

RED RIVER  
REGIONAL COUNCIL  
GRAFTON, NORTH DAKOTA

FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

RED RIVER REGIONAL COUNCIL  
Table of Contents

---

	Page
Board Officials	1
Independent Auditor's Report	2-3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet- Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	7
Notes to Combined Financial Statement	8-15
FEDERAL FINANCIAL ASSISTANCE AND OTHER SCHEDULES	
Schedule of Expenditures over Federal Awards	16
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	17-18
Report on Compliance for Each Major Program and Report On Internal Control over Compliance Required by the Uniform Guidance	19-21
Schedule of Findings and Questioned Costs	22-23

RED RIVER REGIONAL COUNCIL  
LIST OF OFFICIALS  
DECEMBER 31, 2016

Dan Stenvold	President
Chris Lipsh	Vice-president
Jay Skorheim	Treasurer
Karen Anderson	
Michael Brown	
Rebecca Chycle	
Kristina Halvorson	
Mary Houdek	
Maynard Loibl	
Keith Lund	
Ardis Olson	
Cynthia Pic	
Nick Rutherford	
Steven Sand	
Delbert Schindele	
Todd Whitman	

ADMINISTRATION

Dawn Keeley	Executive Director
Lori Estad	Office and fiscal manager

# Harold J. Rotunda

## Certified Public Accountant

### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Red River Regional Council  
Grafton, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Red River Regional Council as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Council'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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I 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 in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Red River Regional Council as of December 31, 2016, and the changes in cash basis financial position and cash flows, where applicable, thereof for the year then ended, in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to that matter.

### **Other Matters**


Management has omitted the management discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

### **Other information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red River Regional Council's basic financial statements. The Schedule of Activity is presented for purposes of additional analysis and is not a required part of the basis financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the basic financial statements. The Schedule of Activity is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Schedule of Activity and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basis financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued reports dated October 1, 2017, on my considerations of the Council's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Council's internal control over financial reporting and compliance.

  
West Fargo, North Dakota

October 1, 2017

405 West Main Avenue Box 816 West Fargo, ND 58078 Phone (701)281-0483 Cell 212-3908

RED RIVER REGIONAL COUNCIL  
STATEMENT OF NET POSITION- MODIFIED CASH BASIS  
DECEMBER 31, 2016

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	504,945.88
Accounts receivable	-
Grants receivable	
Intergovernmental receivable	
Loans receivable	702,133.50
Capital assets (net of accumulated depreciation)	-
<b>Total Assets</b>	<b>1,207,079.38</b>
<b>LIABILITIES</b>	
Accounts Payable	-
Salaries and benefits payable	8,433.21
Accrued vacation	28,690.02
Long-term liabilities:	
Due within one year:	
Bonds payable	
Notes payable	
Due after one year:	
Bonds payable	
Notes payable	
<b>Total liabilities</b>	<b>37,123.23</b>
<b>Net Position</b>	
Invested in capital assets, net of related debt	-
Restricted for:	
Capital projects	
Debt service	947,037.76
Unrestricted	222,918.39
<b>Total Net Position</b>	<b>1,169,956.15</b>

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL  
 STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2016

		Program Revenues		Revenue & Changes
	Expenses	Charges for	Operating grants	in Net Position
		Services	and Contributions	Governmental
				Activities
Governmental activities:				
EDA	105,726.15		63,500.00	(42,226.15)
JDA Contracts	129,644.37	132,500.00	-	2,855.63
Progress	19,547.38	23,373.84		3,826.46
RLF	4,675.86	8,121.27		3,445.41
Housing	27,425.90	29,454.12	-	2,028.22
Economic development	330,865.08	315,794.89		(15,070.19)
Riparian	146,032.75	-	156,500.65	10,467.90
Depreciation- Unallocated	-			-
Total Governmental Activities	763,917.49	509,244.12	220,000.65	(34,672.72)
		-		
		Governmental		
Net expense		(34,672.72)		
General Revenues				
Dues		113,461.12		
State aid				
Interest income		100.59		
Charges for service		-		
Other revenue				
Total General Revenues		113,561.71		
Transfers in (out)		-		
Change in Net Position		78,888.99		
Net Position- January 1		1,091,067.16		
Net Position- December 31		1,169,956.15		

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL  
 BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS  
 DECEMBER 31, 2016

	GENERAL	PROGRESS	RLF	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and investments	260,041.62	137,893.06	107,011.20		504,945.88
Accounts receivable	-				-
Grants receivable					-
Due from other funds	-	-			-
Loans receivable		519,296.21	182,837.29		702,133.50
Total Assets	260,041.62	657,189.27	289,848.49	-	1,207,079.38
<b>LIABILITIES</b>					
Accounts Payable	-	-			-
Accrued expenses	37,123.23	-			37,123.23
Due to other funds	-		-	-	-
Total liabilities	37,123.23	-	-	-	37,123.23
<b>FUND BALANCE</b>					
Restricted for Capital Projects					-
Restricted for Debt Service		657,189.27	289,848.49	-	947,037.76
Unassigned	222,918.39	-	-	-	222,918.39
Total fund balance	222,918.39	657,189.27	289,848.49	-	1,169,956.15

The accompanying notes are an integral part of these financial statements.



