

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

**RUSH RIVER WATER RESOURCE DISTRICT
WEST FARGO, NORTH DAKOTA**

(A COMPONENT UNIT OF CASS COUNTY)

FOR THE YEAR ENDED DECEMBER 31, 2012



RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2012

	<u>Page(s)</u>
District Officials	1
Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information	2 - 3
Management's Discussion and Analysis	4 - 8
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	14
Notes to the Financial Statements	15 - 26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	27 - 30
Notes to the Required Supplementary Information	31
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	33
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	34 - 35
Schedule of Findings and Questioned Costs	36

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

DISTRICT OFFICIALS

December 31, 2012

Raymond Wolfer
William A. Hejl
Richard Sundberg

Chairman
Vice Chairman
Manager

Carol Harbeke Lewis

Secretary-Treasurer

Sean M. Fredricks

Attorney

STATE AUDITOR

ROBERT R. PETERSON
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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**UNMODIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED
SUPPLEMENTARY INFORMATION AND OTHER INFORMATION**

Independent Auditor's Report

Governing Board
Rush River Water Resource District
West Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rush River Water Resource District, West Fargo, North Dakota, a component unit of Cass County, Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Water Resource 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 of 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.

RUSH RIVER WATER RESOURCE DISTRICT

Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information - Continued

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Rush River Water Resource District, West Fargo, North Dakota, a component unit of Cass County, Fargo, North Dakota, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-8 and 27-30 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rush River Water Resource District's basic financial statements. The *combining balance sheet and combining income statement* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013 on our consideration of Rush River Water Resource 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 Rush River Water Resource District's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

May 17, 2013

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

The Management's Discussion and Analysis (MD&A) of Rush River Water Resource District's financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2012. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is an element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- Net position of Rush River Water Resource District increased \$1,948,600 as a result of the current year's operations.
- Governmental net position as of the end of the fiscal year totaled \$9,191,455.
- Total revenues from all sources were \$2,247,827 on the government-wide statement of activities and \$892,383 on the modified accrual basis.
- Total expenses were \$299,227 on the government-wide statement of activities and total expenditures were \$2,056,471 on the modified accrual basis.
- The District's general fund had \$70,073 in total revenues, \$147,620 in total expenditures. Overall, the general fund balance decreased by \$77,547 for the year ended December 31, 2012.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand Rush River Water Resource District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's general fund, Rush River Maintenance, capital project funds and debt service funds. The other remaining fund shown in its own column is comprised of all the non-major special revenue funds.

REPORTING ON THE DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the Rush River Water Resource District to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended December 31, 2012?"

RUSH RIVER WATER RESOURCE DISTRICT

Management's Discussion and Analysis – Continued

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information on how the District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

These two statements report the District's net position and changes in those assets. This change in net position is important because it tells the reader whether, for the District as a whole, the financial position of the District has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where all of the District's programs and services are reported including, but not limited to, conservation of natural resources, capital outlay and debt service.

REPORTING ON THE DISTRICT'S MOST SIGNIFICANT FUNDS

Balance Sheet – Governmental Funds

The District uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and contributions). The fund basis financial statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the District's major funds. Using the criteria established by GASB Statement No. 34, the District's general fund (including Rush River WRD Obligated Funds), Rush River Maintenance, Drain 29A, Drain 30, capital project funds and debt service funds are considered "major funds".

The District's other governmental funds, which is used to account for amounts in Drain #29M, Drain #52 and Raymond Township maintenance are shown in its own column for non-major special revenue funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table I reflects significant changes in Current Assets, Long-Term Assets, Capital Assets and Current Liabilities between the December 31, 2011 and December 31, 2012 fiscal years. Capital assets increased due to Rush River Channel Improvement Project. The increase in current assets is a result of more cash on hand at December 31, 2012 due to a decrease in governmental fund expenditures during the year ended December 31, 2012, primarily in the Rush River Maintenance fund. Current liabilities decreased due to accounts payable decreased for various drain maintenance and construction costs for projects not yet completed at year-end.

The District's net position of \$9,191,456 is segregated into three separate categories. Net investment in capital assets represents 67% of the District's total net position. It should be noted that these assets are not available for future spending. Restricted net position represents the remaining 33% of the District's net position; while there is unrestricted net position is negative. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The unrestricted net position is generally available to meet the District's ongoing obligations; however at year-end there is no unrestricted net position.

TABLE 1
NET POSITION
 December 31, 2012 and 2011

	2012	2011
<u>Assets:</u>		
Current Assets	\$ 841,629	\$ 378,816
Long-Term Assets	2,262,688	909,052
Capital Assets (net of accumulated depreciation)	8,708,136	7,031,213
Total Assets	<u>\$11,812,453</u>	<u>\$8,319,081</u>
<u>Liabilities:</u>		
Current Liabilities	\$ 38,591	\$ 205,474
Long-Term Liabilities	2,582,406	870,751
Total Liabilities	<u>\$ 2,620,997</u>	<u>\$1,076,225</u>
<u>NET POSITION:</u>		
Net Investment in Capital Assets	\$ 6,128,026	\$6,162,463
Restricted	3,106,726	1,193,939
Unrestricted	(43,296)	(113,544)
Total Net Position	<u>\$ 9,191,456</u>	<u>\$7,242,858</u>

Table II shows the changes in net position for the fiscal years ended December 31, 2012 and 2011.

