OFFICE OF STATE AUDITOR

AUDIT REPORT

RED RIVER JOINT WATER RESOURCE DISTRICT

WEST FARGO, NORTH DAKOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

DISTRICT OFFICIALS

December 31, 2012

James Lyons	Chairman
Gary Thompson	Vice Chairman
Larry Tanke	Manager
Ben Varnson	Manager
Mark Brodshaug	Manager
Carol Harbeke Lewis	Treasurer
Nettie Johnson	Secretary
Sean M. Fredricks	Attorney

STATE AUDITOR
ROBERT R. PETERSON
Phone (701) 328-2241
Fax (701) 328-1406

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

UNMODIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Independent Auditor's Report

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-7 and 21 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013 on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Red River Joint Water Resource District's internal control over financial reporting and compliance.

Robert R. Peterson
State Auditor

May 17, 2013

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, 2012. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- Net position of Red River Joint Water Resource District increased $1,519,061 as a result of the current year's operations.
- Governmental net position as of the end of the fiscal year totaled $6,045,061.
- Total revenues from all sources were $2,105,063 on the government-wide statement of activities and $2,073,734 on the modified accrual basis.
- Total expenses were $585,461.
- The District's general fund (including obligated funds) had $2,073,734 in total revenues, $585,461 in total expenditures. Overall, the general fund balance increased by $1,519,601 for the year ended December 31, 2012.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand 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 Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's general fund, 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 Position 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, 2012?"

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

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

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

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

REPORTING ON THE DISTRICT'S MOST SIGNIFICANT FUNDS

Balance Sheet – Governmental Funds

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

FINANCIAL ANALYSIS OF THE DISTIRCT AS A WHOLE

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

The District's net position of $6,045,061 is an unrestricted net position. The unrestricted net position is available to meet the District's ongoing obligations. Of this amount $3,687,325 is committed for cost share on designated projects.

TABLE 1
NET POSITION
December 31, 2012 and 2011

	2012	2011
Current Assets:	$6,082,576	$4,972,670
Current Liabilities:	$ 37,515	$ 447,210
NET POSITION:		
Unrestricted	$6,045,061	$4,525,460
Total Net Position	$6,045,061	$4,525,460

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

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

	2012	2011
Revenues		
Program Revenues:		
Operating Grants & Contributions	$ 55,001	$ 14,737
General Revenues:		
Taxes	$2,009,404	$1,354,258
Non-restricted Grants and Contributions	16,633	
Interest Earnings & Miscellaneous Revenue	24,025	71,402
Total Revenues	$2,105,063	$1,440,397
Expenses		
Conservation of Natural Resources	$ 585,461	$ 897,230
Change in Net Position	$1,519,601	$ 543,167
Net Position – January 1	$4,525,460	$3,982,293
Net Position – December 31	$6,045,061	$4,525,460

Taxes constituted 95%, operating and non-restricted grants and contributions 3%, and interest and miscellaneous revenue 2% of the total revenues of governmental activities of the District for fiscal year 2012.

Conservation of natural resources constituted 100% of total expenses for governmental activities during fiscal year 2012. Expenses for cost share projects decreased during 2012.

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

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

	Total Cost For Year Ended Dec. 31, 2012	Net Cost For Year Ended Dec. 31, 2012	Total Cost For Year Ended Dec. 31, 2011	Net Cost For Year Ended Dec. 31, 2011
Conservation of Natural Resources	$585,461	$(530,460)	$897,230	$(882,493)

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 $2,073,734 and expenditures of $585,461 for the year ended December 31, 2012. As of December 31, 2012 the total unassigned fund balance for the entire District's governmental funds was $2,326,732.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2012, the Red River Joint Water Resource Board amended the District's general fund revenue budget by increasing it $3,340,230. Additionally, the general fund expenditures budget was amended to increase it by $2,239,315.

Actual revenue for the year ended December 31, 2012 was under budget by $2,972,696, due to an adjustment to account for the change of bank accounts and CD purchase in our software.

Actual expenditures for the year ended December 31, 2012 was under budget by $3,359,964, due to an adjustment to account for the change of bank accounts and CD purchase in our software.

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 POSITION
December 31, 2012

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	$ 6,023,580
Intergovernmental Receivable	16,633
Due from County	11,034
Taxes Receivable	31,329
Total Assets	$ 6,082,576
LIABILITIES:	
Accounts Payable	$ 36,813
Benefits Payable	702
Total Liabilities	$ 37,515
NET POSITION:	
Unrestricted	$ 6,045,061
Total Net Position	$ 6,045,061

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities:				
Conservation of Natural Resources	$ 585,461	$ -	$ 55,001	$ (530,460)
	General Revenues:			
	Taxes			$ 2,009,404
	Non-restricted Grants and Contributions			16,633
	Interest Earnings			23,950
	Miscellaneous Revenues			75
	Total General Revenues			$ 2,050,061
	Change in Net Position			$ 1,519,601
	Net Position - January 1			$ 4,525,460
	Net Position - December 31			$ 6,045,061

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, 2012

	General
ASSETS	
Cash and Cash Equivalents	$ 6,023,580
Intergovernmental Receivable	16,633
Due from County	11,034
Taxes Receivable	31,329
Total Assets	$ 6,082,576
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 36,813
Benefits Payable	702
Total Liabilities	$ 37,515
Deferred Inflows of Resources:	
Taxes Receivable	$ 31,329
Fund Balances:	
Committed	$ 3,687,325
Unassigned	2,326,408
Total Fund Balances	$ 6,013,732
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 6,082,576

