



Red River Joint
Water Resource District
West Fargo, North Dakota

Audit Report

For the Year Ended December 31, 2016

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

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For the Year Ended December 31, 2016

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RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

DISTRICT OFFICIALS

For the Year Ended December 31, 2016

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

STATE AUDITOR

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OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR’S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Water Resource District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

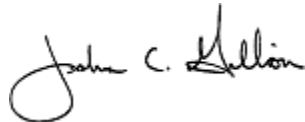
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, and notes to the required supplementary information* on pages 4-7 and 21-22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017 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.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 12, 2017

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016

The Management's Discussion and Analysis (MD&A) of Red River Joint Water Resource District's financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2016. 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 2016 are as follows:

- Net position of Red River Joint Water Resource District decreased \$476,128 as a result of the current year's operations.
- Governmental net position as of the end of the fiscal year totaled \$7,190,314.
- Total revenues from all sources were \$2,649,394 on the government-wide statement of activities and \$2,643,870 on the modified accrual basis.
- Total expenses were \$3,125,522.
- The District's general fund (including obligated funds) had \$2,643,870 in total revenues, \$3,125,522 in total expenditures. Overall, the general fund balance decreased by \$481,652 for the year ended December 31, 2016.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand Red River Joint Water Resource District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's general fund.

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 Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Major Features of the Government-Wide and Fund Financial Statements		
	Fund Financial Statements	
	Government-Wide Statements	Governmental
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

TABLE CONTINUED ON NEXT PAGE....

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

CONTINUED...

Major Features of the Government-Wide and Fund Financial Statements		
	Fund Financial Statements	
	Government-Wide Statements	Governmental
Scope	Entire District	The activities of the district
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 Red River Joint Water Resource District to provide programs and activities and attempt to answer the question “How did the District do financially during the year ended December 31, 2016?”

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

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

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

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

REPORTING ON THE DISTRICT’S MOST SIGNIFICANT FUNDS

Balance Sheet – Governmental Funds

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table I reflects significant changes in Current Assets and Current Liabilities between the December 31, 2015 and December 31, 2016 fiscal years. The decrease in current assets is a result of less cash on hand at December 31. Current liabilities decreased due to accounts payable decreased for various cost share projects not yet completed at year-end.

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

The District's net position of \$7,190,799 is an unrestricted net position. The unrestricted net position is available to meet the District's ongoing obligations. Of this amount \$1,986,073 is committed for cost share on designated projects.

	2015	2016
<u>Current Assets:</u>	\$7,770,996	\$7,233,622
<u>Current Liabilities:</u>	\$ 104,554	\$ 43,309
NET POSITION:		
Unrestricted	\$7,666,442	\$7,190,314
Total Net Position	<u>\$7,666,442</u>	<u>\$7,190,314</u>

Table II shows the changes in net position for the fiscal years ended December 31, 2015 and 2016.

	2015	2016
Revenues		
<u>Program Revenues:</u>		
Operating Grants & Contributions	\$ 110,634	\$ 100,585
<u>General Revenues:</u>		
Taxes	\$2,285,561	\$2,532,358
Interest Earnings & Miscellaneous Revenue	27,096	16,451
Total Revenues	<u>\$2,243,920</u>	<u>\$2,649,394</u>
Expenses		
Conservation of Natural Resources	\$2,582,765	\$3,125,522
Change in Net Position	<u>\$ (159,475)</u>	<u>\$ (476,128)</u>
Net Position – January 1	<u>\$7,825,917</u>	<u>\$7,666,442</u>
Net Position – December 31	<u>\$7,666,442</u>	<u>\$7,190,314</u>

Taxes constituted 96%, operating grants and contributions constituted 4% and non-restricted grants and contributions, interest and miscellaneous revenue was less than 1% of the total revenues of governmental activities of the District for fiscal year 2016.

Conservation of natural resources constituted 100% of total expenses for governmental activities during fiscal year 2016. Expenses for cost share projects increased during 2016.