TABLE II
CHANGES IN NET POSITION
 As of December 31, 2012 and 2011

	2012	2011
Revenues		
<u>Program Revenues:</u>		
Capital Grants & Contributions	\$1,558,026	\$ 243,632
Operating Grants & Contributions	393,645	21,678
<u>General Revenues:</u>		
Property Taxes & Drain Taxes	271,045	44,137
Non-restricted Grants & Contributions	7,482	619
Interest Earnings & Miscellaneous Revenue	17,630	21,892
Total Revenues	<u>\$2,247,828</u>	<u>\$ 331,959</u>
Expenses		
Conservation of Natural Resources	\$ 257,866	\$ 792,457
Interest and Service Charges	41,361	49,162
Total Expenses	<u>\$ 299,227</u>	<u>\$ 841,616</u>
Change in Net Position	<u>\$1,948,600</u>	<u>\$ (509,657)</u>
Net Position – January 1	<u>\$7,242,855</u>	<u>\$7,752,515</u>
Net Position – December 31	<u>\$9,191,456</u>	<u>\$7,242,855</u>

Property taxes and drain taxes constituted 12%, capital grants and contributions 69%, operating and non-restricted grants and contributions 18%, and interest and miscellaneous revenue 1% of the total revenues of governmental activities of the District for fiscal year 2012.

Conservation of natural resources constituted 86% and debt service 14% of total expenses for governmental activities during fiscal year 2012. Expenses for drain maintenance decreased during 2012.

RUSH RIVER WATER RESOURCE DISTRICT

Management's Discussion and Analysis – Continued

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

TABLE III
TOTAL AND NET COST OF SERVICES
As of December 31, 2012 and 2011

	Total Cost For Year Ended Dec. 31, 2012	Net Cost For Year Ended Dec. 31, 2012	Total Cost For Year Ended Dec. 31, 2011	Net Cost For Year Ended Dec. 31, 2011
Conservation of Natural Resources	\$257,866	\$1,693,804	\$792,454	\$(585,174)
Interest and Service Charges	41,361	(41,361)	49,162	8,868
Total Expenses	\$299,227	\$1,652,444	\$841,616	\$(576,305)

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's governmental funds had total revenue of \$892,383 and expenditures of \$2,056,471 for the year ended December 31, 2012. As of December 31, 2012 the unassigned fund balance of the District's general fund was \$(77,570) and total unassigned fund balance for the entire District's governmental funds was \$(87,788).

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2012, the Rush River Water Resource Board amended the District's general fund revenue budget by increasing it \$6,930. Additionally, the general fund expenditures budget was amended to increase it by \$74,210.

Actual revenue for the year ended December 31, 2012 was under budget by \$1,142.

Actual expenditures for the year ended December 31, 2012 was over budget by \$4,125.

CAPITAL ASSETS

As of December 31, 2012, the Rush River Water Resource District had \$6,128,026 net investment in capital assets. Table IV shows the balances at December 31, 2012 and 2011.

TABLE IV
CAPITAL ASSETS
(Net of Accumulated Depreciation)
December 31, 2012 and 2011

	2012	2011
Land	\$2,458,717	\$1,992,357
Construction in Progress	1,490,905	-
Facilities	4,394,619	4,665,972
Projects	363,896	372,884
Total Capital Assets (net of accumulated depreciation)	\$8,708,136	\$7,031,213

This total represents a net increase of \$1,676,923 in capital assets from January 1, 2012. The increase was due to land purchase, construction on Berlin Township Improvement District No. 70 and projects costs for Amenia Township Improvement District No. 74 during the year ended December 31, 2012. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 7 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2012, the Rush River Water Resource District had \$2,635,000 in outstanding debt of which \$165,000 was due within one year. Total net bonds payable reported in the financial statements of \$2,580,111 are net of \$54,889 unamortized bond issuance costs and bond discounts. Compensated absences totaled \$2,295.

For a detailed breakdown of the long-term debt readers are referred to Note 12 to the audited financial statements which follow analysis.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of Rush River Water Resource Districts' finances and to show the District's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Carol Harbeke Lewis, Secretary/Treasurer, Rush River Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF NET POSITION
December 31, 2012

	Governmental Activities
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 794,655
Intergovernmental Receivable	1,917
Due from County	39,804
Taxes Receivable	3,713
Special Assessments Receivable	1,540
Long-Term Receivable:	
Uncertified Special Assessments Receivable	2,262,688
Capital Assets (not being depreciated):	
Land	2,458,717
Construction in Progress	1,490,905
Capital Assets (being depreciated):	
Facilities	4,394,619
Projects	363,896
Total Capital Assets	<u>\$ 8,708,136</u>
 Total Assets	 <u>\$ 11,812,453</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 9,265
Retainages Payable	15,987
Benefits Payable	7,728
Interest Payable	5,611
Long-Term Liabilities:	
Due Within One Year:	
Bonds Payable (net of related costs)	160,444
Compensated Absences Payable	2,295
Due After One Year:	
Bonds Payable (net of related costs)	<u>2,419,667</u>
 Total Liabilities	 <u>\$ 2,620,997</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 6,128,026
Restricted for:	
Conservation of Natural Resources	132,024
Capital Projects	349,070
Debt Service	2,625,632
Unrestricted	<u>(43,296)</u>
 Total Net Position	 <u>\$ 9,191,456</u>

