

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

**RED RIVER JOINT
WATER RESOURCE DISTRICT
WEST FARGO, NORTH DAKOTA**

FOR THE YEAR ENDED DECEMBER 31, 2011



RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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For the Year Ended December 31, 2011

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RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

DISTRICT OFFICIALS

December 31, 2011

James Lyons
Gary Thompson
Larry Tanke
Ben Varnson
Mark Brodshaug

Chairman
Vice Chairman
Manager
Manager
Manager

Carol Harbeke Lewis
Nettie Johnson
Sean M. Fredricks

Treasurer
Secretary
Attorney

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

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
Red River Joint Water Resource District
West Fargo, North Dakota

We have audited the accompanying financial statements of the governmental activities and the major fund of Red River Joint Water Resource District, West 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 Red River Joint 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 and the major fund of Red River Joint 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 Red River Joint 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 3 through 6 and 17 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.

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

June 20, 2012

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

The Management's Discussion and Analysis (MD&A) of Red River Joint 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 Red River Joint Water Resource District increased \$543,167 as a result of the current year's operations.
- Governmental net assets as of the end of the fiscal year totaled \$4,525,460.
- Total revenues from all sources were \$1,440,397.
- Total expenses were \$897,230.
- The District's general fund (including obligated funds) had \$1,440,397 in total revenues, \$897,230 in total expenditures. Overall, the general fund balance increased by \$543,167 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 Red River Joint 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, Red River Joint 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 Red River Joint 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?"

RED RIVER JOINT 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 FUND

Balance Sheet – Governmental Funds

The District uses one fund to account for and manage money dedicated for particular purposes (e.g. taxes collected from a mill levy 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 Red River Joint WRD Obligated Funds) is considered a "major fund".

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table I reflects significant changes in Current Assets and Current Liabilities between the December 31, 2010 and December 31, 2011 fiscal years. 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. Current liabilities increased due to accounts payable decreased for various cost share projects not yet completed at year-end.

The District's net assets of \$4,525,460 are unrestricted net assets. The unrestricted net assets are available to meet the District's ongoing obligations. Of this amount \$1,744,321 is committed for cost share on designated projects.

	2011	2010
<u>Assets:</u>	<u>\$4,972,670</u>	<u>\$4,032,783</u>
<u>Liabilities:</u>	<u>\$ 447,210</u>	<u>\$ 50,490</u>
NET ASSETS:		
Unrestricted	<u>\$4,525,460</u>	<u>\$3,982,293</u>
Total Net Assets	<u><u>\$4,525,460</u></u>	<u><u>\$3,982,293</u></u>

RED RIVER JOINT WATER RESOURCE DISTRICT
 Management's Discussion and Analysis – Continued

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

	2011	2010
Revenues		
<u>Program Revenues:</u>		
Operating Grants & Contributions	\$ 14,737	\$ -
<u>General Revenues:</u>		
Taxes	1,354,258	1,121,424
Interest Earnings & Miscellaneous Revenue	71,402	47,219
Total Revenues	\$1,440,397	\$1,168,643
Expenses		
Conservation of Natural Resources	\$ 897,230	\$ 681,802
Change in Net Assets	\$ 543,167	\$ 486,841
Net Assets – January 1	\$3,982,293	\$3,495,452
Net Assets – December 31	\$4,525,460	\$3,982,293

Taxes constituted 94%, operating and non-restricted grants and contributions 1%, and interest and miscellaneous revenue 5% of the total revenues of governmental activities of the District for fiscal year 2011.

Conservation of natural resources constituted 100% of total expenses for governmental activities during fiscal year 2011. Expenses for cost share projects increased during 2011.

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.

	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	\$897,230	\$(882,493)	\$681,802	\$(681,802)

FINANCIAL ANALYSIS OF GOVERNMENTAL FUND

The purpose of the District's governmental fund 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 \$1,440,397 and expenditures of \$897,230 for the year ended December 31, 2011. As of December 31, 2011 the total unassigned fund balance for the entire District's governmental funds was \$2,781,139.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2011, the Red River Joint Water Resource Board amended the District's general fund revenue budget by increasing it \$6,025,965. Additionally, the general fund expenditures budget was amended to decrease it by \$690,240.