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

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, 2015 and 2016

	Total Cost For Year Ended Dec. 31, 2015	Net Cost For Year Ended Dec. 31, 2015	Total Cost For Year Ended Dec. 31, 2016	Net Cost For Year Ended Dec. 31, 2016
Conservation of Natural Resources	\$2,582,765	\$(2,472,131)	\$3,125,522	\$(3,024,937)

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 \$2,643,870 and expenditures of \$3,125,522 for the year ended December 31, 2016. As of December 31, 2016 the total unassigned fund balance for the entire District's governmental funds was \$5,171,895.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2016, the Red River Joint Water Resource Board amended the District's general fund revenue and transfers in budget by increasing it \$1,626,115. Additionally, the general fund expenditures and transfers out budget was amended to increase it by \$2,377,815.

Actual revenue for the year ended December 31, 2016 was under budget by \$2,305.

Actual expenditures for the year ended December 31, 2016 was under budget by \$1,684,373.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of Red River Joint Water Resource Districts' finances and to show the District's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Carol Harbeke Lewis, Treasurer, Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF NET POSITION
For the Year Ended December 31, 2016

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 7,175,826
Intergovernmental Receivable	17,589
Due from County	7,688
Taxes Receivable	32,346
Other Assets	<u>173</u>
 Total Assets	 <u>\$ 7,233,622</u>
 <u>LIABILITIES:</u>	
Accounts Payable	<u>\$ 43,309</u>
 <u>NET POSITION:</u>	
Unrestricted	<u>\$ 7,190,314</u>
 Total Net Position	 <u><u>\$ 7,190,314</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Conservation of Natural Resources	\$ 3,125,522	\$ -	\$ 100,585	\$ (3,024,937)
Total Governmental Activities	<u>\$ 3,125,522</u>	<u>\$ -</u>	<u>\$ 100,585</u>	<u>\$ (3,024,937)</u>
<u>General Revenues:</u>				
Taxes				\$ 2,532,358
Interest Earnings				15,798
Miscellaneous Revenues				<u>653</u>
Total General Revenues				<u>\$ 2,548,809</u>
Change in Net Position				<u>\$ (476,128)</u>
Net Position - January 1				<u>\$ 7,666,442</u>
Net Position - December 31				<u><u>\$ 7,190,314</u></u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	<u>General</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 7,175,826
Intergovernmental Receivable	17,589
Due from County	7,688
Other Assets	173
Taxes Receivable	<u>32,346</u>
Total Assets	<u>\$ 7,233,622</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Accounts Payable	<u>\$ 43,309</u>
<u>Deferred Inflows of Resources:</u>	
Taxes Receivable	<u>\$ 32,346</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 75,654</u>
<u>Fund Balances:</u>	
Committed	\$ 1,986,073
Unassigned	<u>5,171,895</u>
Total Fund Balances	<u>\$ 7,157,968</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,233,622</u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 7,157,968

Total *net position* reported for governmental activities in the statement of net position is different because:

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds.

Property Taxes Receivable \$ 32,346

Total Net Position - Governmental Activities \$ 7,190,314

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	<u>General</u>
<u>Revenues:</u>	
Taxes	\$ 2,526,834
Intergovernmental	100,585
Interest Income	15,798
Miscellaneous	653
	<hr/>
Total Revenues	<u>\$ 2,643,870</u>
<u>Expenditures:</u>	
Current:	
Conservation of Natural Resources	<u>\$ 3,125,522</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (481,652)</u>
<u>Other Financing Sources (Uses):</u>	
Transfers In	\$ 1,459,824
Transfers Out	<u>(1,459,824)</u>
Total Other Financing Sources and Uses	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ (481,652)</u>
Fund Balance - January 1	<u>\$ 7,639,620</u>
Fund Balance - December 31	<u>\$ 7,157,968</u>

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net Change in *Fund Balances* - Total Governmental Funds \$ (481,652)

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 decrease in taxes and special assessments receivable.

5,524

Change in Net Position of Governmental Activities

\$ (476,128)

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Red River Joint Water Resource District, West Fargo, North Dakota, a joint venture, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Red River Joint Water Resource District, a joint venture, which was established in 1978. The district has considered all potential component units for which the water resource district is financially accountable and other organizations for which the nature and significance of their relationships with the water resource district such that exclusion would cause the water resource district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Red River Joint Water Resource District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Red River Joint Water Resource District.

