OFFICE OF STATE AUDITOR

AUDIT REPORT

RED RIVER RETENTION AUTHORITY
WEST FARGO, NORTH DAKOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

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RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

DISTRICT OFFICIALS

December 31, 2012

James Lyons	Co-Chairman
John Finney	Co-Chairman
Jerome Deal	Board Member
Rodger Olson	Board Member
Gary Thompson	Board Member
Ron Osowski	Board Member
Patrick Downs	Executive Director
Carol Harbeke Lewis	Secretary-Treasurer
Sean M. Fredricks	Attorney

STATE AUDITOR
ROBERT R. PETERSON
Phone (701) 328-2241
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

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

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

Independent Auditor's Report

Governing Board
Red River Retention Authority
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 Retention Authority, West Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Water Resource District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Red River Retention Authority, West Fargo, North Dakota, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-6 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013 on our consideration of Red River Retention Authority'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 Retention Authority's internal control over financial reporting and compliance.

Robert R. Peterson
State Auditor

May 17, 2013

The Management's Discussion and Analysis (MD&A) of Red River Retention Authority's financial performance provides an overall review of the Authority's financial activities for the fiscal year ended December 31, 2012. The intent of the MD&A is to look at the Authority's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- Total revenues from all sources were $229,133.
- Total expenses were $233,795.
- The Authority's general fund had $229,133 in total revenues, $230,979 in total expenditures. Overall, the general fund balance decreased by $1,846 for the year ended December 31, 2012.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand Red River Retention Authority 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.

REPORTING ON THE AUTHORITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the Red River Retention Authority to provide programs and activities and attempt to answer the question "How did the Authority do financially during the year ended December 31, 2012?"

The Statement of Net Position presents information on all the Authority'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 Authority is improving or deteriorating.

The Statement of Activities presents information on how the Authority'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 Authority's net position and changes in that position. This change in net position is important because it tells the reader whether, for the Authority as a whole, the financial position of the Authority 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 Authority reports governmental activities. Governmental activities are the activities where all of the Authority's programs and services are reported including, but not limited to, conservation of natural resources, capital outlay and debt service.

REPORTING ON THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Balance Sheet – Governmental Funds

The Authority uses one fund 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 Authority to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the Authority's major funds. Using the criteria established by GASB Statement No. 34, the Authority's general fund is considered a "major fund".

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Table I reflects significant changes in Current Assets, Long-Term Assets, Capital Assets and Current Liabilities for the December 31, 2012 fiscal year.

The Authority's net position is unrestricted net position. The unrestricted net position has a negative balance.

TABLE 1
NET POSITION
December 31, 2012

	2012
Current Assets:	$ 390
Liabilities:	
Current Liabilities:	$ 2,236
Long-Term Liabilities	2,815
Total Liabilities	$ 5,051
NET POSITION:	
Unrestricted	$(4,662)
Total Net Position	$(4,662)

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

TABLE II
CHANGES IN NET POSITION
December 31, 2012

	2012
Revenues	
Program Revenues:	
Operating Grants & Contributions	$229,102
General Revenues:	
Interest Earnings & Miscellaneous Revenue	31
Total Revenues	$229,133
Expenses	
Conservation of Natural Resources	$233,795
Change in Net Position	$ (4,662)
Net Position – January 1	$ -
Net Position – December 31	$ (4,662)

Operating and non-restricted grants and contributions constituted 99%, and interest and miscellaneous revenue 1% of the total revenues of governmental activities of the Authority for fiscal year 2012.

Conservation of natural resources constituted 100% of total expenses for governmental activities during fiscal year 2012.

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

TABLE III
TOTAL AND NET COST OF SERVICES
December 31, 2012

	Total Cost For Year Ended Dec. 31, 2012	Net Cost For Year Ended Dec. 31, 2012
Conservation of Natural Resources	$233,795	$(4,693)

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the Authority'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 Authority'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 Authority's governmental funds had total revenue of $229,133 and expenditures of $230,979 for the year ended December 31, 2012. As of December 31, 2012 the total unassigned fund balance for the entire Authority's governmental funds was a negative amount.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2012, the Red River Retention Authority amended the Authority's general fund revenue budget by increasing it $48,735. Additionally, the general fund expenditures budget was amended to increase it by $44,665.

