



Financial Statements
December 31, 2017 and 2016
Souris River Joint Board

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Souris River Joint Board
Board of Directors (Unaudited)
December 31, 2017 and 2016

<u>Name</u>	<u>County/City</u>
David Ashley	McHenry County
Roger Sauer	Renville County
Tom Klein	Ward County
Clif Issendorf	Bottineau County
Dan Jonasson	City of Minot



Independent Auditor's Report

Board of Directors
Souris River Joint Board
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of Souris River Joint Board (the Board) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Board'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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of Souris River Joint Board as of December 31, 2017 and 2016, and the respective changes in financial position – cash basis thereof for the years then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We 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 accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters**Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The Board of Directors listing on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's 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 Board's internal control over financial reporting and compliance.



Bismarck, North Dakota
January 7, 2019

Souris River Joint Board
Statement of Receipts, Disbursements and Changes in Fund Balance- Cash Basis
Years Ended December 31, 2017 and 2016

	2017	2016
Receipts		
Cost share	\$ 12,462,379	\$ 10,022,688
Mill levy	307,453	341,212
Water resource districts	66,751	-
Property sales	70,390	-
Miscellaneous	2,722	13
	12,909,695	10,363,913
Total receipts		
Disbursements		
Staff services	200,729	-
Consulting services	6,372,065	8,006,262
Construction	1,397,492	1,728,627
Utility relocations	87,539	-
StARR property acquisitions	3,981,492	-
Corps of Engineers	315,000	600,000
Office expenses	12,657	12,591
Miscellaneous expenses	7,257	-
Other project expenses	238,000	19,000
	12,612,231	10,366,480
Total disbursements		
Net change in cash basis fund balance	297,464	(2,567)
Cash Basis Fund Balance - Beginning of Year	180,914	183,481
Cash Basis Fund Balance - Unassigned - End of Year	\$ 478,378	\$ 180,914

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Souris River Joint Board (the Board) was established to oversee activities related to the Mouse/Souris River in North Dakota. The Board is made up of one representative from each of the four county water boards in the region (Renville, Ward, McHenry and Bottineau) and one representative from the City of Minot.

The Board's financial statements include all funds for which the Board is financially accountable. The Board has considered all potential component units for which the Board is financially accountable and other organizations for which the nature and significance of their relationships with the Board are such that exclusion would cause the Board'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 Board 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 Board. Based on these criteria, there are no component units of the Board that have been identified.

Basis of Accounting

The financial statements of the Board have been prepared using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash basis of accounting, receipts and related assets are recorded when received rather than when earned, and disbursements are recorded when paid rather than when the obligation is incurred. This basis differs from accounting principles generally accepted in the United States of America because accrued balances such as accounts receivable, capital assets, accounts payable, accrued expenses and long-term debt are not included in the financial statements.

Fund Description

The Board accounts for all financial transactions in its general fund. The general fund is the government's primary operating fund and accounts for all financial resources of the general government.

Fund Balance Classifications and Procedures

The Board classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in a spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance is assigned by the Board of Directors.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in any other governmental funds.

The Board uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Board would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Board does not have a formal minimum fund balance policy.

Note 2 - Cash

In accordance with North Dakota Century Code, the Board maintains deposits at financial institutions designated as a depository for public funds. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions 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 another state of the United States or such other securities approved by the banking board.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Beyond what is stated in the North Dakota Century Code, the Board does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2017, the bank balance of the Board's deposits was \$717,365. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was uncollateralized and total deposits were under-collateralized by \$514,101 based on the North Dakota Century Code requirements to have pledges of securities equal to 110% of the deposits not covered by insurance or bonds. As of December 31, 2016, the bank balance of the Board's deposits was \$1,210,907. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was uncollateralized and total deposits were under-collateralized by \$1,056,997 based on the North Dakota Century Code requirements to have pledges of securities equal to 110% of the deposits not covered by insurance or bonds.