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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

Total *Fund Balances* for Governmental Funds	$ 6,013,732
Total *net position* reported for governmental activities in the statement of net position is different because:	
Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds.	
Property Taxes Receivable	31,329
Total Net Position - Governmental Activities	$ 6,045,061

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, 2012

	General
Revenues:	
Taxes	$ 1,978,075
Intergovernmental	71,634
Interest Income	23,950
Miscellaneous	75
Total Revenues	$ 2,073,734
Expenditures:	
Current:	
Conservation of Natural Resources	$ 585,461
Excess (Deficiency) of Revenues Over Expenditures	$ 1,488,273
Fund Balance - January 1	$ 4,525,460
Fund Balance - December 31	$ 6,013,732

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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

Net Change in *Fund Balances* - Total Governmental Funds	$ 1,488,273
The change in net position reported for governmental activities in the statement of activities is different because:	
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.	31,329
Change in Net Position of Governmental Activities	$ 1,519,601

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

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 position 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 non-major 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 .25% to 1.00% with a maturity longer than three months.

E. Fund Balances / Net Position

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

Fund Balance Spending Policy:

It is the policy of 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, 2012 in the general fund.

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

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 Position:

When both restricted and unrestricted resources are available for use, it is the Water Resource District's policy to use restricted resources first, then unrestricted resources as they are needed. Position is reported all as unrestricted for the year ended December 31, 2012.

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

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.

At year ended December 31, 2012, the water resource district's carrying amount of deposits was $6,023,580 and the bank balance was $6,037,032 of the bank balance, $1,593,484 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The water resource district may invest idle funds as authorized in North Dakota Statutes, as follows:

(a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
(b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
(c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
(d) Obligations of the state.

As of December 31, 2012, the water resource district had $2,312,653 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: 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: COMMITTED FUND BALANCE

The District officials have committed the fund balance as follows:

Corps' FM and Upstream Study	$ 47,813
McVille Dam	16,667
Manitoba Border Dike	89,477
Michigan Flood Reduction Project	151,039
Renwick Dam Renovation	545,799
USGS-Stream Stats	18,762
Study of Dams Upstream of Fargo	30,000
Study of Impact of Wild Rice Dams	42,500
Emergency Action Plan for Dams	14,956
Dam Repairs	79,297
Wild Rice River Dam Study	65,000
Absaraka Dam Repairs	53,616
BTSAC Study	9,874
Maple River Watershed Retention Plan	42,900
Rush River Prelim Soils Analysis	29,000
HMS Modeling	60,000
Federally Funded Retention Projects	2,000,000
Rush River Watershed Retention Plan	43,875
Elm River Watershed Retention Study	48,750
Lower Sheyenne Watershed Retention Plan	52,000
Upper Maple River Dam: EA – Phase II	76,375
Shortfoot Creek Watershed Detention Study	30,875
Wild Rice Watershed Retention Plan	58,500
Baldhill Creek Dam Ph II: Prelim Geotech Inv	35,750
USGS Streamgage on Rush River near Amenia	19,500
Contingencies	25,000
	$3,687,325

NOTE 6: 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 7: BENEFITS PAYABLE

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

NOTE 8: DEFERRED INFLOWS OF RESOURCES

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

NOTE 9: INTEREST PAYABLE

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

NOTE 10: 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 (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 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 NDIRF.

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 11: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

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

	REVENUES		
Fund	**Original Budget**	**Amendment**	**Amended Budget**
Major Funds:			
General Fund	$1,706,110	$3,340,320	$5,046,430

	EXPENDITURES		
Fund	**Original Budget**	**Amendment**	**Amended Budget**
Major Funds:			
General Fund	$1,706,110	$2,199,470	$3,905,580

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	$ 1,650,000	$ 1,967,045	$ 1,978,075	$ 11,030
Intergovernmental	18,000	15,275	71,634	56,359
Interest Income	35,000	-	23,950	23,950
Miscellaneous	3,110	3,064,110	75	(3,064,035)
Total Revenues	$ 1,706,110	$ 5,046,430	$ 2,073,734	$ (2,972,696)
Expenditures:				
Current:				
Conservation of Natural Resources	$ 1,706,110	$ 3,945,425	$ 585,461	$ 3,359,964
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ 1,101,005	$ 1,488,273	$ 387,268
Fund Balance - January 1	$ 4,525,460	$ 4,525,460	$ 4,525,460	$ -
Fund Balance - December 31	$ 4,525,460	$ 5,626,465	$ 6,013,732	$ 387,268

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

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
ROBERT R. PETERSON
Phone (701) 328-2241
Fax (701) 328-1406

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

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

Independent Auditor's Report

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Red River Joint Water Resource District's basic financial statements, and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Red River Joint Water Resource District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Red River Joint Water Resource District's internal control. Accordingly, we do not express an opinion on the effectiveness of Red River Joint Water Resource District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [*2012-01*].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Red River Joint Water Resource District's Response to Findings

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*. Red River Joint Water Resource District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert R. Peterson
State Auditor

May 17, 2013

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued?

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

Internal Control Over Financial Reporting:

Material weaknesses identified?	X	Yes		No
Significant deficiencies identified?		Yes	X	No
Noncompliance material to financial statements noted?		Yes	X	No

Section II - Financial Statement Findings

2012-01 – LACK OF SEGREGATION OF DUTIES

Condition:

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.