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Conservation of Natural Resources	\$ 257,866	\$ 393,645	\$ 1,558,026	\$ 1,693,804
Interest and Service Charges	41,361	-	-	(41,361)
Total Governmental Activities	\$ 299,227	\$ 393,645	\$ 1,558,026	\$ 1,652,444
<u>General Revenues:</u>				
Taxes:				
General Taxes				\$ 47,812
Drain Taxes				223,233
Non-Restricted Grants and Contributions				7,482
Interest Earnings				2,119
Miscellaneous Revenues				15,511
Total General Revenues				\$ 296,156
Change in Net Position				\$ 1,948,600
Net Position - January 1				\$ 7,242,855
Net Position - December 31				\$ 9,191,455

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012

	Major Funds							Total Governmental Funds
	General	Rush River Maint.	Drain 29A Maint.	Drain 30	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
ASSETS								
Cash and Cash Equivalents	\$ -	\$ 14,787	\$ 69,205	\$ -	\$ 345,565	\$ 328,681	\$ 36,416	\$ 794,655
Intergovernmental Receivable	1,917	-	-	-	-	-	-	1,917
Due from County	177	103	867	323	-	38,334	-	39,804
Due from Other Funds	-	-	10,182	-	20,522	-	379	31,083
Taxes Receivable	722	1,481	903	194	-	-	412	3,713
Special Assessments Receivable	-	-	-	-	-	1,540	-	1,540
Total Assets	\$ 2,816	\$ 16,371	\$ 81,157	\$ 517	\$ 366,087	\$ 368,555	\$ 37,208	\$ 872,712
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 7,624	\$ 611	\$ -	\$ -	\$ 1,031	\$ -	\$ -	\$ 9,265
Benefits Payable	7,728	-	-	-	-	-	-	7,728
Retainages Payable	-	-	-	-	15,987	-	-	15,987
Due to Other Funds	20,522	-	-	10,182	-	-	379	31,083
Total Liabilities	\$ 35,874	\$ 611	\$ -	\$ 10,182	\$ 17,017	\$ -	\$ 379	\$ 64,063
Deferred Inflows of Resources:								
Taxes Receivable	\$ 722	\$ 1,481	\$ 903	\$ 194	\$ -	\$ -	\$ 412	\$ 3,713
Special Assessments Receivable	-	-	-	-	-	1,540	-	1,540
Total Deferred Inflows of Resources	\$ 722	\$ 1,481	\$ 903	\$ 194	\$ -	\$ 1,540	\$ 412	\$ 5,253
Fund Balances:								
Restricted	\$ -	\$ 14,279	\$ 80,254	\$ -	\$ 349,070	\$ 367,015	\$ 36,795	\$ 847,414
Committed	43,770	-	-	-	-	-	-	43,770
Unassigned	(77,550)	-	-	(9,859)	-	-	(379)	(87,788)
Total Fund Balances	\$ (33,780)	\$ 14,279	\$ 80,254	\$ (9,859)	\$ 349,070	\$ 367,015	\$ 36,416	\$ 803,396
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,816	\$ 16,371	\$ 81,157	\$ 517	\$ 366,087	\$ 368,555	\$ 37,208	\$ 872,712

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2012

Total <i>Fund Balances</i> for Governmental Funds	\$	803,397
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Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 26,666,694		
Less Accumulated Depreciation	<u>(17,958,558)</u>		
Net Capital Assets			8,708,136

Property taxes and special assessments receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds.

Property Taxes Receivable	\$ 3,713		
Special Assessments Receivable	<u>1,540</u>		5,253

Long-Term Uncertified Special Assessments receivable are not reported in the funds because they are unavailable to pay the current period's expenditures.		2,262,689
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Long-term liabilities applicable to the water resource district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rater is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net position. Balances at December 31, 2012 are made up of the following liabilities:

Bonds Payable	\$ (2,635,000)		
Interest Payable	(5,611)		
Unamortized Bond Discount	38,098		
Unamortized Bond Issuance Costs	16,791		
Compensated Absences	<u>(2,295)</u>		
Total Long-Term Liabilities			<u>(2,588,017)</u>