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

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

B. Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, Red River Joint Water Resource District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues, including general taxes and interest, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category-governmental—is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Typically, aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements; currently, however, the WRD maintains a single fund, the general fund, which is always considered a major fund.

The Water Resource District reports the following major governmental fund:

General Fund/Red River Joint WRD Obligated Funds - this is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The obligated funds are used to account for the accumulation of resources to help finance a portion of costs of various projects within each member Water Resource District.

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

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

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

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

All governmental funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less.

Investments consist of certificates of deposits bearing interest from .20% to .50% with a maturity longer than three months.

E. Fund Balances / Net Position

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

Fund Balance Spending Policy:

It is the policy of Red River Joint Water Resource District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance. (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Red River Joint Water Resource District only has committed and unassigned fund balances at December 31, 2016 in the general fund.

Committed Fund Balances – consist of the following items at December 31, 2016:

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

- (a) Committed funds by the governing board – funds are committed by the governing board (highest level of decision making authority) in the General Funds for Red River Joint Obligated Funds for pending projects, project development and other projects that do not have restricted funds.

Net Position:

When both restricted and unrestricted resources are available for use, it is the Water Resource District's policy to use restricted resources first, then unrestricted resources as they are needed. Position is reported all as unrestricted for the year ended December 31, 2016.

F. Interfund Transactions

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

All other transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: DISTRICT ESTABLISHMENT

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

NOTE 3: DEPOSITS

In accordance with North Dakota Statutes, the Red River Joint Water Resource District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2016, the water resource district's carrying amount of deposits was \$7,175,826 and the bank balance was \$7,175,826 of the bank balance, \$1,598,521 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

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

As of December 31, 2016, the water resource district had \$2,342,134 in certificates of deposits.

Concentration of Credit Risk:

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

NOTE 4: TAXES RECEIVABLE

Taxes receivable represent the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable since any losses would be covered by the sale of the property.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all of the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

NOTE 5: DUE FROM COUNTY

The due from county represents tax amounts collected prior to year-end by Cass County not distributed to the district at year-end.

NOTE 6: INTERGOVERNMENTAL RECEIVABLE

This represents amounts owed from the state treasurer for revenue sharing.

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

NOTE 7: COMMITTED FUND BALANCE

The District officials have committed the fund balance as follows:

Manitoba Border Dike	\$ 70,357
Michigan Flood Reduction Project	6,674
Baldhill Creek Dam Ph II: Prelim Geotech Inv	35,750
USGS Streamgage on Rush River near Amenia	19,500
Upper Maple River Dam Prelim Design/Construction	400,925
Red River Basin Dist Detention Plan Study	(307,065)
Hazen Brook Detention Site Study	19,500
ND River Watch Strategy	29,460
Rush River Watershed Detention Study Phase II	166,249
Upper Maple River Watershed Comp Det Study Ph II	169,836
Swan Creek Watershed Comp Det Study Phase II	164,166
IWI – RRBDIN Web Services	12,516
Gwinner Dam Improvement Study	29,113
Swan Buffalo Detention Dam #12 (Absaraka) Safety Imp	41,539
Swan Buffalo Detention Dam #8 (Embsden) Safety Imp	45,193
Swan Buffalo Detention Dam #5 (Garsteig) Safety Imp	47,159
Renwick Dam EAP	5,858
N Branch Park River NRCS Watershed Study	98,020
Forest River NRCS Watershed Study	137,735
Lower Red Basin Regional Detention Study	39,499
Antelope Creek NRCS Watershed Study	136,890
Shortfoot Creek Watershed Study	169,525
Lake Bertha Flood Control Outlet	245,943
Tongue River NRCS Watershed Study	126,391
Upper Maple River Dam EAP	2,080
Elm River Dam #1 Repair Project	11,471
Herzog Dam Gate Repair	36,790
Contingencies	<u>25,000</u>
	<u>\$1,986,073</u>

NOTE 8: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods or services received prior to year-end and chargeable to the appropriations for the year then ended but paid subsequent to that date.

