

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, 2011



RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

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For the Year Ended December 31, 2011

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RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

DISTRICT OFFICIALS

December 31, 2011

Raymond Wolfer
William A. Hejl
Keith Monson

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
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

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

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, 2011, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rush River Water Resource District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 through 8 and 26 through 27 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.

RUSH RIVER WATER RESOURCE DISTRICT
Independent Auditor's Report - Continued

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rush River Water Resource District's financial statements. The combining non-major funds statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund statements are fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson
State Auditor

June 20, 2012

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

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, 2011. 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 2011 are as follows:

- Net assets of Rush River Water Resource District decreased \$509,657 as a result of the current year's operations.
- Governmental net assets as of the end of the fiscal year totaled \$7,242,858.
- Total revenues from all sources were \$331,959 on the government-wide statement of activities and \$415,755 on the modified accrual basis.
- Total expenses were \$841,616 on the government-wide statement of activities and total expenditures were \$771,824 on the modified accrual basis.
- The District's general fund had \$78,312 in total revenues, \$102,432 in total expenditures. Overall, the general fund balance decreased by \$154,307 for the year ended December 31, 2011.

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 Assets 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 Assets 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, 2011?"

RUSH RIVER WATER RESOURCE DISTRICT

Management's Discussion and Analysis – Continued

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net assets 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 assets and changes in those assets. This change in net assets 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 Assets 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, 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 #29A maintenance, Drain #29M, Drain #30M, 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, 2010 and December 31, 2011 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, 2011 due to a decrease in governmental fund expenditures during the year ended December 31, 2011, 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 assets of \$7,242,858 are segregated into three separate categories. Net assets invested in capital assets (net of related debt) represents 85% of the District's total net assets. It should be noted that these assets are not available for future spending. Restricted net assets represent the remaining 15% of the District's net assets, while unrestricted net is a negative amount. Restricted net assets represent resources that are subject to external restrictions on how they must be spent. The unrestricted net assets are generally available to meet the District's ongoing obligations; however at year-end unrestricted net assets are negative.

TABLE 1
NET ASSETS
 December 31, 2011 and 2010

	2011	2010
Assets:		
Current Assets	\$ 378,816	\$ 550,148
Long-Term Assets	909,052	990,641
Capital Assets (net of accumulated depreciation)	7,031,213	7,309,870
Total Assets	\$8,319,081	\$8,850,659
Liabilities:		
Current Liabilities	\$ 205,474	\$ 21,310
Long-Term Liabilities	870,751	1,076,834
Total Liabilities	\$1,076,225	\$1,098,145
NET ASSETS:		
Invested in Capital Assets, net of Related Debt	\$6,162,463	\$6,234,068
Restricted	1,193,939	1,518,237
Unrestricted	(113,544)	209
Total Net Assets	\$7,242,858	\$7,752,515

Table II shows the changes in net assets for the fiscal years ended December 31, 2011 and 2010.

TABLE II
CHANGES IN NET ASSETS
 As of December 31, 2011 and 2010

	2011	2010
Revenues		
Program Revenues:		
Charges for Services	\$ 243,632	\$ 244,654
Operating Grants & Contributions	21,678	31,131
General Revenues:		
Property Taxes	44,137	47,992
Non-restricted Grants & Contributions	619	3,447
Interest Earnings & Miscellaneous Revenue	21,892	6,781
Total Revenues	\$ 331,959	\$ 334,005
Expenses		
Conservation of Natural Resources	\$ 792,454	\$ 402,863
Interest and Service Charges	49,162	50,445
Total Expenses	\$ 841,616	\$ 453,308
Change in Net Assets	\$ (509,657)	\$ (119,303)
Net Assets – January 1	\$7,752,515	\$7,871,818
Net Assets – December 31	\$7,242,858	\$7,752,515

Property taxes constituted 13%, charges for services 73%, operating and non-restricted grants and contributions 7%, and interest and miscellaneous revenue 7% of the total revenues of governmental activities of the District for fiscal year 2011.

Conservation of natural resources constituted 94% and debt service 6% of total expenses for governmental activities during fiscal year 2011. Expenses for drain maintenance increased during 2011.

