



Red River Joint Water Resource District

West Fargo, North Dakota

Audit Report

For the Year Ended December 31, 2018

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

RED RIVER JOINT WATER RESOURCE DISTRICT

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RED RIVER JOINT WATER RESOURCE DISTRICT

District Officials and Audit Personnel

December 31, 2018

DISTRICT OFFICIALS

Gary Thompson	Chairman
Ben Varnson	Vice Chairman
Larry Tanke	Manager
Robert Rostad	Manager
Lance Yohe	Manager
Carol Harbeke Lewis	Treasurer
Nettie Johnson	Secretary
Sean M. Fredricks	Attorney

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Rick Kremer	Audit In-Charge

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

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 major fund of the Red River Joint Water Resource District, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Red River Joint 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. 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 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 major fund of the Red River Joint Water Resource District, North Dakota, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information, and notes to the required supplementary information* as listed in the table of contents 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019 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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
June 4, 2019

RED RIVER JOINT WATER RESOURCE DISTRICT

Management's Discussion and Analysis
December 31, 2018

The management's discussion and analysis (MD&A) of Red River Joint Water Resource District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2018. 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 2018 are as follows:

- Net position increased \$1,636,409 as a result of the current year's operations.
- Governmental net position as of the end of the fiscal year totaled \$11,702,929.
- Total revenues from all sources were \$2,421,328 on the government-wide statement of activities and \$2,395,000 on the modified accrual basis.
- Total expenses were \$784,919.
- The District's general fund had \$2,395,000 in total revenues, \$784,919 in total expenditures. Overall, the general fund balance increased by \$1,610,082 for the year ended December 31, 2018.

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 the 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.

The table below, summarizes the major features of the district's financial statements, including portions of the district's activities covered and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Major Features of the Government-Wide and Fund Financial Statements		
	Government-Wide Statements	Governmental Fund Financial Statements
Scope	Entire District	The activities of the district
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of revenues, expenditures and changes in fund balance
Accounting Basis and Measurement Focus	Accrual Accounting and Economic Resource Focus	Modified accrual accounting and current financial resource focus
Type of Asset/Liability information	All assets and deferred outflows of resources, and liabilities and deferred inflows of resources, both financial and capital, short term and long term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

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 District to provide programs and activities and attempt to answer the question “How did the District do financially during the year ended December 31, 2018?”

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 is considered a “major fund”.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table I reflects significant changes in current assets and current liabilities between the December 31, 2018 and December 31, 2017 fiscal years. The increase in current assets is a due to CDs maturing. Current liabilities increased due to more expenditures for various cost share projects.

The District’s net position of \$11,702,929 is an unrestricted net position. The unrestricted net position is available to meet the District’s ongoing obligations.

TABLE I
NET POSITION
 December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets	\$ 11,751,624	\$ 10,183,698
LIABILITIES		
Current Liabilities	\$ 48,695	\$ 117,178
NET POSITION		
Unrestricted	11,702,929	10,066,520

Table II shows the changes in net position for the fiscal years ended December 31, 2018 and 2017.

TABLE II
CHANGE IN NET POSITION
 As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Program Revenues		
Operating Grants & Contributions	5,614	453,282
General Revenues		
Property Taxes	2,326,172	2,933,994
Interest Earnings	89,542	25,622
Miscellaneous Revenue	-	322,531
Total Revenues	<u>\$ 2,421,328</u>	<u>\$ 3,735,429</u>
EXPENSES		
Conservation of Natural Resources	<u>\$ 784,919</u>	<u>\$ 859,223</u>
Change in Net Position	<u>\$ 1,636,409</u>	<u>\$ 2,876,206</u>
Net Position – January 1	<u>\$ 10,066,520</u>	<u>\$ 7,190,314</u>
Net Position – December 31	<u><u>\$ 11,702,929</u></u>	<u><u>\$ 10,066,520</u></u>

Revenues and expenses were comprised of the following

Revenues	
Property Taxes	96.07%
Operating and Non-Restricted Grants and Contributions	0.23%
Interest and Miscellaneous Revenue	3.70%
Expenses	
Conservation of Natural Resources	100.00%

Expenses for cost share projects increased during 2018.