Actual revenue for the year ended December 31, 2011 was under budget by \$4,632,803, due to an adjustment to account for the beginning balance in our software.

Actual expenditures for the year ended December 31, 2011 was under budget by \$168,700.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of Red River Joint 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, Treasurer, Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

RED RIVER JOINT 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	<u>\$ 4,972,670</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 446,873
Benefits Payable	<u>336</u>
Total Liabilities	<u>\$ 447,210</u>
<u>NET ASSETS:</u>	
Unrestricted	<u>\$ 4,525,460</u>
Total Net Assets	<u><u>\$ 4,525,460</u></u>

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

RED RIVER JOINT 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	\$ 897,230	\$ -	\$ 14,737	\$ (882,493)
Total Governmental Activities	<u>\$ 897,230</u>	<u>\$ -</u>	<u>\$ 14,737</u>	<u>\$ (882,493)</u>
<u>General Revenues:</u>				
Taxes				\$ 1,354,258
Interest Earnings				34,122
Miscellaneous Revenues				<u>37,280</u>
Total General Revenues				<u>\$ 1,425,660</u>
Change in Net Assets				<u>\$ 543,167</u>
Net Assets - January 1				<u>\$ 3,982,293</u>
Net Assets - December 31				<u><u>\$ 4,525,460</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011

	<u>General</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 4,972,670</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Accounts Payable	\$ 446,873
Benefits Payable	<u>336</u>
Total Liabilities	<u>\$ 447,210</u>
<u>Fund Balances:</u>	
Committed	\$ 1,744,321
Unassigned	<u>2,781,139</u>
Total Fund Balances	<u>\$ 4,525,460</u>
Total Liabilities and Fund Balances	<u>\$ 4,972,670</u>

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

RED RIVER JOINT 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

	<u>General</u>
<u>Revenues:</u>	
Taxes	\$ 1,354,258
Intergovernmental	14,737
Interest Income	34,122
Miscellaneous	<u>37,280</u>
Total Revenues	<u>\$ 1,440,397</u>
<u>Expenditures:</u>	
Current:	
Conservation of Natural Resources	<u>\$ 897,230</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 543,167</u>
Fund Balance - January 1	<u>\$ 3,982,293</u>
Fund Balance - December 31	<u>\$ 4,525,460</u>

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

RED RIVER JOINT 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 Red River Joint Water Resource District, West Fargo, North Dakota, a joint venture, 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 Red River Joint Water Resource District, a joint venture, which was established in 1978. 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 Red River Joint 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 Red River Joint Water Resource District.

Membership in the board is voluntary. Each member county elects one board member, having one vote, to serve on the Red River Joint Water Resource Board.

Based on these criteria, there are no component units to be included within the Red River Joint Water Resource District as a 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, Red River Joint 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 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. Typically, aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements; currently, however, the WRD maintains a single fund, the general fund, which is always considered a major fund.

The Water Resource District reports the following major governmental fund:

General Fund/Red River Joint 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 various projects within each member Water Resource District.

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 taxes, grants, entitlements, and donations. On an accrual basis, revenue from 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 claims and judgments, 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.

The current financial resources measurement focus differs from the manner that the governmental activities of the government-wide financial statements are prepared. Typically the financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Due to the nature of the Districts operations there are no differences between the government-wide statements, and the statements for governmental funds, therefore the reconciliations are not included in the basic financial statements..

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.

Investments consist of certificates of deposits bearing interest from .30% to 1.10% with a maturity longer than three months.

E. 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 Red River Joint Water Resource District 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.

Red River Joint Water Resource District only has committed and unassigned fund balances at December 31, 2011 in the general fund.

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

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

- (a) Committed funds by the governing board – funds are committed by the governing board (highest level of decision making authority) in the General Funds for Red River Joint 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. Equity is reported all as unrestricted for the year ended December 31, 2011.

F. 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 Red River Joint Water Resource District, a joint venture, was established in 1978. The WRD provides a coordinated and cooperative approach to the planning and implementation of flood prevention projects in the Red River Valley. Member Water Management Districts are: Ransom County, Richland County, Sargent County, Walsh County, Pembina County, Grand Forks County, Traill County, Maple River WRD, North Cass WRD, Barnes County, Southeast Cass WRD, Rush River WRD, Nelson County and Steele County.