Actual revenue for the year ended December 31, 2012 was under budget by $7.

Actual expenditures for the year ended December 31, 2012 was under budget by $692.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of Red River Retention Authority's' finances and to show the Authority'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, Secretary-Treasurer, Red River Retention Authority, 1201 Main Avenue West, West Fargo, ND 58078.

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

STATEMENT OF NET POSITION
December 31, 2012

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	$ 390
LIABILITIES:	
Accounts Payable	$ 662
Benefits Payable	1,574
Compensated Absences Payable	2,815
Total Liabilities	$ 5,051
NET POSITION:	
Unrestricted	$ (4,662)
Total Net Position	$ (4,662)

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
Conservation of Natural Resources	$ 233,795	$ 229,102	$ (4,693)
	General Revenues:		
	Taxes:		
	Interest Earnings		$ 22
	Miscellaneous Revenues		10
	Total General Revenues		$ 31
	Change in Net Position		$ (4,662)
	Net Position - January 1		$ -
	Net Position - December 31		$ (4,662)

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012

	General
ASSETS	
Cash and Cash Equivalents	$ 390
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 662
Benefits Payable	1,574
Total Liabilities	$ 2,236
Fund Balances:	
Unassigned	$ (1,846)
Total Liabilities and Fund Balances	$ 390

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

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

Total *Fund Balances* for Governmental Funds	$ (1,846)
Total *net position* reported for governmental activities in the statement of net position is different because:	
Long-term liabilities applicable to the retention authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabitlities-both current and long-term are reported in the statement of net position. Balances at December 31, 2012 are made up of the following liabilities:	
Compensated Absences	(2,815)
Total Net Position - Governmental Activities	$ (4,662)

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General
Revenues:	
Intergovernmental	$ 229,102
Interest Income	22
Miscellaneous	10
Total Revenues	$ 229,133
Expenditures:	
Current:	
Conservation of Natural Resources	$ 230,979
Excess (Deficiency) of Revenues Over Expenditures	$ (1,846)
Fund Balance - January 1	$ -
Fund Balance - December 31	$ (1,846)

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

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

Net Change in *Fund Balances* - Total Governmental Funds	$ (1,846)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	
Net Increase in Compensated Abscences	(2,815)
Change in Net Position of Governmental Activities	$ (4,661)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Red River Retention Authority, 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 Retention Authority, a joint venture, which was established in 2010. The Authority has considered all potential component units for which the Authority is financially accountable and other organizations for which the nature and significance of their relationships with the Authority such that exclusion would cause the Authority'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 Retention Authority 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 Retention Authority.

The Authority is comprised of members of the Red River Joint Water Resource District, a North Dakota political subdivision and Joint Water Resource District (the "RRJWRD"); and the Red River Watershed Management Board, a Minnesota political subdivision and Joint Watershed Management Board (the "RRWMB"). The Authority will include nine Directors to include the Chair of the RRJWRD, the Chair of the RRWMB, two directors appointed by the RRJWRD and two directors appointed by the RRWMB each having one vote. Non-voting directors will include a director appointed by the Red River Basin Commission; director appointed by the Governor of North Dakota and a director appointed by the Governor of Minnesota to serve on the Red River Retention Authority.

Based on these criteria, there are no component units to be included within the Red River Retention Authority 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 Retention Authority. 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 Authority'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 Authority'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 Authority maintains a single fund, the general fund, which is always considered a major fund.

The Authority reports the following major governmental fund:

General Fund - this is the Authority'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 fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Authority 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 Authority 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 Authority's 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.

E. Compensated Absences

Vested or accumulated vacation leave is payable to the Executive Director upon separation from employment. 240 hours of vacation may be carried over at year-end. No liability is reported for accumulated sick leave as it is not the employer's policy to pay for it when the employee separates from service. All vacation pay is accrued when incurred into the government-wide financial statements.

F. 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 Retention Authority to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

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

On March 11, 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

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

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

Red River Retention Authority only has unassigned fund balances at December 31, 2012 in the general fund.