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, 2018 and 2017

	Total Cost For Year Ended Dec. 31, 2018	Net Cost For Year Ended Dec. 31, 2018	Total Cost For Year Ended Dec. 31, 2017	Net Cost For Year Ended Dec. 31, 2017
Conservation of Natural Resources	<u>\$ 784,919</u>	<u>\$ (779,305)</u>	<u>\$ 859,223</u>	<u>\$ (405,941)</u>

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 \$2,395,000 and expenditures of \$784,919 for the year ended December 31, 2018. As of December 31, 2018 the total unassigned fund balance for the entire District's governmental funds was \$10,221,665.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2018, the District did not amend the District's general fund revenue expenditures. Actual revenue for the year ended December 31, 2018 was under budget by \$214,550 due to accounts receivable adjustment. Actual expenditures for the year ended December 31, 2018 was over budget by \$1,395,531 due to accounts payable adjustment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the District's 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

Statement of Net Position

December 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash, Cash Equivalents, and Investments	\$ 11,659,331
Intergovernmental Receivable	24,662
Due from County	6,406
Taxes Receivable	<u>61,226</u>
Total Assets	<u>\$ 11,751,624</u>
LIABILITIES	
Accounts Payable	\$ 48,610
Benefits Payable	<u>85</u>
Total Liabilities	<u>\$ 48,695</u>
NET POSITION	
Unrestricted	<u><u>\$ 11,702,929</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Conservation of Natural Resources	\$ 784,919	\$ -	\$ 5,614	\$ (779,305)
General Revenues				
Taxes				\$ 2,326,172
Interest Earnings				89,542
Total General Revenues				\$ 2,415,714
Change in Net Position				\$ 1,636,409
Net Position - January 1				\$ 10,066,520
Net Position - December 31				\$ 11,702,929

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Balance Sheet – Governmental Funds

December 31, 2018

	General Fund
ASSETS	
Cash, Cash Equivalents, and Investments	\$ 11,659,331
Intergovernmental Receivable	24,662
Due from County	6,406
Taxes Receivable	61,226
	<hr/>
Total Assets	<u>\$ 11,751,624</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 48,610
Benefits Payable	85
	<hr/>
Total Liabilities	<u>\$ 48,695</u>
Deferred Inflows of Resources	
Taxes Receivable	\$ 61,226
	<hr/>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 109,921</u>
Fund Balances	
Committed	\$ 1,420,038
Unassigned	10,221,665
	<hr/>
Total Fund Balances	<u>\$ 11,641,703</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,751,624</u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total *Fund Balances* for Governmental Funds \$ 11,641,703

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. \$ 61,226

Total Net Position - Governmental Activities \$ 11,702,929

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2018

	General Fund
REVENUES	
Taxes	\$ 2,299,844
Intergovernmental	5,614
Interest Income	<u>89,542</u>
Total Revenues	<u>\$ 2,395,000</u>
EXPENDITURES	
Current	
Conservation of Natural Resources	<u>\$ 784,919</u>
Total Expenditures	<u>\$ 784,919</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 1,610,082</u>
Fund Balance - January 1	<u>\$ 10,031,622</u>
Fund Balance - December 31	<u><u>\$ 11,641,703</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,610,082

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 change in taxes receivable.

26,327

Change in Net Position of Governmental Activities \$ 1,636,409

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Red River Joint Water Resource District (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 District, a joint venture established in 1978. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the 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 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 District.

Based on these criteria, there are no component units to be included within the District as a reporting entity.

Membership in the board is voluntary. Each member county elects one board member, having one vote, to serve on the District.

B. Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the primary government. 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 program. Revenues that are not classified as program revenues, including all taxes and interest, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the District's funds.

The District reports the following major governmental fund:

General Fund - 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.

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

Government-Wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year when all eligibility requirements have been satisfied.

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on governmental long-term debt, claims and judgments, and compensated absences, which are reported as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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 with a maturity longer than three months.

E. Fund Balances

Fund Balance Spending Policy. It is the policy of the District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

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

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

F. Net Position

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

G. 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.

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

NOTE 2: DISTRICT ESTABLISHMENT

The District, a joint venture, was established in 1978. The District provides a coordinated and cooperative approach to the planning and implementation of flood prevention projects in the Red River Valley. 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

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The District does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota statutes, 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 another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the District's carrying amount of deposits was \$11,659,331 and the bank balances were \$11,660,107 of the bank balances, \$1,424,351 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The 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.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

As of December 31, 2018, the District had \$3,856,305 in certificates of deposits.

NOTE 4: PROPERTY TAXES

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 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.

