**

## Notes to the Financial Statements – Continued

Debt service requirements on business-type activity long-term liabilities at September 30, 2017 are as follows:

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, 2017, \$755,000 of these bonds were issued, and \$290,000 were outstanding at September 30, 2017.

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, 2017, \$1,950,000 of these bonds were issued, and \$1,210,000 were outstanding at September 30, 2017.

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, 2017, all of the bonds were issued. The balance outstanding at September 30, 2017 was \$1,895,000.

USDA Loans – Issuance – 2017-1:

Barnes Rural Water District has been authorized to request drawdowns up to \$1,964,200 through the USDA Rural Development Program. The proceeds will be used for the new member water infrastructure project. The district shall be required to maintain a reserve of \$8,845 (\$8,845 per year up to \$88,448). As of September 30, 2017, \$1,964,200 of these draws were issued.

USDA Loans – Issuance – 2017-2:

Barnes Rural Water District has been authorized to request drawdowns up to \$625,000 through the USDA Rural Development program. The proceeds will be used for the new member water infrastructure project. The district shall be required to maintain a reserve of \$2,596 (\$2,596 per year up to 25,963). As of September 30, 2017, \$160,399 of these draws 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 FY2017 totaled \$14,640. The remaining future minimum lease payment obligations are as follows:

<b>Year Ending September 30</b>	<b>Amount</b>
2018	\$ 7,320



**NOTE 8: ACCOUNTS PAYABLE**

Accounts payable consists of amounts on open account for goods and services received prior to September 30, 2017 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, 2017.

**NOTE 10: RETAINAGES PAYABLE**

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

**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, 2017, 2016, and 2015 were \$40,478, \$33,311, and \$29,254, 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 \$10,596,503 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.

**BARNES RURAL WATER DISTRICT**

Notes to the Financial Statements – Continued

**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.

**NOTE 14: CONSTRUCTION COMMITMENTS**

The Barnes Rural Water District had the following commitments for construction contract as of September 30, 2017 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	\$ 2,065,877	\$ 7,035,773	\$ 6,545,144	\$ 351,789	\$ 842,418



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
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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, 2017, 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 17, 2017.

**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 [2017-001].

## **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.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
November 17, 2017

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BARNES RURAL WATER DISTRICT  
Valley City, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2017

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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	
<u>Internal control over financial reporting:</u>			
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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**2017-001 – LACK OF 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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**BARNES RURAL WATER DISTRICT**  
Schedule of Findings and Questioned Costs - Continued

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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.

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