

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2009

## CONTENTS

	<u>PAGE</u>
Official Directory	
Independent Auditors' Report	1 - 2
Management Discussion and Analysis	3 - 8
Basic Financial Statements	
Statement of Net Assets – Modified Cash Basis	9
Statement of Activities – Modified Cash Basis	10
Balance Sheet – Modified Cash Basis – Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis – Governmental Funds	12
Reconciliation of Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Notes to Basic Financial Statements	14 - 23
Supplementary Information	
Schedule of Changes in Fund Balances – Modified Cash Basis	24 - 26
Schedule of Direct Expenditures by Classification – Modified Cash Basis – Governmental Funds	27
Auditors' Report on Legal Compliance	28
Report on Compliance and on Internal Control Over Financial Reporting Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 - 30
Schedule of Internal Control and Noncompliance Findings	31

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
DECEMBER 31, 2009

BOARD OF MANAGERS

2009

<u>Name</u>	<u>Office</u>
Dale M. Nelson	President
Orville Knott	Secretary
Gene Tiedemann	Vice President
Lee Coe	Treasurer
Kelly Nordlund	Manager
LeRoy Ose	Manager
Jim Votava	Manager

**Drees, Risky & Vallager, Ltd.**  
*Certified Public Accountants*

Grand Forks:  
1405 Library Circle  
Telephone (701) 746-4466  
FAX (701) 772-6659

Crookston:  
117 South Broadway  
Telephone (218) 281-3789  
FAX (218) 281-5245

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Red Lake Watershed District  
Thief River Falls, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Red Lake Watershed District as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Red Lake Watershed District's management. 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 Audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Red Lake Watershed District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the Red Lake Watershed District as of December 31, 2009 and the respective changes in financial position – modified cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2010, on our consideration of the Red Lake Watershed 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red Lake Watershed District's basic financial statements. The supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

## MANAGEMENT DISCUSSION AND ANALYSIS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Red Lake Watershed District, we offer readers of the Red Lake Watershed District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements following this section.

### **Financial Highlights**

- The assets of Red Lake Watershed District exceeded its liabilities at the close of the recent fiscal year by \$10,496,645 (Net assets). Of this amount, \$2,602,360 (unrestricted net assets) may be used to meet the government's ongoing designations and fiscal policies.
- The District's total net assets increased by \$1,285,086.
- As of the close of the current fiscal year, Red Lake Watershed District's governmental funds reported combined ending fund balance was \$2,602,360. This total amount is designated or reserved through legal restrictions and board member authorization.
- At the end of the current fiscal year the general fund balance of \$241,097 of which all was unrestricted.
- The District had debt outstanding of \$15,450 at the end of the current fiscal year.

### **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the Red Lake Watershed District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Basis of Accounting.** The District has elected to present its financial statements on a modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues, and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on the capital assets in the government-wide financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts and taxes receivable and related revenue not collected yet) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not paid yet) are not recorded in these financial statements. Therefore when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to display information about the Red Lake Watershed District taken as a whole.

Over time, increased or decreased in net assets – modified cash basis may serve as a useful indicator of whether the financial position of the Red Lake Watershed District is improving or deteriorating.

The government-wide financial statements can be found on pages 9 and 10 of this report.

**Fund Financial Statements.** The fund financial statements focus on the individual parts of the District. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Red Lake Watershed District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of Red Lake Watershed District are governmental funds.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Red Lake Watershed District maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue Fund, and the Administrative Construction/Capital Projects Fund, which are considered to be major funds.

Red Lake Watershed District adopts an annual appropriated budget for its General Fund for Statutory/Management purposes.

The basic government fund financial statements can be found on pages 9 through 13 of this report.

**Notes to the financial statements.** The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

### **Financial Analysis of the Watershed District**

As noted earlier, net assets – modified cash basis may serve over time as a useful indicator of a government’s financial position. In the case of the Red Lake Watershed District, assets exceeded liabilities by \$10,496,645 by the close of the most recent fiscal year, which is an increase of \$1,285,086 over the prior year; more than a 12% increase over the prior year.