Total Net Position - Governmental Activities		<u>\$ 9,191,456</u>
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The notes to the financial statements are an integral part of this statement.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Major Funds							Total Governmental Funds
	General	Rush River Maint.	Drain 29A Maint.	Drain 30	Capital Project Funds	Debt Service Funds	Other Governmental Funds	
<u>Revenues:</u>								
Taxes	\$ 47,827	\$ 124,108	\$ 50,496	\$ 20,446	\$ -	\$ -	\$ 27,141	\$ 270,018
Special Assessments	-	-	-	-	-	203,598	-	203,598
Intergovernmental	14,052	-	50,620	123	336,305	-	36	401,137
Interest Income	184	183	307	-	-	1,293	151	2,119
Miscellaneous	8,011	-	-	-	7,500	-	-	15,511
Total Revenues	\$ 70,073	\$ 124,291	\$ 101,424	\$ 20,570	\$ 343,805	\$ 204,891	\$ 27,329	\$ 892,383
<u>Expenditures:</u>								
Current:								
Conserv. of Natural Resources	\$ 81,110	\$ 26,505	\$ 9,951	\$ 5,184	\$ -	\$ -	\$ 5,583	\$ 128,333
Capital Outlay	66,510	58,113	8,646	-	1,668,860	-	4,034	1,806,163
Debt Service:								
Principal	-	-	-	-	-	85,000	-	85,000
Interest	-	-	-	-	-	35,159	-	35,159
Service Fees	-	-	-	-	-	1,817	-	1,817
Total Expenditures	\$ 147,620	\$ 84,618	\$ 18,596	\$ 5,184	\$ 1,668,860	\$ 121,975	\$ 9,617	\$ 2,056,471
Excess (Deficiency) of Revenues Over Expenditures	\$ (77,547)	\$ 39,673	\$ 82,827	\$ 15,385	\$ (1,325,055)	\$ 82,916	\$ 17,712	\$ (1,164,088)
<u>Other Financing Sources (Uses):</u>								
Debt Proceeds	\$ -	\$ -	\$ -	\$ -	\$ 1,825,000	\$ -	\$ -	\$ 1,825,000
Bond Discount	-	-	-	-	(27,375)	-	-	(27,375)
Bond Issuance Costs	-	-	-	-	(10)	(4,750)	-	(4,760)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ -	\$ -	\$ 1,797,615	\$ (4,750)	\$ -	\$ 1,792,865
Net Change in Fund Balances	\$ (77,547)	\$ 39,673	\$ 82,827	\$ 15,385	\$ 472,560	\$ 78,166	\$ 17,712	\$ 628,777
Fund Balance - January 1	\$ 43,767	\$ (25,394)	\$ (2,573)	\$ (25,244)	\$ (123,489)	\$ 288,849	\$ 18,704	\$ 174,619
Fund Balance - December 31	\$ (33,780)	\$ 14,279	\$ 80,254	\$ (9,859)	\$ 349,070	\$ 367,015	\$ 36,416	\$ 803,396

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ 628,777

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current year:

Capital Asset Additions	\$ 1,957,265	
Current Year Depreciation Expense	<u>(280,341)</u>	1,676,924

The proceeds of debt issuances provide current financial resources of governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayment:

Debt Proceeds	\$ (1,825,000)	
Bond Discounts	27,375	
Issuance Costs	4,750	
Repayment of Debt	<u>85,000</u>	(1,707,875)

Collections on uncertified special assessments is a revenue in the governmental funds, but the collection reduces the long-term receivable in the statement of net position. This is the amount of:

Collection on Long-Term Receivable	\$ <u>1,353,636</u>	1,353,636
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	\$ (294)	
Amortization of Issuance Costs	(1,647)	
Amortization of Bond Discounts	(1,838)	
Net Decrease in Interest Payable	<u>(900)</u>	(4,680)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes and special assessments receivable.

\$ 1,819

Change in Net Position of Governmental Activities

\$ 1,948,600

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Rush River Water Resource District, West Fargo, North Dakota, a component unit of Cass County, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

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

Based on these criteria, there are no component units to be included within the Rush River Water Resource District as a reporting entity. Rush River Water Resource District is a component unit within Cass County, Fargo, North Dakota 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, Rush River Water Resource District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, special assessments, and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. 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 and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues, including general taxes and interest, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category-governmental—is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The remaining governmental funds are reported as non-major funds.

The Water Resource District reports the following major governmental funds:

General Fund/Rush River WRD Obligated Funds - this is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The obligated funds are used to account for the accumulation of resources to help finance a portion of costs of the Maple River Dam capital project. Most of the joint project costs are being paid by the Southeast Cass Water Resource District.

Rush River Maintenance – this fund is used to account for yearly drain maintenance and improvements. Special assessments are levied to tax payers in the applicable district and used for maintaining drains and for improvement projects when necessary.

Drain 29A Maintenance – this fund is used to account for yearly drain maintenance and improvements. Special assessments are levied to tax payers in the applicable district and used for maintaining drains and for improvement projects when necessary.

Drain 30 – this fund is used to account for yearly drain maintenance and improvements. Special assessments are levied to tax payers in the applicable district and used for maintaining drains and for improvement projects when necessary.

Capital Project Funds – this fund was used to account for the possible construction of a drain in Amenia Township, and construction of a drain in Berlin Township and Berlin-Harwood Township.

Debt Service Funds – this fund is used to account for the resources accumulated and payments made for principal and interest on special assessment bond debt for Drain #29A, Raymond Township, Berlin Township and Berlin-Harwood Township.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. The government-wide fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year when all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on governmental long-term debt, claims and judgments, and compensated absences, which are reported as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less.