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, 2011 and 2010

	Total Cost For Year Ended Dec. 31, 2011	Net Cost For Year Ended Dec. 31, 2011	Total Cost For Year Ended Dec. 31, 2010	Net Cost For Year Ended Dec. 31, 2010
Conservation of Natural Resources	\$792,454	\$(585,174)	\$402,863	\$(198,140)
Interest and Service Charges	49,162	8,868	50,445	20,617
Total Expenses	\$841,616	\$(576,305)	\$453,308	\$(177,523)

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. Unassigned 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 \$415,755 and expenditures of \$771,824 for the year ended December 31, 2011. As of December 31, 2011 the unassigned fund balance of the District's general fund was (\$158,462), and total committed fund balances were \$43,770. Restricted fund balances of the governmental funds were \$289,312 at year-end.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2011, the Rush River Water Resource Board amended the District's general fund revenue budget by increasing it \$22,955. Additionally, the general fund expenditures budget was amended to increase it by \$46,585.

Actual revenue for the year ended December 31, 2011 was over budget by \$1,427.

Actual expenditures for the year ended December 31, 2011 were over budget by \$1,917.

CAPITAL ASSETS

As of December 31, 2011, the Rush River Water Resource District had \$6,162,463 invested in capital assets, net of related debt. Table IV shows the balances at December 31, 2011 and 2010.

TABLE IV
CAPITAL ASSETS
(Net of Accumulated Depreciation)
December 31, 2011 and 2010

	2011	2010
Land	\$1,992,357	\$1,992,357
Facilities	4,665,972	4,937,325
Construction in Progress	-	29,443
Projects	372,884	350,745
Total Capital Assets (net of accumulated depreciation)	\$7,031,213	\$7,309,870

This total represents a net decrease of \$278,657 in capital assets from January 1, 2011. The decrease was due to depreciation expense during the year ended December 31, 2011. 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, 2011, the Rush River Water Resource District had \$895,000 in outstanding debt of which \$85,000 was due within one year. Total net bonds payable reported in the financial statements of \$868,751 are net of \$26,249 unamortized bond issuance costs and bond discounts.

For a detailed breakdown of the long-term debt readers are referred to Note 13 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 ASSETS
December 31, 2011

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 365,777
Intergovernmental Receivable	1,583
Accounts Receivable	1,000
Due from County	7,022
Taxes Receivable	2,686
Special Assessments Receivable	748
Long-Term Receivable:	
Uncertified Special Assessments Receivable	909,052
Capital Assets (not being depreciated):	
Land	1,992,357
Capital Assets (being depreciated):	
Facilities	4,665,972
Projects	372,884
Total Capital Assets	<u>\$ 7,031,213</u>
Total Assets	<u>\$ 8,319,081</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 196,928
Benefits Payable	3,836
Interest Payable	4,710
Long-Term Liabilities:	
Due Within One Year:	
Bonds Payable	82,050
Compensated Absences Payable	2,001
Due After One Year:	
Bonds Payable	<u>786,700</u>
Total Liabilities	<u>\$ 1,076,225</u>
<u>NET ASSETS:</u>	
Invested in Capital Assets, net of Related Debt	\$ 6,162,463
Restricted for:	
Debt Service	1,193,939
Unrestricted	<u>(113,544)</u>
Total Net Assets	<u>\$ 7,242,858</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, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Conservation of Natural Resources	\$ 792,454	\$ 185,602	\$ 21,678	\$ (585,174)
Interest and Service Charges	49,162	58,030	-	8,868
Total Governmental Activities	<u>\$ 841,616</u>	<u>\$ 243,632</u>	<u>\$ 21,678</u>	<u>\$ (576,305)</u>
<u>General Revenues:</u>				
Taxes				\$ 44,137
Non-restricted Grants and Contributions				619
Interest Earnings				2,725
Miscellaneous Revenues				19,167
Total General Revenues				<u>\$ 66,649</u>
Change in Net Assets				<u>\$ (509,657)</u>
Net Assets - January 1				<u>\$ 7,752,512</u>
Net Assets - December 31				<u><u>\$ 7,242,855</u></u>