A portion of Red Lake Watershed District’s net assets (\$7,894,285 or 75%) reflects its investment in capital assets less any related debt to acquire those assets that are still outstanding. Red Lake Watershed District uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although Red Lake Watershed District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**RED LAKE WATERSHED DISTRICT'S NET ASSETS – MODIFIED CASH BASIS**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Total current assets	\$ 2,602,360	\$ 2,105,733
Net capital assets	<u>7,909,735</u>	<u>7,152,177</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,512,095</u>	<u>\$ 9,257,910</u>
<b>LIABILITIES</b>		
Note payable	<u>\$ 15,450</u>	<u>\$ 46,351</u>
<b>NET ASSETS</b>	<u>\$ 10,496,645</u>	<u>\$ 9,211,559</u>

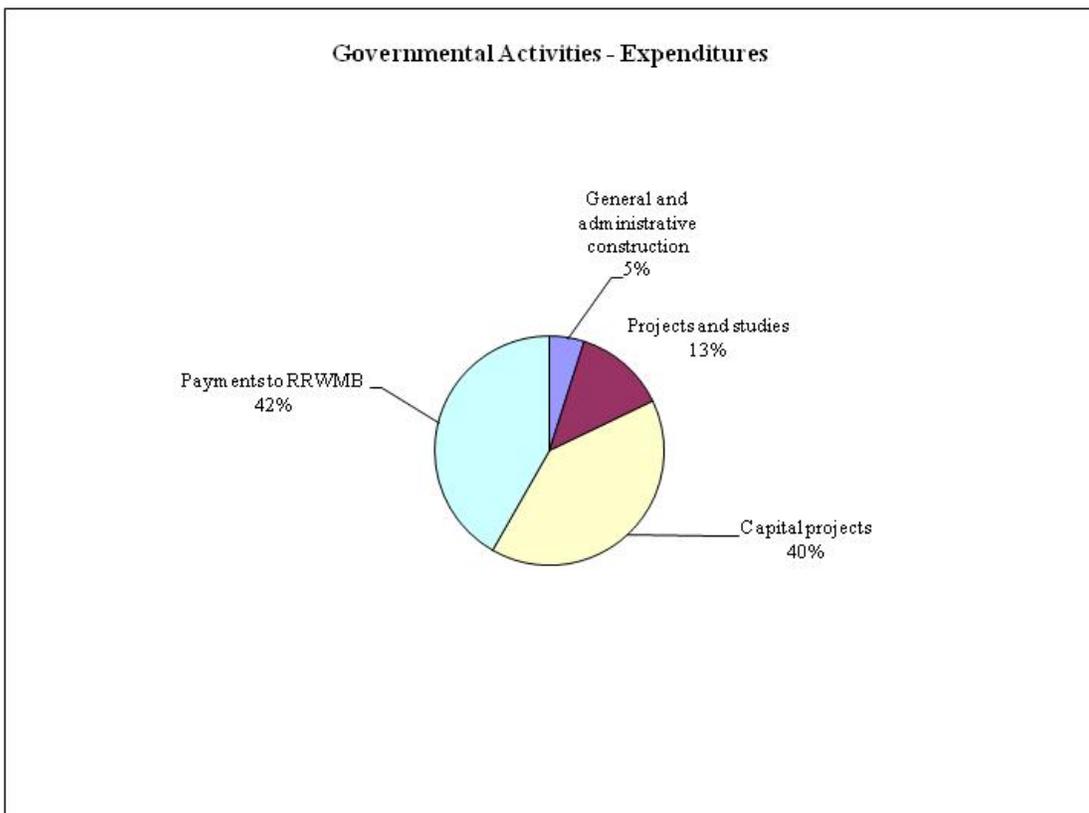
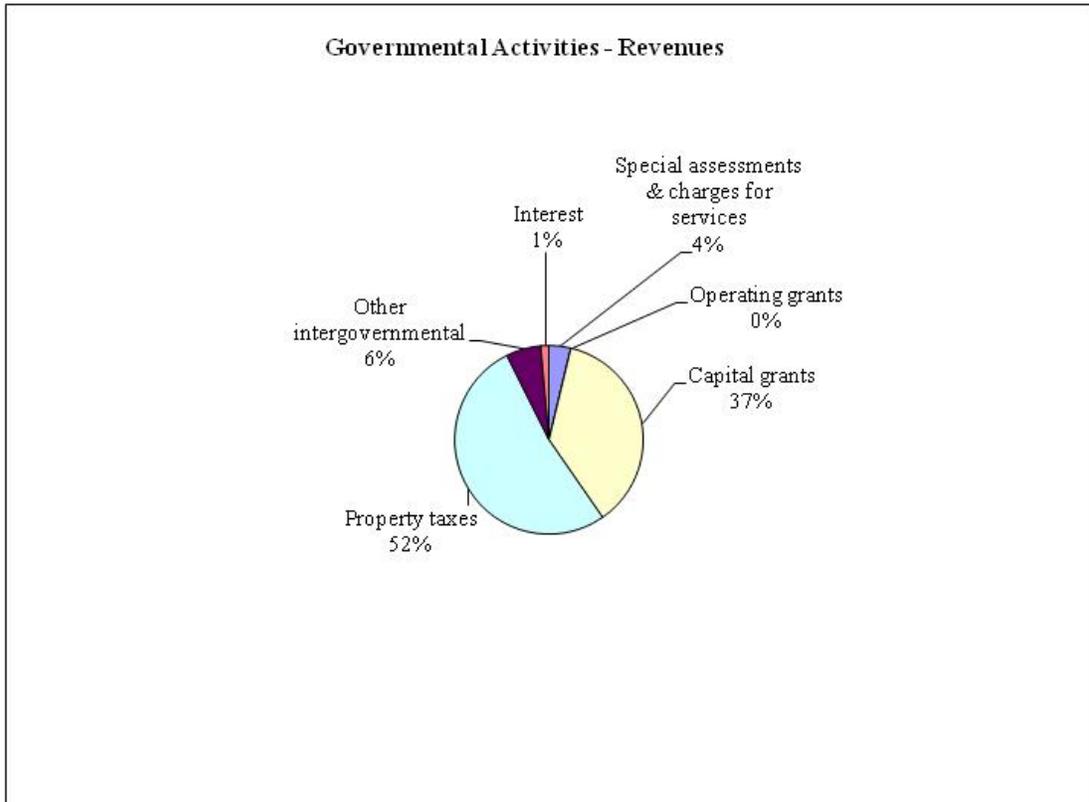
At the end of 2009 and 2008, the Red Lake Watershed District is able to report positive balances in net assets.