E. Capital Assets

Capital assets, which include land and infrastructure assets (drains, dams, channel improvements, etc.), 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 or more. 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 in governmental funds is not capitalized.

Infrastructure capital assets are depreciated using the straight-line method of the following estimated useful lives

Infrastructure Assets:	Years
Facilities	50 years
Major Projects	50 years

F. Compensated Absences

Vested or accumulated vacation leave is payable to the Secretary/Treasurer, Accountant and Administrative Assistant upon separation from employment. 240 hours of vacation may be carried over at year-end. No liability is reported for accumulated sick leave as it is not the employer's policy to pay for it when the employee separates from service. All vacation pay is accrued when incurred into the government-wide financial statements.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of Rush River Water Resource District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

Rush River Water Resource District only has restricted, committed and unassigned fund balances at December 31, 2012.

Restricted & Committed Fund Balances – consist of the following items at December 31, 2012:

Restricted fund balances are shown by primary function on the balance sheet for construction, maintenance, bridge replacement and repair, flood repair, health & welfare, emergencies and other purposes. Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments).

Committed fund balance exists in the general function and is committed by the highest level of decision making authority (governing board).

Special Revenue Funds – Restricted & Committed Fund Balances:

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
 - Restricted tax levies – includes fund balances for various tax levies other than the general fund.
 - Restricted grants/reimbursements – primarily includes FEMA funds and other grant funds.
- (b) Committed funds by the governing board – funds are committed by the governing board (highest level of decision making authority) in the General Funds for Rush River Obligated Funds for pending projects, project development and other projects that do not have restricted funds.

Net Position:

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

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories (invested in capital assets net of related debt, restricted and unrestricted). Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories (net investment in capital assets, restricted, and unrestricted), outlined in further detail as follows:

Net investment in capital assets (net of related debt) is shown for the cost of capital assets less any related depreciation on depreciable capital assets, and any related debt, where applicable, to finance the acquisition or construction of those related capital assets.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements, and are restricted for construction, maintenance, bridge replacement and repair, flood repair, health & welfare, emergencies and other purposes.

Unrestricted net position consists of activity primarily related to the general fund, any other resources not restricted for specific purposes, and reclassifications of negative restricted net position.

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the fund that is reimbursed.

All other transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: DISTRICT ESTABLISHMENT

The legislature of the State of North Dakota abolished, effective July 1, 1981, the Cass County Drain Board that had authority over the legal drains in the county. The administrative and financial responsibilities were transferred to individual water resource boards. Since there were special assessment districts established and legal drains constructed in and through more than one water resource district, it was determined that it would be too cumbersome and expensive to administer and account for the finances of the legal drains based on the portion or part of tracts of land contained in the individual districts. An agreement was entered into dated May 27, 1982 between the Rush River, Southeast Cass, Maple River, and North Cass Water Resource Boards to set out the administrative and financial responsibilities that each of the water resource boards shall exercise over certain overlapping legal drains as follows:

- Maple River shall have administrative and financial control over legal drains #14, 35 and 36.
- Rush River shall have administrative and financial control over legal drains #29 and 52.
- North Cass shall have administrative and financial control over legal drain #13 with the following exceptions:
 - (a) Any maintenance expenditure for a sum of \$5,000 or more shall not be undertaken except with the consultation and expressed consent of the Rush River Water Resource Board.
 - (b) Any extension or additions to the drain shall not be undertaken except with the consultation and expressed consent of the Rush River Water Resource Board.
 - (c) No change in the legal status of the drain shall be undertaken except with the consultation and expressed consent of the Rush River Water Resource Board.

In the event of a termination, all funds deposited with the water resource board having administrative and financial control over legal drains shall be divided with respect to such legal drain among the water resource boards in whose district the special assessment district is located and shall be divided in such proportion as the physical area of the special assessment district located in each water resource district bears to the total area of such special assessment district.

NOTE 3: DEPOSITS

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

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

At year ended December 31, 2012, the water resource district's carrying amount of deposits was \$794,655 and the bank balance was \$838,212 of the bank balance, \$280,983 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The water resource 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 December 31, 2012, the water resource district did not have any certificates of deposit.

Concentration of Credit Risk:

The water resource district does not have a limit on the amount it may invest in any one issuer.

NOTE 4: TAXES AND SPECIAL ASSESSMENTS RECEIVABLE

Taxes and special assessments receivable represent the past four years of delinquent uncollected taxes and special assessments levies/billings. No allowance has been established for uncollectible taxes and special assessments receivable since any losses would be covered by the sale of the property.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all of the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

RUSH RIVER WATER RESOURCE DISTRICT
Notes to the Financial Statements – Continued

NOTE 5: DUE FROM COUNTY

The due from county represents tax amounts collected prior to year-end by Cass County not distributed to the district at year-end.

NOTE 6: UNCERTIFIED SPECIAL ASSESSMENTS RECEIVABLE

This represents a long-term receivable in the government-wide financial statements showing the amount of uncertified/uncollected debt service fund special assessments over the remaining life of applicable special assessment bonds.