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, 2011

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Rush River Maint.	Capital Project Funds	Debt Service Funds		
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 24,740	\$ 104,711	\$ -	\$ 177,094	\$ 59,231	\$ 365,777
Intergovernmental Receivable	1,583	-	-	-	-	1,583
Accounts Receivable	1,000	-	-	-	-	1,000
Due from County	201	1,321	-	5,471	29	7,022
Due from Other Funds	22,621	-	-	106,284	-	128,905
Taxes Receivable	737	1,672	-	-	277	2,686
Special Assessments Receivable	-	-	-	748	-	748
Total Assets	\$ 50,883	\$ 107,705	\$ -	\$ 289,597	\$ 59,537	\$ 507,722
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities:</u>						
Accounts Payable	\$ 2,543	\$ 131,427	\$ 17,206	\$ -	\$ 45,752	\$ 196,928
Benefits Payable	3,836	-	-	-	-	3,836
Due to Other Funds	-	-	106,284	-	22,620	128,904
Deferred Revenue	737	1,672	-	748	277	3,434
Total Liabilities	\$ 7,116	\$ 133,099	\$ 123,490	\$ 748	\$ 68,649	\$ 333,102
<u>Fund Balances:</u>						
Restricted	\$ -	\$ -	\$ -	\$ 288,849	\$ 463	\$ 289,312
Committed	43,770	-	-	-	-	43,770
Unassigned	(3)	(25,394)	(123,490)	-	(9,575)	(158,462)
Total Fund Balances	\$ 43,767	\$ (25,394)	\$ (123,490)	\$ 288,849	\$ (9,112)	\$ 174,620
Total Liabilities and Fund Balances	\$ 50,883	\$ 107,705	\$ -	\$ 289,597	\$ 59,537	\$ 507,722

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 ASSETS
December 31, 2011

Total *Fund Balances* for Governmental Funds \$ 174,621

Total *net assets* reported for governmental activities in the statement of net assets 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	\$ 24,709,429	
Less Accumulated Depreciation	<u>(17,678,217)</u>	
Net Capital Assets		7,031,213

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 revenues in the funds.

Property Taxes Receivable	\$ 2,686	
Special Assessments Receivable	<u>748</u>	3,434

Long-Term Uncertified Special Assessments receivable are not reported in the funds because they are unavailable to pay the current period's expenditures. 909,052

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 assets. Balances at December 31, 2011 are made up of the following liabilities:

Bonds Payable	\$ (895,000)	
Interest Payable	(4,710)	
Unamortized Bond Discount	12,562	
Unamortized Bond Issuance Costs	13,687	
Compensated Absences	<u>(2,001)</u>	
Total Long-Term Liabilities		<u>(875,462)</u>

Total Net Assets - Governmental Activities \$ 7,242,856

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, 2011

	Major Funds					
	General	Rush River Maint.	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>						
Taxes	\$ 46,344	\$ 124,751	\$ -	\$ -	\$ 60,851	\$ 231,946
Special Assessments	-	-	-	139,619	-	139,619
Intergovernmental	22,297	-	-	-	-	22,297
Interest Income	968	-	-	1,414	343	2,725
Miscellaneous	8,703	464	10,000	-	-	19,167
Total Revenues	\$ 78,312	\$ 125,216	\$ 10,000	\$ 141,033	\$ 61,194	\$ 415,755
<u>Expenditures:</u>						
Current:						
Conservation of Natural Resources	\$ 46,583	\$ 44,393	\$ -	\$ -	\$ 93,648	\$ 184,624
Capital Outlay	55,849	127,258	133,489	-	11,609	328,205
Debt Service:						
Principal	-	-	-	210,000	-	210,000
Interest	-	-	-	44,104	-	44,104
Service Fees	-	-	-	4,891	-	4,891
Total Expenditures	\$ 102,432	\$ 171,651	\$ 133,489	\$ 258,995	\$ 105,257	\$ 771,824
Excess (Deficiency) of Revenues Over Expenditures	\$ (24,120)	\$ (46,435)	\$ (123,489)	\$ (117,962)	\$ (44,063)	\$ (356,069)
<u>Other Financing Sources (Uses):</u>						
Transfers In	\$ -	\$ -	\$ -	\$ 130,187	\$ -	\$ 130,187
Transfers Out	(130,187)	-	-	-	-	(130,187)
Total Other Financing Sources and Uses	\$ (130,187)	\$ -	\$ -	\$ 130,187	\$ -	\$ -
Net Change in Fund Balances	\$ (154,307)	\$ (46,435)	\$ (123,489)	\$ 12,225	\$ (44,063)	\$ (356,069)
Fund Balance - January 1	\$ 198,074	\$ 21,041	\$ -	\$ 276,625	\$ 34,950	\$ 530,690
Fund Balance - December 31	\$ 43,768	\$ (25,394)	\$ (123,489)	\$ 288,850	\$ (9,113)	\$ 174,621

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, 2011

Net Change in *Fund Balances* - Total Governmental Funds \$ (356,069)

The change in net assets 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	\$ 1,684	
Current Year Depreciation Expense	<u>(280,341)</u>	(278,657)

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

Repayment of Debt		210,000
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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 assets. This is the amount of:

Collection on Long-Term Receivable	<u>\$ (81,589)</u>	(81,589)
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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	\$ (968)	
Amortization of Issuance Costs	(1,568)	
Amortization of Bond Discounts	(1,382)	
Net Decrease in Interest Payable	<u>2,783</u>	(1,135)

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.