**RED LAKE WATERSHED DISTRICT'S CHANGE IN NET ASSETS  
 – MODIFIED CASH BASIS**

Governmental activities resulted in an increase of Red Lake Watershed District's net assets from the fiscal year 2008 to the fiscal year 2009 in the amount of \$1,285,086. The details of the increase are as follows:

	<u>2009</u>	<u>2008</u>
<b>REVENUES</b>		
Special assessments and charges for services	\$ 135,399	\$ 117,090
Operating grants	-	16,000
Capital grants	1,328,735	677,921
General revenues:		
Property taxes	1,895,927	1,687,667
Other intergovernmental	216,035	216,035
Interest	51,145	71,700
<b>TOTAL REVENUES</b>	<u>3,627,241</u>	<u>2,786,413</u>
<b>EXPENSES</b>		
General and administration construction	114,652	71,833
Ongoing projects and studies	304,057	551,051
Capital projects	945,520	860,760
Payments to RRWMB	<u>977,926</u>	<u>860,916</u>
<b>TOTAL EXPENSES</b>	<u>2,342,155</u>	<u>2,344,560</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 1,285,086</u>	<u>\$ 441,853</u>

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2009:



**Financial Analysis of the Government's Funds**

At the end of the current fiscal year, Red Lake Watershed District's governmental funds reported combined ending fund balances of \$2,602,360. The total fund balance can be attributed to 1) General Fund, \$241,097; 2) Capital Projects Fund, \$2,380,077; as well as Special Revenue Fund with a deficit fund balance of (\$18,814).