RED RIVER REGIONAL COUNCIL  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2016

	GENERAL	PROGRESS	RLF	OTHER GOVERNMENT/ FUND	TOTAL GOVERNMENT/ FUND
Dues	113,461.12				113,461.12
Project income	630,524.90	23,373.84	8,121.27		662,020.01
Intergovernmental	63,500.00				63,500.00
Interest	100.59				100.59
Charges for services	-				-
Other	3,724.76				3,724.76
<b>Total Revenues</b>	<b>811,311.37</b>	<b>23,373.84</b>	<b>8,121.27</b>	<b>-</b>	<b>842,806.48</b>
Current:					
Salaries	268,576.27	7,845.76	1,784.44		278,206.47
Employee benefits	120,795.40	3,131.28	799.52		124,726.20
Travel	16,413.81				16,413.81
Professional fees	13,054.13	820.00	530.00		14,404.13
Rent	23,358.17				23,358.17
Payroll taxes	-				-
Communication	7,845.89				7,845.89
Office expense	12,566.10	11.10			12,577.20
Miscellaneous	60,644.00	5,713.74	1,561.90		67,919.64
Project costs	216,440.48	2,025.50	-		218,465.98
Loan losses			-		-
<b>Total Expenditures</b>	<b>739,694.25</b>	<b>19,547.38</b>	<b>4,675.86</b>	<b>-</b>	<b>763,917.49</b>
Excess revenues (expenditures)	71,617.12	3,826.46	3,445.41	-	78,888.99
Other Financing Sources (Uses):					
Transfers in					-
Transfers out					-
Bond proceeds					-
<b>Total other financing sources and u</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>71,617.12</b>	<b>3,826.46</b>	<b>3,445.41</b>	<b>-</b>	<b>78,888.99</b>
Fund balance- beginning	151,301.27	653,362.81	286,403.08	-	1,091,067.16
Fund balance- ending	222,918.39	657,189.27	289,848.49	-	1,169,956.15

The accompanying notes are an integral part of these financial statements.

RED RIVER REGIONAL COUNCIL  
GRAFTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Red River Regional Council (Council) have been prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 Council's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Council. The Council has considered all potential component units for which the Council is financially accountable and other organizations for which the nature and significance of their relationships with the Council such that exclusion would cause the Council'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 Council 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 Council.

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government, the Council. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council'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 program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary. The Council currently has no fiduciary funds.

The Council reports the following major governmental funds: General Fund. The General Fund is the primary operating fund of the Council and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Red River Revolving Loan Fund. The RLF fund is used to account for funds received for loans to businesses in the Council area.

Progress Revolving Loan Fund. The RLF fund is used to account for funds received for loans to businesses in the Council area.

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

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transactions or event occurred. Such report balances include investments, receivables, capital assets, deferred outflows, short-term liabilities, long-term liabilities, and deferred inflows arising from cash transactions or events.

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

D. Budgets

Based upon available financial information and requests by the board, the director and business manager prepares the Council budget. The budget is prepared for the general fund on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts.

Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Council is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Permanent Buildings	50
Vehicles	10
Other Equipment	10

G. Long-Term Obligations

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

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

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

H. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**Restricted** - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board-the Council's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** - This classification reflects the amounts constrained by the Council's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

**Unassigned** - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the Council's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

The council has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

I. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board did not amend the General Fund budget in 2016.

EXPENDITURES OVER APPROPRIATIONS

The Council did not overspend the budget. No remedial action is required by the Council.

NOTE 3 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the Council 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 deposit not covered by insurance or bonds.

RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any Council, Council, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States, or such other securities approved by the banking board.

At December 31, 2016, the Council's carrying amount of deposits was \$814,120. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$564,120 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the Council to invest in:(1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.(2) 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.(3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.(4) Obligations of the state.

Concentration of Credit Risk

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

NOTE 4: LOAN RECEIVABLE

Changes in Loan Receivables - During the year ended December 31, 2016, the following changes occurred in assets reported in long-term assets:

	Receivable		Receivable	
	2015	Increases	Decreases	2016
RLF	199 302	15 000	31 465	182 837
Progress	513 976	68 635	63 315	519 296



RED RIVER REGIONAL COUNCIL  
Notes to Financial Statements- Continued

NOTE 5: INTERFUND RECEIVABLES

Interfund receivables consists of expenses paid by one fund for another that is reimbursed after year end.