\$ (2,206)

Change in Net Assets of Governmental Activities

\$ (509,656)

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, 2011

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 assets 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 nonmajor 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. The major source of revenue is a restricted tax levy.

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 and Raymond Township.

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.

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 are both restricted and unrestricted net assets 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.

All governmental funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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 assets. 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 Assets Equity

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.

<i>CLASSIFICATION</i>	<i>DEFINITION</i>	<i>EXAMPLES</i>
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, 2011.

Restricted & Committed Fund Balances – consist of the following items at December 31, 2011:

Restricted fund balances are shown by primary function on the balance sheet for conservation of natural resources, debt service and capital outlay. 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 state water commission 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 Assets Equity:

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.

Restrictions of net assets equity shown in the net assets statement are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Net assets equity in the statement of net assets is shown by primary function (as fund balance are shown) and is restricted for construction, maintenance, bridge replacement and repair, flood repair, health & welfare, emergencies and other purposes.

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,

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

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.

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

At year ended December 31, 2011, the water resource district's carrying amount of deposits was \$365,777 and the bank balance was \$377,574 of the bank balance, \$262,664 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, 2011, 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.

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.

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

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2011:

Governmental Activities:	Balance January 1	Increases	Decreases	Transfer	Balance December 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 1,992,357	\$ -	\$ -	\$ -	\$ 1,992,357
Construction in Progress	29,443	1,684	-	31,127	-
Total capital assets not being depreciated	\$ 1,992,357	\$ -	\$ -	\$31,127	\$ 1,992,357
<i>Capital assets being depreciated:</i>					
Facilities	\$22,267,672	\$ -	\$ -	\$ -	\$22,267,672
Project	418,273	-	-	31,127	449,400
Total Capital Assets, Being Depreciated	\$22,685,945	\$ -	\$ -	\$31,127	\$22,717,072
<i>Less Accumulated Depreciation for:</i>					
Facilities	\$17,330,347	\$ 271,353	\$ -	\$ -	\$17,601,700
Projects	67,528	8,988	-	-	76,516
Total Accumulated Depreciation	\$17,397,875	\$ 280,341	\$ -	\$ -	\$17,678,216
Total Capital Assets Being Depreciated, Net	\$ 5,288,070	\$(278,657)	\$ -	\$ -	\$ 5,038,856
Governmental Activities Capital Assets, Net	\$ 7,309,870	\$(278,657)	\$ -	\$ -	\$ 7,031,213

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: BENEFITS PAYABLE

Benefits payable represents the amount payable for benefits withheld at year-end.

NOTE 10: 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 Capital Projects and other governmental funds totaling \$128,905 covered by the General Fund and Debt Service funds.

NOTE 11: DEFERRED REVENUES

Deferred revenues consist of amounts 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, such amounts are measurable but not available. The amount in the governmental fund statements represents the levied, but uncollected, taxes and special assessments receivable.

NOTE 12: INTEREST PAYABLE

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

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

NOTE 13: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2011, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 1-1-11	Increases	Decreases	Balance 12-31-11	Due Within One Year
Bonds Payable	\$1,105,000	\$ -	\$(210,000)	\$895,000	\$85,000
Less Deferred Amounts:					
Bond Discount	13,944	-	(1,382)	12,562	1,382
Bond Issuance Costs	15,255	-	(1,567)	13,687	1,567
Total Bonds Payable	\$1,075,801	-	\$(212,950)	\$868,751	\$82,050
Compensated Absences	\$ 1,033	\$1,572	\$ (604)	\$ 2,001	\$ 2,001
TOTAL	\$1,076,834	\$1,572	\$(213,554)	\$870,752	\$84,051

Long-term debt at December 31, 2011 is comprised of the following:

Special Assessment Bonds:

\$560,000 2008 Improvement Bonds, due in annual installments of \$35,000 to \$45,000 through 2023 interest at 3.25% to 4.65%.	\$475,000
\$800,000 2005 Improvement Bonds, due in annual installments of \$10,000 to \$70,000 through 2019; interest at 3.7% - 4.35%.	<u>420,000</u>
Total Special Assessment Bonds Payable	<u>\$895,000</u>

Debt Service requirements on long-term debt, excluding compensated absences, at December 31, 2011 are as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Special Assessment Bonds Payable	
	Principal	Interest
2012	\$ 85,000	\$ 35,159
2013	90,000	32,079
2014	90,000	28,720
2015	90,000	25,175
2016	100,000	21,373
2017 - 2021	350,000	51,689
2022 - 2026	90,000	4,185
TOTALS	\$895,000	\$198,380

NOTE 14: 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.