Concentration of Credit Risk

The Board does not have a limit on the amount the Board may invest in any one issuer. All deposits at December 31, 2017 and 2016 were held with one financial institution.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board does not have a formal investment policy that specifically addresses credit risk. At December 31, 2017 and 2016, the Board did not have any deposits or investments exposed to credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. At December 31, 2017 and 2016, the Board did not have any deposits or investments exposed to interest rate risk.

Note 3 - Related Party Transactions

During the years ended December 31, 2017 and 2016, the Board received \$12,000 and \$21,994, respectively, from McHenry County, \$40,000 and \$40,000, respectively, from Renville County, \$322,204 and \$204,218, respectively, from Ward County, \$0 and \$75,000, respectively, from Bottineau County, and \$4,833,001 and \$4,107,146, respectively, from the City of Minot. The parties are all related to the Board through representation on the Board of Directors.

During the year ended December 31, 2017, the Board made disbursements of \$164,195 to the City of Minot. No disbursements were made to the City of Minot during the year ended December 31, 2016.

Note 4 - Economic Dependency

The Board receives a substantial amount of its support from two primary sources. A significant reduction in the level of this support, if this were to occur, may have a material effect on the Board's program, and therefore, on its continued operations.

Note 5 - Commitments

As of December 31, 2017, the Board had total outstanding commitments related to flood protection projects of approximately \$25,800,000 of which approximately \$22,800,000 had been paid as of December 31, 2017.



Independent Auditor’s 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

Board of Directors
Souris River Joint Board
Minot, North Dakota

We have audited, 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, the cash basis financial statements of Souris River Joint Board (the Board), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Board’s basic financial statements and have issued our report thereon dated January 7, 2019, which included an emphasis of matter paragraph describing the cash basis of accounting being used by the Board.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Souris River Joint Board’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Board’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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying summary of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying summary of audit findings as items 2017-A, 2017-B, and 2017-C to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Souris River Joint Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provision 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying summary of audit findings as item 2017-B.

Souris River Joint Board's Response to Findings

Souris River Joint Board's response to the findings identified in our audit is described in the accompanying summary of audit findings. The Board's response was not subjected to the auditing procedures applied in the audited of the financial statements, and accordingly, we expressed 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 results 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota
January 7, 2019

Finding 2017-A – Preparation of Financial Statements – Material Weakness

Condition: The Board does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause: The Board does not have staff trained in GASB reporting standards.

Effect: Inadequate controls over financial reporting of the Board result in the more than remote likelihood that the Board would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Board and changes in reporting requirements.

Response: It is not cost effective for an organization of our size to have the staff prepare audit-ready financial statements. Therefore, we hired Eide Bailly, LLP, and independent public accounting firm, to prepare our audit-ready financial statements. These financial statements are then thoroughly reviewed by Board staff.

Finding 2017-B – Inadequate Collateralization of Deposits – Material Weakness and Non-Compliance

Condition: The Board had deposits in excess of the Federal Depository Insurance Limits at December 31, 2017 and 2016 that were not adequately collateralized in accordance with North Dakota Century Code requirements. The under-collateralized deposits totaled \$514,101 and \$1,056,997 at December 31, 2017 and 2016.

Criteria: North Dakota Century Code 21-04 requires deposits of governmental entities to either be deposited with the Bank of North Dakota or in other financial institutions 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.

Cause: The Board was unaware of the requirements to maintain collateral for deposits in excess of the Federal Depository Insurance limits during the years ended December 31, 2017 and 2016.

Effect: Deposits held by the Board are exposed to custodial credit risk which is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

Recommendations: We recommend the Board review the North Dakota Century Code requirements and ensure they are in compliance with the requirements.

Response: The Joint Board has established proper collateralization of deposits in a subsequent year.

Finding 2017-C – Recording of Transactions – Material Weakness

Condition: We identified a material misstatement in the Board's 2017 financial statement causing us to propose a material audit adjustment.

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: Revenue was booked for a refund of closing costs rather than a decrease to the expense which caused both revenue and expenses to be overstated.

Effect: Inadequate internal controls over recording of transactions affect the Board's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendations: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of financial reporting of the Board.

Response: Unusual situations such as the one that caused the misstatement will be reviewed in greater detail for proper reporting.