NOTE 6: CAPITAL ASSETS

The Council does not have any assets that meet the capitalization criteria.

NOTE 7: RETIREMENT PLAN

The Council participates in a defined contribution, individual account, money purchase, retirement plan that covers all employees who work over 20 hours per week. In accordance with the plan agreement, the Council contributes 10 percent of the employee's gross wages to the plan. During the years ended December 31, 2016 and 2015, the Agency contributed \$23,641 and \$17,293 respectively, to the retirement plan.

NOTE 8: RISK MANAGEMENT

The Council is exposed to various risks of loss relating 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 Council pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence..

The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The Council has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

RED RIVER REGIONAL COUNCIL  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	CFDA <u>Number</u>	<u>Expenses</u>
U.S. Department of Commerce-		
Direct Assistance		
Planning grant	11.302	63,500
Economic Adjustment Assistance	11.307	<u>701,868</u>
Total		<u>765,368</u>
U.S. Department of Housing and Urban Development		
Passed through North Dakota Department of Commerce		
CDBG Scoring and ranking	14.228	<u>7,365</u>
U.S. Department of Agriculture-		
Direct Assistance		
Rural Housing Preservation	10.433	25,000
Rural Business Opportunity	10.773	<u>35,942</u>
Total		<u>60,942</u>
U.S. Environmental Protection Agency-		
Passed through North Dakota Department of Health		
Non Pointe Implementation	66.460	<u>75,290</u>
Total assistance		908,965 =====

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Council under programs of the federal government for the year ended December 31, 2016. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portions of the operations of the Council, it is not intended to be and does not present the financial position or changes in net position of the Council. The Council has not elected to use the 10% de minimis cost rate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3: LOANS OUTSTANDING

Red River Regional Council had the following loan balances outstanding at December 31, 2015. Loans made during the year are included in the Federal expenditures presented in the schedule.

Economic Adjustment Assistance      \$513,560

# Harold J. Rotunda

## Certified Public Accountant

---

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

To the Governing Board  
Red River Regional Council  
Grafton, North Dakota

I 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 modified cash basis financial statements of the governmental activities and each major fund of Red River Regional Council as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated October 1, 2017.

#### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies [2016-1].

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Red River Regional Council's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

#### **Red River Regional Council's Responses to Findings**

Red River Regional Council's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Red River Regional Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.



Harold Rotunda, CPA

October 1, 2017

# Harold J. Rotunda

Certified Public Accountant

---

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM COMPLIANCE

## Independent Auditor's Report

To the Governing Board  
Red River Regional Council  
Grafton, North Dakota

### **Report on Compliance for Each Major Federal Program**

I have audited Red River Regional Council's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Red River Regional Council's major federal programs for the year ended December 31, 2016. Red River Regional Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of Red River Regional Council's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Red River Regional Council's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Red River Regional Council's compliance.

#### **Opinion on Each Major Federal Program**

In my opinion, Red River Regional Council complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

#### **Report on Internal Control Over Compliance**

Management of Red River Regional Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Red River Regional Council's internal control, over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Red River Regional Council's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control, over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance 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 compliance that might be material weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Harold Rotunda". The signature is written in a cursive, flowing style.

Harold Rotunda, CPA  
October 1, 2017

RED RIVER REGIONAL COUNCIL  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities

Unmodified

Major Funds

Unmodified

Internal Control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes  X  No

Significant deficiencies identified not  
 Considered to be material weaknesses?  X  Yes \_\_\_\_\_ No

Noncompliance material to financial statements  
 Noted? \_\_\_\_\_ Yes  X  No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? \_\_\_\_\_ Yes  X  No

Reportable conditions identified not considered  
 To be material weaknesses? \_\_\_\_\_ Yes  X  None

Type of auditor's report issued on compliance for

Major programs: Unmodified

Any audit findings disclosed that are required to be

Reported in accordance with CFR  
 Section 200.516? \_\_\_\_\_ Yes  X  No

Identification of major programs:

CFDA Numbers \_\_\_\_\_ Name of Federal Program Or Cluster

11.307 Economic Adjustment Assistance

Dollar threshold used to distinguish between Type

A and B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No



RED RIVER REGIONAL COUNCIL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Section II- Financial Statement Findings

Finding No. 2016-1

Condition

The limited number of staff prevents a proper segregation of duties.

Criteria

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect of Condition

Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation

While I recognize that the City office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the City.

Response

At the present time, the City has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.