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

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2011, which is the most current audited information available:

Total Assets	\$4,972,670
Total Liabilities	447,210
Total Equity	<u>4,525,460</u>
Revenues	1,440,397
Expenses	<u>897,230</u>
Change in Net Assets	<u>\$ 543,167</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 15: DEFICIT CASH FUND BALANCES

The water resource district had the following deficit cash fund balances at December 31, 2011:

Funds	Amount
Special Revenue Funds:	
Drain #30	\$ (11,210)
Drain #52	(11,410)
Capital Project Funds:	(106,284)

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 16: 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.

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.

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

NOTE 17: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board of water resource district commissioners amended the water resource district budget for 2011 as follows:

Fund	REVENUES		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$ 55,930	\$ 22,955	\$ 76,885
Rush River Maintenance	122,665	2,870	125,535
Capital Project Funds	-	10,000	10,000
Debt Service Funds	134,850	142,920	277,770
Non Major Funds:			
Drain #29A	25,475	660	26,135
Drain #29M	2,060	170	2,230
Drain #30	20,670	860	21,530
Drain #52	11,320	145	11,465
Raymond Twp Imp. District No. 67	-	710	710

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$ 53,930	\$ 46,585	\$100,515
Rush River Maintenance	100,000	(53,925)	46,075
Capital Project Funds	-	116,290	116,290
Debt Service Funds	123,635	135,360	258,995
Non Major Funds:			
Drain #29A	10,000	2,765	12,765
Drain #29	2,000	3,750	5,750
Drain #30	2,000	33,785	35,785
Drain #52	2,000	7,425	9,425
Raymond Twp Imp. District No. 67	500	(380)	120

NOTE 18: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2011:

	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ -	\$130,187
Debt Service Funds	130,187	-
Total Transfers	\$130,187	\$130,187

Transfers are used to move unrestricted general revenue to finance programs that the water resource district accounts for in other funds in accordance with budget authority and to subsidize other programs.

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 46,790	\$ 46,535	\$ 46,344	\$ (191)
Intergovernmental	4,140	21,680	22,297	617
Interest Income	-	965	968	3
Miscellaneous	3,000	7,705	8,703	998
Total Revenues	<u>\$ 53,930</u>	<u>\$ 76,885</u>	<u>\$ 78,312</u>	<u>\$ 1,427</u>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 46,150	\$ 45,320	\$ 46,583	\$ (1,263)
Capital Outlay	7,780	55,195	55,849	(654)
Total Expenditures	<u>\$ 53,930</u>	<u>\$ 100,515</u>	<u>\$ 102,432</u>	<u>\$ (1,917)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (23,630)</u>	<u>\$ (24,120)</u>	<u>\$ (490)</u>
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ 130,190	\$ (130,190)	\$ (130,187)	\$ 3
Net Changes in Fund Balances	<u>\$ 130,190</u>	<u>\$ (153,820)</u>	<u>\$ (154,307)</u>	<u>\$ (487)</u>
Fund Balance - January 1	<u>\$ 198,074</u>	<u>\$ 198,074</u>	<u>\$ 198,074</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 328,264</u></u>	<u><u>\$ 44,254</u></u>	<u><u>\$ 43,768</u></u>	<u><u>\$ (487)</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
RUSH RIVER MAINTENANCE FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 122,665	\$ 125,535	\$ 124,751	\$ (784)
Miscellaneous	-	-	464	464
Total Revenues	<u>\$ 122,665</u>	<u>\$ 125,535</u>	<u>\$ 125,216</u>	<u>\$ (319)</u>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 100,000	\$ 46,075	\$ 171,651	\$ (125,576)
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 22,665</u>	<u>\$ 79,460</u>	<u>\$ (46,435)</u>	<u>\$ (125,895)</u>
Fund Balance - January 1	<u>\$ 21,041</u>	<u>\$ 21,041</u>	<u>\$ 21,041</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 43,706</u>	<u>\$ 100,501</u>	<u>\$ (25,394)</u>	<u>\$ (125,895)</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, 2011