NOTE 9: DEFERRED INFLOWS OF RESOURCES

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

NOTE 10: RISK MANAGEMENT

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

RED RIVER JOINT WATER RESOURCE DISTRICT

Notes to the Financial Statements – Continued

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

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

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

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

NOTE 11: 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, 2016, which is the most current audited information available:

Total Assets and Deferred Outflows of Resources	\$ 271,250
Total Liabilities and Deferred Inflows of Resources	1,169
Net Position	<u>270,081</u>
Revenues	171,828
Expenses	9,390
Change in Net Position	<u>\$ 162,438</u>

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
West Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 2,459,815	\$ 2,588,940	\$ 2,526,834	\$ (62,106)
Intergovernmental	-	40,785	100,585	59,800
Interest Income	20,000	16,370	15,798	(572)
Miscellaneous	80	80	653	573
Total Revenues	\$ 2,479,895	\$ 2,646,175	\$ 2,643,870	\$ (2,305)
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 2,479,895	\$ 4,809,895	\$ 3,125,522	\$ 1,684,373
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (2,163,720)	\$ (481,652)	\$ 1,682,068
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ -	\$ 1,459,835	\$ 1,459,824	\$ (11)
Transfers Out	-	(47,815)	(1,459,824)	(1,412,009)
Total Other Financing Sources and Uses	\$ -	\$ 1,412,020	\$ -	\$ (1,412,020)
Net Changes in Fund Balances	\$ -	\$ (751,700)	\$ (481,652)	\$ 270,048
Fund Balance - January 1	\$ 7,639,620	\$ 7,639,620	\$ 7,639,620	\$ -
Fund Balance - December 31	\$ 7,639,620	\$ 6,887,920	\$ 7,157,968	\$ 270,048

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

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- The water resource board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund, each special revenue fund and debt service fund of the district.
- The budget includes proposed expenditures and means of financing them.
- The water resource board, on or before the October meeting shall determine the amount of taxes that shall be levied for member county purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the water resource district secretary/treasurer at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board of water resource district commissioners amended the water resource district budget for 2016 as follows:

Fund	REVENUES & TRANSFERS IN		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$2,479,895	\$1,626,115	\$4,106,010

Fund	EXPENDITURES & TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$2,479,895	\$2,377,815	\$4,857,710

STATE AUDITOR

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OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

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

Independent Auditor's Report

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Red River Joint Water Resource District's basic financial statements, and have issued our report thereon dated May 12, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2016-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red River Joint Water Resource District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

RED RIVER JOINT WATER RESOURCE DISTRICT

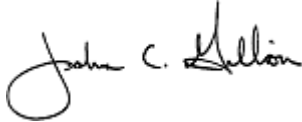
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Red River Joint Water Resource District's Response to Findings

Red River Joint Water Resource District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Red River Joint Water Resource District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 12, 2017

RED RIVER JOINT WATER RESOURCE DISTRICT
West Fargo, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued?	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None reported

Section II - Financial Statement Findings

2016-001 – LACK OF SEGREGATION OF DUTIES

Condition:

Red River Joint Water Resource District has one secretary/treasurer and one accountant responsible for the primary accounting functions. A lack of segregation of duties exists as two employees are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the water resource district.

Effect:

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the water resource district's financial condition.

Recommendation:

Due to the size, complexity and the economic realities of the water resource district, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

Views of Responsible Officials:

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the Water Resource District.

STATE AUDITOR

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

We have audited the financial statements of the governmental activities and the major fund of Red River Joint Water Resource District, West Fargo, North Dakota, for the year ended December 31, 2016 which collectively comprise the Water Resource District’s basic financial statements, and have issued our report thereon dated May 12, 2017. 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 AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated April 7, 2017, 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, 2016. 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. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

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 May 12, 2017.

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 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

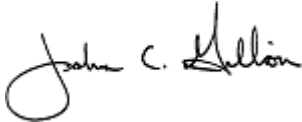
We encountered no significant difficulties in dealing with management in performing and completing our audit.

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.



Joshua C. Gallion
State Auditor

Fargo, North Dakota
May 12, 2017

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