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

NOTE 5: COMMITTED FUND BALANCES

The District officials have committed the fund balance as follows:

Manitoba Border Dike	\$ 41,397
Hazen Brook Detention Site Study	19,500
ND River Watch Strategy	21,072
Rush River Watershed Detention Study Phase II	139,016
Upper Maple River Watershed Comp Det Study Ph II	97,651
IWI – RRBDIN Web Services	4,201
Gwinner Dam Improvement Study	23,658
Renwick Dam EAP	1,121
N Branch Park River NRCS Watershed Study	98,020
Forest River NRCS Watershed Study	137,735
Lower Red Basin Regional Detention Study	16,583
Antelope Creek NRCS Watershed Study	123,072
Shortfoot Creek Watershed Study	119,199
Lake Bertha Flood Control Outlet	129,090
Tongue River NRCS Watershed Study	97,354
Upper Maple River Dam EAP	2,080
Elm River Dam #1 Repair Project	11,471
Herzog Dam Gate Repair	33,111
IWI-PTMApp	99,774
IWI-River of Dreams	23,275
Brummond-Lubke Dam Improvements	79,877
Forest River Dam No. 1 (Matejcek Dam) Rehab	60,613
Silver Lake Dam Feasibility Study	16,168
Contingencies	25,000
Total	\$ 1,420,038

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District carries commercial insurance for risks of loss considered necessary. The District’s property and liability insurance is provided through the NDRIF.

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

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

NOTE 7: JOINT VENTURES

Red River Retention Authority

Under authorization of state statutes, the Red River Joint Water Resource District, a North Dakota political subdivision joined the Red River Watershed Management Board, a Minnesota political subdivision to establish and operate a joint exercise of powers agreement for retention located within the Red River Valley. Known as the Red River Retention Authority, the agreement was established for the joint, comprehensive and strategic coordination of retention projects in the Red River of the North watershed; facilitating implementation and construction of retention in the Red River Valley.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2018, which is the most current audited information available:

Total Assets and Deferred Outflows of Resources	\$	358,531
Total Liabilities and Deferred Inflows of Resources		28,451
Net Position	\$	330,080
Revenues	\$	134,913
Expenses		88,459
Change in Net Position	\$	46,454

Complete financial statements for the Red River Retention Authority may be obtained from the Treasurer's office at Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

RED RIVER JOINT WATER RESOURCE DISTRICT

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 2,160,400	\$ 2,160,400	\$ 2,299,844	\$ 139,444
Intergovernmental	-	-	5,614	5,614
Interest Income	20,000	20,000	89,542	69,542
Miscellaneous	50	50	-	(50)
Total Revenues	<u>\$ 2,180,450</u>	<u>\$ 2,180,450</u>	<u>\$ 2,395,000</u>	<u>\$ 214,550</u>
EXPENDITURES				
Current				
Conservation of Natural Resources	<u>\$ 2,180,450</u>	<u>\$ 2,180,450</u>	<u>\$ 784,919</u>	<u>\$ 1,395,531</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,610,082</u>	<u>\$ 1,610,082</u>
Fund Balance - January 1	<u>\$ 10,031,622</u>	<u>\$ 10,031,622</u>	<u>\$ 10,031,622</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 10,031,622</u></u>	<u><u>\$ 10,031,622</u></u>	<u><u>\$ 11,641,703</u></u>	<u><u>\$ 1,610,082</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

- The District 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 District, on or before the October meeting shall determine the amount of taxes that shall be levied for county purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the District secretary/treasurer at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The District managers did not amend the District budget for 2018.

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

**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 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 as of and for the year ended December 31, 2018, 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 June 4, 2019.

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.

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.

Our 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying *schedule of audit findings* as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red River Joint Water Resource District's financial statements are free from 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

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* - Continued

Red River Joint Water Resource District’s Response to Findings

Red River Joint Water Resource District’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. 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 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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota

RED RIVER JOINT WATER RESOURCE DISTRICT

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Major Fund	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

RED RIVER JOINT WATER RESOURCE DISTRICT

Schedule of Audit Findings

For the Year Ended December 31, 2018

REPEAT AUDIT FINDING

2018- 001 - LACK OF SEGREGATION OF DUTIES

Condition

Red River Joint Water Resource District has one treasurer, one treasurer, and one accountant responsible for the primary accounting functions. A lack of segregation of duties exists as limited 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.

Cause

Management has chosen to allocate economic resources to other functions of the water resource district.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

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.

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



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GOVERNANCE COMMUNICATION

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

We have audited the financial statements of the governmental activities and major fund of the Red River Joint Water Resource District, North Dakota, for the year ended December 31, 2018 which collectively comprise Red River Joint Water Resource District's basic financial statements, and have issued our report thereon dated June 4, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated April 30, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Red River Joint Water Resource District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

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 and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Red River Joint Water Resource District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 4, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Red River Joint Water Resource District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing board and management of Red River Joint Water Resource District, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Red River Joint Water Resource District for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Red River Joint Water Resource District.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
June 4, 2019

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www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

Office of the State Auditor

600 East Boulevard Avenue – Department 117

Bismarck, ND 58505-0060