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 2011, the Rush River Water Resource District had the following fund expenditures in excess of budgeted amounts:

	Budget	Actual	Excess
General Fund	\$100,515	\$102,432	\$ (1,917)
<u>Special Revenue Funds:</u>			
Rush River Maintenance	46,705	171,651	(125,576)

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

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Drain 29A Maintenance	Drain 29M	Drain 30	Drai 52	Raymond Twp. Maintenance	Total Nonmajor Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 24,811	\$ 33,986	\$ -	\$ -	\$ 434	\$ 59,231
Due from County	-	-	-	-	29	29
Taxes Receivable	229	-	6	42	-	277
Total Assets	\$ 25,040	\$ 33,986	\$ 6	\$ 42	\$ 463	\$ 59,537
LIABILITIES AND FUND BALANCES						
<u>Liabilities:</u>						
Accounts Payable	\$ 27,384	\$ 14	\$ 14,034	\$ 4,320	\$ -	\$ 45,752
Due to Other Funds	-	-	11,210	11,410	-	22,620
Deferred Revenue	229	-	6	42	-	277
Total Liabilities	\$ 27,613	\$ 14	\$ 25,250	\$ 15,772	\$ -	\$ 68,649
<u>Fund Balances:</u>						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 463	\$ 463
Unassigned	(2,573)	33,972	(25,244)	(15,730)	-	(9,575)
Total Fund Balances	\$ (2,573)	\$ 33,972	\$ (25,244)	\$ (15,730)	\$ 463	\$ (9,112)
Total Liabilities and Fund Balances	\$ 25,040	\$ 33,986	\$ 6	\$ 42	\$ 463	\$ 59,537

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, 2011

	Drain 29A Maintenance	Drain 29M	Drain 30	Drain 52	Raymond Twp. Maintenance	Total Nonmajor Governmental Funds
<u>Revenues:</u>						
Taxes	\$ 25,432	\$ 2,066	\$ 21,121	\$ 11,494	\$ 738	\$ 60,851
Interest Income	116	158	69	-	-	343
Total Revenues	<u>\$ 25,548</u>	<u>\$ 2,224</u>	<u>\$ 21,190</u>	<u>\$ 11,494</u>	<u>\$ 738</u>	<u>\$ 61,194</u>
<u>Expenditures:</u>						
Current:						
Conservation of Natural Resources	\$ 36,527	\$ 5,162	\$ 49,774	\$ 2,064	\$ 120	\$ 93,647
Capital Outlay	-	-	-	11,609	-	11,609
Total Expenditures	<u>\$ 36,527</u>	<u>\$ 5,162</u>	<u>\$ 49,774</u>	<u>\$ 13,673</u>	<u>\$ 120</u>	<u>\$ 105,256</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (10,979)</u>	<u>\$ (2,938)</u>	<u>\$ (28,584)</u>	<u>\$ (2,179)</u>	<u>\$ 618</u>	<u>\$ (44,062)</u>
Fund Balance - January 1	<u>\$ 8,406</u>	<u>\$ 36,910</u>	<u>\$ 3,340</u>	<u>\$ (13,551)</u>	<u>\$ (155)</u>	<u>\$ 34,950</u>
Fund Balance - December 31	<u>\$ (2,573)</u>	<u>\$ 33,972</u>	<u>\$ (25,244)</u>	<u>\$ (15,730)</u>	<u>\$ 463</u>	<u>\$ (9,112)</u>

STATE AUDITOR

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STATE OF NORTH DAKOTA
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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*

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

We have audited 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, 2011, which collectively comprise Rush River Water Resource District's basic financial statements and have issued our report thereon dated June 20, 2012. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Rush River Water Resource District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rush River Water Resource District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rush River Water Resource District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rush River Water Resource District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying *schedule of findings and questioned costs* as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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*.

We noted one matter that we reported to management of Rush River Water Resource District in a separate letter dated June 20, 2012.

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*. We did not audit Rush River Water Resource District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Governing Board, and others within the district, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

June 20, 2012

RUSH RIVER WATER RESOURCE DISTRICT
West Fargo, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued?

Governmental Activities	Unqualified
Major Governmental Funds	Unqualified
Remaining Fund Information	Unqualified

Internal Control Over Financial Reporting:

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

Section II - Financial Statement Findings

2011-01 – LACK OF SEGREGATION OF DUTIES

Condition:

The 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.