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2012:

Governmental Activities:	Balance January 1	Increases	Decreases	Balance December 31
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,992,357	\$ 466,360	\$ -	\$ 2,458,717
Construction in Progress	-	1,490,905	-	1,490,905
Total capital assets not being depreciated	\$ 1,992,357	\$1,957,265	\$ -	\$ 3,949,622
<i>Capital assets being depreciated:</i>				
Facilities	\$22,267,672	\$ -	\$ -	\$22,267,672
Project	449,400	-	-	449,400
Total Capital Assets, Being Depreciated	\$22,717,072	\$ -	\$ -	\$22,717,072
<i>Less Accumulated Depreciation for:</i>				
Facilities	\$17,601,700	\$ 271,354	\$ -	\$17,873,054
Projects	76,516	8,988	-	85,504
Total Accumulated Depreciation	\$17,678,216	\$ 280,342	\$ -	\$17,958,558
Total Capital Assets Being Depreciated, Net	\$ 5,038,856	\$ (280,342)	\$ -	\$ 4,758,514
Governmental Activities Capital Assets, Net	\$ 7,031,213	\$1,676,923	\$ -	\$ 8,708,136

NOTE 8: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods or services received prior to year-end and chargeable to the appropriations for the year then ended but paid subsequent to that date.

NOTE 9: DUE TO OTHER FUNDS & DUE FROM OTHER FUNDS

Due to and due from other funds on the governmental funds modified accrual balance sheet represents the amount of pooled cash borrowed by major fund General, Drain 30 and other governmental funds totaling \$31,083 covered by major fund Drain 29A, Capital Project Fund and other governmental funds.

NOTE 10: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes are measurable but not available.

RUSH RIVER WATER RESOURCE DISTRICT
Notes to the Financial Statements – Continued

NOTE 11: INTEREST PAYABLE

Interest payable represents the amount payable on all special assessment bonds at year-end.

NOTE 12: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2012, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 1-1-12	Increases	Decreases	Balance 12-31-12	Due Within One Year
Bonds Payable	\$895,000	\$1,825,000	\$85,000	\$2,635,000	\$165,000
Less Deferred Amounts:					
Bond Discount	12,562	27,375	1,838	38,099	2,751
Bond Issuance Costs	13,687	4,750	1,647	16,790	1,805
Total Bonds Payable	\$868,751	\$1,792,875	\$81,515	\$2,580,111	\$160,444
Compensated Absences	2,001	1,673	1,379	2,295	2,295
TOTAL	\$870,752	\$1,794,548	\$82,894	\$2,582,406	\$162,739

Long-term debt at December 31, 2012 is comprised of the following:

Special Assessment Bonds:

\$1,825,000 2012 Improvement Bonds, due in annual installments of \$75,000 to \$115,000 through 2032 interest at .75% to 3.10%.	\$1,825,000
\$560,000 2008 Improvement Bonds, due in annual installments of \$35,000 to \$45,000 through 2023 interest at 3.25% to 4.65%.	440,000
\$800,000 2005 Improvement Bonds, due in annual installments of \$10,000 to \$70,000 through 2019; interest at 3.7% - 4.35%.	<u>370,000</u>
Total Special Assessment Bonds Payable	<u>\$2,635,000</u>

Debt Service requirements on long-term debt, excluding compensated absences, at December 31, 2012 are as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending	Special Assessment Bonds Payable	
December 31	Principal	Interest
2013	\$ 165,000	\$ 84,307
2014	170,000	69,865
2015	170,000	65,720
2016	180,000	61,118
2017	185,000	55,955
2018 - 2022	705,000	210,923
2023 - 2027	515,000	121,461
2028-2032	545,000	43,012
TOTALS	\$2,635,000	\$712,361

RUSH RIVER WATER RESOURCE DISTRICT
Notes to the Financial Statements – Continued

NOTE 13: JOINT VENTURES

Under authorization of state statutes, Rush River Water Resource District joined Southeast Cass Water Resource District, North Cass Water Resource District, Maple River Water Resource District, and the water resource districts of Richland County, Grand Forks County, Pembina County, Traill County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for the water management districts located within the Red River Valley. Known as the Red River Joint Water Resource Board, the agreement was established for the mutual advantage of the governments. Each government appoints one member of the board of directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined as no provision is made for this in the joint venture agreement and each government's contribution each year depends on where Red River Joint Water Resource Board projects are being undertaken.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2012, which is the most current audited information available:

Total Assets	\$6,082,576
Total Liabilities	<u>37,515</u>
Net Position	<u>\$6,045,061</u>
Revenues	\$2,105,063
Expenses	<u>585,461</u>
Change in Net Position	<u>\$1,519,601</u>

Complete financial statements for the Red River Joint Water Resource District may be obtained from the Treasurer's office at Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

NOTE 14: DEFICIT CASH FUND BALANCES

The water resource district had the following deficit cash fund balances at December 31, 2012:

Funds	Amount
General Fund	\$(72,021)
Special Revenue Funds:	
Drain #30	(10,182)
Drain #52	(379)

The water resource district anticipates eliminating the deficits by reducing future disbursements in these funds, by issuing debt or transferring monies to relieve the deficits.