The general fund increased by \$37,673 in 2009, which was due to a slightly higher net increases in general revenues over expenses than was originally expected in the budget. The general fund cash balance remained relatively unchanged, however. The board voted to annually allocate the remaining revenue over expenses in the general fund budget to the capital projects fund until all monies borrowed for the new building are paid. The remaining balance of the new watershed district building is reflected on page 19, interfund balances.

**Budgetary Highlights**

**General Fund.** The General Fund exceeded budgeted revenues and had expenditures below the budgeted amounts for the year ended December 31, 2009.

**Capital Asset and Debt Administration**

**Capital assets.** Red Lake Watershed District's investment in capital assets for its governmental activities as of December 31, 2009, amounts to \$7,909,735 (net of accumulated depreciation). This investment in capital assets consists of building, equipment, and infrastructure assets necessary for the District to carryout watershed and conservation management within its service area.

**Red Lake Watershed District's Capital Assets  
 (Net of Depreciation)**

	2009		2008	
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation	Cost Less Accumulated Depreciation
Building and improvements	\$ 712,140	\$ 77,174	\$ 634,966	\$ 665,435
Infrastructure Improvements	5,993,666	419,029	5,574,637	4,800,991.00
Engineering equipment	398,315	253,315	145,000	113,164
Office equipment	85,161	47,019	38,142	40,604
Land & Permanent Easements	1,395,335	-	1,395,335	1,295,117
Construction in progress	121,655	-	121,655	236,866
<b>Total</b>	<b>\$ 8,706,272</b>	<b>\$ 796,537</b>	<b>\$ 7,909,735</b>	<b>\$ 7,152,177</b>

**Long-term debt.** In December 31, 2009 the District had \$15,450 in long-term debt arising from modified cash basis transactions compared to \$46,351 at December 31, 2008.

**Other Items of Interest.** Phase II of the Brandt Channel Restoration Project was completed at an estimated cost of \$267,000. This phase was funded in parts with a non-matching grant from Working Lands Initiative, a grant agreement with the Minnesota Department of Natural Resources with the remaining balance paid by the Red Lake Watershed District. Fund for this project was paid from Capital Projects Funds.

Construction was completed in the amount of \$539,463.32 for the improvement to and establishment of a lateral to Polk County Ditch No. 53 (RLWD Ditch #12), Red Lake Watershed District Project No. 169. Funding for this petitioned project was paid from Special Revenue Funds.

The Red Lake Watershed District will continue to cost share construction of ring dikes for landowners as funding is available. Funding for these ring dikes are from the Capital Projects Funds.

More details of the construction and maintenance of Red Lake Watershed District projects are included in the 2009 Annual Report or by contacting the Red Lake Watershed District.

**Requests for information.** This financial report is designed to provide a general overview of Red Lake Watershed District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Red Lake Watershed District, 1000 Pennington Avenue South, Thief River Falls, Minnesota 56701.

BASIC FINANCIAL STATEMENTS

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2009

ASSETS

Current Assets:

Petty cash	\$ 100
Pooled cash and investments	<u>2,602,260</u>
Total Current Assets	<u>2,602,360</u>

Capital Assets:

Property and equipment	8,706,272
Less: accumulated depreciation	<u>(796,537)</u>
Net Capital Assets	<u>7,909,735</u>

TOTAL ASSETS 10,512,095

LIABILITIES

Current portion of loan payable	<u>15,450</u>
State loan payable, net of current portion	<u>-</u>

TOTAL LIABILITIES 15,450

NET ASSETS

Investment in capital assets, net of related debt	7,894,285
Unrestricted	<u>2,602,360</u>