Net Position:

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

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 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 Retention Authority is a joint venture established in 2010. The Authority ensures 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. Member Water Management Districts are the Red River Joint Water Resource District, a North Dakota political subdivision and the Red River Watershed Management Board, a Minnesota political subdivision.

NOTE 3: DEPOSITS

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

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

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

At year ended December 31, 2012, Authority's carrying amount of deposits was $390 and the bank balance was $6,655 of the bank balance, all of which was covered by Federal Depository Insurance.

Credit Risk:

The Authority may invest idle funds as authorized in North Dakota Statutes, as follows:

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

As of December 31, 2012, the Authority did not have any certificates of deposits.

Concentration of Credit Risk:

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

NOTE 4: 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 5: BENEFITS PAYABLE

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

NOTE 6: LEAVE PAYABLE

Red River Retention Authority had the following activity related to compensated absences during the year ended December 31, 2012:

	Balance 1-1-12	**Increases**	**Decreases**	**Balance 12-31-12**	**Due Within One Year**
Compensated Absences	$ -	$2,815	$ -	$2,815	$2,815

NOTE 7: JOINT VENTURES

Under authorization of state statutes, the Southeast Cass Water Resource District joined North Cass Water Resource District, Rush River Water Resource District, Maple River Water Resource District, and the water resource districts of Richland County, Grand Forks County, Pembina County, Traill County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for the water management districts located within the Red River Valley. Known as the Red River Joint Water Resource Board, the agreement was established for the mutual advantage of the governments. Each government appoints one member of the board of directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined as no provision is made for this in the joint venture agreement and each government's contribution each year depends on where Red River Joint Water Resource Board projects are being undertaken.

The following is a summary of financial information on the joint venture as of and for the year ended December 31, 2012, which is the most current audited information available:

Total Assets	$6,082,576
Total Liabilities	37,515
Net Position	$6,045,061
Revenues	$2,105,603
Expenses	585,461
Change in Net Position	$1,519,601

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

NOTE 8: RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the Red River Retention Authority 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 Retention Authority 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 9: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Authority officers amended the Authority budget for 2012 as follows:

	REVENUES		
Fund	**Original Budget**	**Amendment**	**Amended Budget**
Major Funds:			
General Fund	$180,405	$48,735	$229,140

	EXPENDITURES		
Fund	**Original Budget**	**Amendment**	**Amended Budget**
Major Funds:			
General Fund	$187,010	$44,665	$231,675

NOTE 10: PENSION PLAN

Red River Retention Authority contributes to the North Dakota Public Employee's Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 5% of their annual covered salary. The Authority is required to contribute 6.26% of the employee's salary, which consists of 5.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the Authority are established and may be amended by the State legislature. The Authority's contributions to NDPERS for the year ending December 31, 2012 was $5,478, equal to the required contributions for the year.

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	$ 180,405	$ 229,105	$ 229,102	$ (3)
Interest Income	-	25	22	(3)
Miscellaneous	-	10	10	(0)
Total Revenues	$ 180,405	$ 229,140	$ 229,133	$ (7)
Expenditures:				
Current:				
Conservation of Natural Resources	$ 187,010	$ 231,675	$ 230,979	$ 696
Excess (Deficiency) of Revenues Over Expenditures	$ (6,605)	$ (2,535)	$ (1,846)	$ 689
Fund Balance - January 1	$ -	$ -	$ -	$ -
Fund Balance - December 31	$ -	$ (2,535)	$ (1,846)	$ 689

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

RED RIVER RETENTION AUTHORITY
West Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012

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.

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

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 Retention Authority
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 Retention Authority, West Fargo, North Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Red River Retention Authority's basic financial statements, and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Red River Retention Authority'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 Retention Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Red River Retention Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red River Retention Authority'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 Retention Authority's Response to Findings

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

Purpose of this Report

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

Robert R. Peterson
State Auditor

May 17, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued?

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

Internal Control Over Financial Reporting:

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

Section II - Financial Statement Findings

2012-01 – LACK OF SEGREGATION OF DUTIES

Condition:

Red River Retention Authority 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 Red River Retention Authority.