NOTE 15: RISK MANAGEMENT

Rush River Water Resource 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. The Rush River Water Resource District is covered under Cass County's insurance policies and pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence.

RUSH RIVER WATER RESOURCE DISTRICT
Notes to the Financial Statements – Continued

The State Bonding Fund currently provides the Rush River Water Resource District with blanket fidelity bond coverage in the amount of \$125,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Rush River Water Resource District has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 16: CONSTRUCTION COMMITMENTS

The Rush River Water Resource District has the following open construction contracts with balances owing at December 31, 2012:

Location	Project	Contract Amount	Total Completed	Retainage	Remaining Balance
Berlin Twp.	Berlin Twp. Imp. District No. 70	\$1,593,715	\$1,670,635	\$83,532	\$ -

NOTE 17: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board of water resource district commissioners amended the water resource district budget for 2012 as follows:

Fund	REVENUES		
	Original Budget	Amendment	Amended Budget
<u>Major Funds:</u>			
General Fund	\$ 64,285	\$ 6,930	\$ 71,215
Rush River Maintenance	122,665	3,000	125,665
Drain #29A	50,945	50,000	100,945
Capital Project Funds	-	336,305	336,305
Debt Service Funds	132,985	39,400	172,385

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
<u>Major Funds:</u>			
General Fund	\$ 69,285	\$ 74,210	\$ 143,495
Rush River Maintenance	20,000	195,700	215,700
Drain #29A	25,000	21,000	46,000
Drain #30	5,000	14,200	19,200
Capital Project Funds	-	1,668,900	1,668,900
Debt Service Funds	126,200	750	126,950
<u>Non Major Funds:</u>			
Drain #52	2,000	9,400	11,400
Raymond Township Maintenance	1,000	(400)	600

NOTE 18: PENSION PLAN

Rush River Water Resource District contributes to the North Dakota Public Employee's Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 5% of their annual covered salary. The water resource district is required to contribute 6.26% of the employee's salary, which consists of 5.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the water resource district are established and may be amended by the State legislature. The water resource district's contributions to NDPERS for the years ending December 31, 2012, 2011, and 2010 were \$2,112 \$1,266, and \$1,117, respectively, equal to the required contributions for the year.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 51,850	\$ 48,025	\$ 47,827	\$ (198)
Intergovernmental	4,235	13,790	14,052	262
Interest Income	1,500	200	184	(16)
Miscellaneous	6,700	9,200	8,011	(1,189)
Total Revenues	\$ 64,285	\$ 71,215	\$ 70,073	\$ (1,142)
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 55,785	\$ 76,180	\$ 81,110	\$ (4,930)
Capital Outlay	13,500	67,315	66,510	805
Total Expenditures	\$ 69,285	\$ 143,495	\$ 147,620	\$ (4,125)
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,000)	\$ (72,280)	\$ (77,547)	\$ (5,267)
Fund Balance - January 1	\$ 43,767	\$ 43,767	\$ 43,767	\$ -
Fund Balance - December 31	\$ 38,767	\$ (28,513)	\$ (33,780)	\$ (5,267)

The accompanying required supplementary information notes are an integral part of this schedule.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
RUSH RIVER MAINTENANCE FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 122,665	\$ 125,665	\$ 124,108	\$ (1,557)
Interest Income	-	-	183	183
Total Revenues	<u>\$ 122,665</u>	<u>\$ 125,665</u>	<u>\$ 124,291</u>	<u>\$ (1,374)</u>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 20,000	\$ 215,700	\$ 26,505	\$ 189,195
Capital Outlay	-	-	58,113	(58,113)
Total Expenditures	<u>\$ 20,000</u>	<u>\$ 215,700</u>	<u>\$ 84,618</u>	<u>\$ 131,082</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 102,665</u>	<u>\$ (90,035)</u>	<u>\$ 39,673</u>	<u>\$ 129,708</u>
Fund Balance - January 1	<u>\$ (25,394)</u>	<u>\$ (25,394)</u>	<u>\$ (25,394)</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 77,271</u>	<u>\$ (115,429)</u>	<u>\$ 14,279</u>	<u>\$ 129,708</u>

The accompanying required supplementary information notes are an integral part of this schedule.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
DRAIN 29A MAINTENANCE FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 50,945	\$ 100,945	\$ 50,496	\$ (50,449)
Intergovernmental	-	-	50,620	50,620
Interest Income	-	-	307	307
Total Revenues	<u>\$ 50,945</u>	<u>\$ 100,945</u>	<u>\$ 101,424</u>	<u>\$ 479</u>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 25,000	\$ 46,000	\$ 9,951	\$ 36,049
Capital Outlay	-	-	8,646	(8,646)
Total Expenditures	<u>\$ 25,000</u>	<u>\$ 46,000</u>	<u>\$ 18,596</u>	<u>\$ 27,404</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 25,945</u>	<u>\$ 54,945</u>	<u>\$ 82,827</u>	<u>\$ 27,882</u>
Fund Balance - January 1	<u>\$ (2,573)</u>	<u>\$ (2,573)</u>	<u>\$ (2,573)</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 23,372</u></u>	<u><u>\$ 52,372</u></u>	<u><u>\$ 80,254</u></u>	<u><u>\$ 27,882</u></u>