NOTE 3: DEPOSITS

In accordance with North Dakota Statutes, the Red River Joint 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.

RED RIVER JOINT 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 \$4,972,670 and the bank balance was \$4,979,249 of the bank balance, \$1,751,155 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 had \$2,257,173 in certificates of deposits.

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: COMMITTED FUND BALANCE

The District officials have committed the fund balance as follows:

Corps' FM and Upstream Study	\$ 47,813
McVile Dam	16,667
Manitoba Border Dike	27,729
Michigan Flood Reduction Project	151,039
Renwick Dam Renovation	545,799
Lake Tobiason Feasibility Study	9,000
USGS-Stream Stats	18,762
Study of Dams Upstream of Fargo	30,000
Study of Impact of Wild Rice Dams	42,500
Upper Maple River Dam Design	137,500
Emergency Action Plan for Dams	19,768
Dam Repairs	79,297
Wild Rice River Dam Study	65,000
N. BR. Park River Riparian Project	1,570
Clausen Springs Dam Repair	157,798
Absaraka Dam Repairs	53,616
Upper Maple River Dam EA-Phase I	27,500
Park River Bank Stabilization	555
BTSAC Study	20,508
Maple River Watershed Retention Plan	42,900
Rush River Prelim Soils Analysis	29,000
HMS Modeling	120,000
Contingencies	100,000
Totals	\$1,744,321

RED RIVER JOINT WATER RESOURCE DISTRICT
 Notes to the Financial Statements – Continued

NOTE 5: 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 6: BENEFITS PAYABLE

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

NOTE 7: INTEREST PAYABLE

Interest payable represents the amount payable on all certificates of deposit at year-end.

NOTE 8: RISK MANAGEMENT

Red River Joint 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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Red River Joint Water Resource District carries commercial insurance for risks of loss considered necessary. The Districts property and liability insurance is provided through the NDRIF.

The State Bonding Fund currently provides the Red River Joint Water Resource District with blanket fidelity bond coverage in the amount of \$2,300,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Red River Joint Water Resource District also participates in the North Dakota Worker's Compensation Bureau.

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

NOTE 9: 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	\$1,734,070	\$4,339,130	\$6,073,200

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$1,756,170	\$(690,240)	\$1,065,930

RED RIVER JOINT 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	\$ 43,735	\$ 1,775,695	\$ 1,354,258	\$ (421,437)
Intergovernmental	-	74,905	14,737	(60,168)
Interest Income	-	34,120	34,122	2
Miscellaneous	3,500	4,188,480	37,280	(4,151,200)
Total Revenues	\$ 47,235	\$ 6,073,200	\$ 1,440,397	\$ (4,632,803)
<u>Expenditures:</u>				
<u>Current:</u>				
Conservation of Natural Resources	\$ 1,756,170	\$ 1,065,930	\$ 897,230	\$ 168,700
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,708,935)	\$ 5,007,270	\$ 543,167	\$ (4,464,103)
Fund Balance - January 1	\$ 3,982,293	\$ 3,982,293	\$ 3,982,293	\$ -
Fund Balance - December 31	\$ 2,273,358	\$ 8,989,563	\$ 4,525,460	\$ (4,464,103)

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

RED RIVER JOINT 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 board, on or before the October meeting shall determine the amount of taxes that shall be levied for member county purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- 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.

STATE AUDITOR

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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*

Governing Board
Red River Joint Water Resource District
West Fargo, North Dakota

We have audited the financial statements of the governmental activities and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, as of and for the year ended December 31, 2011, which collectively comprise Red River Joint 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 Red River Joint Water Resource District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Red River Joint 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 Red River Joint Water Resource District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Red River Joint 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 Red River Joint 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 Red River Joint Water Resource District in a separate letter dated June 20, 2012.

Red River Joint 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 Red River Joint 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 that reads "Bob Peterson".

Robert R. Peterson
State Auditor

June 20, 2012

RED RIVER JOINT 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
Aggregate Remaining Fund Information	Unqualified

Internal Control Over Financial Reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Section II - Financial Statement Findings

2011-01 – LACK OF SEGREGATION OF DUTIES

Condition:

The Red River Joint 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.