The accompanying required supplementary information notes are an integral part of this schedule.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
DRAIN 30 MAINTENANCE FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 20,665	\$ 20,665	\$ 20,446	\$ (219)
Intergovernmental	-	-	123	123
Total Revenues	<u>\$ 20,665</u>	<u>\$ 20,665</u>	<u>\$ 20,570</u>	<u>\$ (95)</u>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 5,000	\$ 19,200	\$ 5,184	\$ 14,016
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 15,665</u>	<u>\$ 1,465</u>	<u>\$ 15,385</u>	<u>\$ 13,920</u>
Fund Balance - January 1	<u>\$ (25,244)</u>	<u>\$ (25,244)</u>	<u>\$ (25,244)</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ (9,579)</u>	<u>\$ (23,779)</u>	<u>\$ (9,859)</u>	<u>\$ 13,920</u>

The accompanying required supplementary information notes are an integral part of this schedule.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- The water resource board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund, each special revenue fund and debt service fund of the district.
- The budget includes proposed expenditures and means of financing them.
- The water resource district holds a public hearing where any taxpayer may appear and shall be heard in favor of or against any proposed disbursements or tax levies. When the hearing shall have been concluded, the board shall adopt such estimate as finally is determined upon. All taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04
- The water resource board, on or before the October meeting shall determine the amount of taxes that shall be levied for county purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- The water resource board must file the budget with the county auditor by October 10th.
- Each budget is controlled by the water resource district secretary/treasurer at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2012, the Rush River Water Resource District had the following fund expenditures in excess of budgeted amounts:

	Budget	Actual	Excess
General Fund	\$143,495	\$147,620	\$4,125

No remedial action is anticipated or required regarding these excess expenditures.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Drain 29M	Drain 52	Raymond Twp Maintenance	Total Nonmajor Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 35,767	\$ -	\$ 649	\$ 36,416
Due From Other Funds	379	-	-	379
Taxes Receivable	79	334	-	412
Total Assets	<u>\$ 36,225</u>	<u>\$ 334</u>	<u>\$ 649</u>	<u>\$ 37,208</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
<u>Liabilities:</u>				
Due to Other Funds	\$ -	\$ 379	\$ -	\$ 379
<u>Deferred Inflows of Resources:</u>				
Taxes Receivable	\$ 79	\$ 334	\$ -	\$ 412
<u>Fund Balances:</u>				
Restricted	\$ 36,146	\$ -	\$ 649	\$ 36,795
Unassigned	-	(379)	-	(379)
Total Fund Balances	<u>\$ 36,146</u>	<u>\$ (379)</u>	<u>\$ 649</u>	<u>\$ 36,416</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 36,225</u>	<u>\$ 334</u>	<u>\$ 649</u>	<u>\$ 37,208</u>

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Drain 29M	Drain 52	Raymond Twp Maintenance	Total Nonmajor Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 4,055	\$ 22,352	\$ 734	\$ 27,141
Intergovernmental	-	36	-	36
Interest Income	147	4	-	151
Total Revenues	\$ 4,203	\$ 22,392	\$ 734	\$ 27,329
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 2,029	\$ (1,314)	\$ 548	\$ 1,263
Capital Outlay	-	8,355	-	8,355
Total Expenditures	\$ 2,029	\$ 7,041	\$ 548	\$ 9,617
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,174	\$ 15,351	\$ 187	\$ 17,712
Fund Balance - January 1	\$ 33,972	\$ (15,730)	\$ 463	\$ 18,704
Fund Balance - December 31	\$ 36,146	\$ (379)	\$ 649	\$ 36,416

STATE AUDITOR

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Local Government Division:
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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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

Governing Board
Rush River Water Resource District
West Fargo, 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 governmental activities, each major fund, and the aggregate remaining fund information of Rush River Water Resource District, West Fargo, North Dakota, a component unit of Cass County, Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Rush River Water Resource District's basic financial statements, and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rush River Water Resource 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 Rush River Water Resource District's internal control. Accordingly, we do not express an opinion on the effectiveness of Rush River Water Resource District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2012-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rush River Water Resource District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

RUSH RIVER WATER RESOURCE 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

We did note one matter that we reported to management of Rush River Water Resource District in a separate letter dated May 17, 2013.

Rush River Water Resource District's Response to Findings

Rush River Water Resource District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Rush River Water Resource 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 result 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

May 17, 2013

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued?

Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Section II - Financial Statement Findings

2012-01 – LACK OF SEGREGATION OF DUTIES

Condition:

Rush River Water Resource District has one secretary/treasurer and one accountant responsible for the primary accounting functions. A lack of segregation of duties exists 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 perform bank reconciliations.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the water resource district.

Effect:

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the water resource district's financial condition.

Recommendation:

Due to the size, complexity and the economic realities of the water resource district, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

Views of Responsible Officials:

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the Water Resource District.