TOTAL NET ASSETS \$ 10,496,645

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2009

FUNCTION/PROGRAMS	Expenses			Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
	Direct	Allocated Salaries & Overhead	Total	Special Assessments and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General and administrative construction	\$ (599,891)	\$ 485,239	\$ (114,652)	\$ 1,027	\$ -	\$ -	\$ (113,625)
Ongoing projects and studies	(224,116)	(79,941)	(304,057)	114,251	-	999,341	809,535
Capital projects	(540,222)	(405,298)	(945,520)	20,121	-	329,394	(596,005)
Payments to RRWMB	(977,926)	-	(977,926)	-	-	-	(977,926)
Allocated interest	(27,424)	-	(27,424)	-	-	-	(27,424)
<b>Total Governmental Activities</b>	<b>\$ (2,369,579)</b>	<b>\$ -</b>	<b>\$ (2,369,579)</b>	<b>\$ 135,399</b>	<b>\$ -</b>	<b>\$ 1,328,735</b>	<b>(905,445)</b>
General Revenues:							
Tax levies							1,895,927
Intergovernmental, (not restricted to specific programs)							
State MV and disparity reduction credits							216,035
Allocated interest							78,569
<b>Total General Revenue</b>							<b>2,190,531</b>
Changes in Net Assets							1,285,086
Net Assets - Beginning							9,211,559
Net Assets - Ending							<b>\$ 10,496,645</b>

See accompanying notes to the basic financial statements.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	General	Special Revenue Fund	Capital Project Fund	Total
<b>ASSETS</b>				
Petty cash	\$ 100	\$ -	\$ -	\$ 100
Pooled cash and investments	361,690	-	2,240,570	2,602,260
Due from other funds	-	-	139,507	139,507
<b>TOTAL ASSETS</b>	<b>\$ 361,790</b>	<b>\$ -</b>	<b>\$ 2,380,077</b>	<b>\$ 2,741,867</b>
<b>LIABILITIES</b>				
Due to other funds	\$ 120,693	\$ 18,814	\$ -	\$ 139,507
<b>TOTAL LIABILITIES</b>	<b>120,693</b>	<b>18,814</b>	<b>-</b>	<b>139,507</b>
<b>FUND BALANCE</b>				
Unrestricted	241,097	(18,814)	2,380,077	2,602,360
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 361,790</b>	<b>\$ -</b>	<b>\$ 2,380,077</b>	<b>\$ 2,741,867</b>

Amounts reported from governmental activities in the Statement of Net Assets are different because:

Total fund balance per Balance Sheet, from above	\$ 2,602,360
--	--------------

When capital assets (land, building, equipment and infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statements of net assets includes those capital assets among the assets of the District as a whole.

Cost of capital assets	8,706,272
Accumulated depreciation	(796,537)

Some liabilities, including long-term notes payable, are not due and payable in the current period and therefore are not reported in the funds.	(15,450)
---	----------

Total Net Assets	<u>\$ 10,496,645</u>
------------------	----------------------

See accompanying notes to the basic financial statements.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Tax levies	\$ 177,299	\$ -	\$ 1,718,628	\$ 1,895,927
Intergovernmental				
Federal	-	-	139,023	139,023
State	-	-	320,805	320,805
Local	-	999,341	85,601	1,084,942
Special assessments	-	114,251	-	114,251
Miscellaneous	1,027	-	20,121	21,148
Allocated interest	13,048	4,734	60,787	78,569
Total Revenues	<u>191,374</u>	<u>1,118,326</u>	<u>2,344,965</u>	<u>3,654,665</u>
<b>EXPENDITURES</b>				
General and administrative construction	145,553	-	-	145,553
Ongoing projects and studies	-	820,612	-	820,612
Capital projects	-	-	1,155,622	1,155,622
Payments to RRWMB	-	-	977,926	977,926
Loan principal payments	-	-	30,901	30,901
Allocated interest	8,148	6,717	12,559	27,424
Total Expenditures	<u>153,701</u>	<u>827,329</u>	<u>2,177,008</u>	<u>3,158,038</u>
Revenues Over (Under) Expenditures	37,673	290,997	167,957	496,627
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	491,492	-	851,757	1,343,249
Transfers out	(491,492)	-	(851,757)	(1,343,249)
Net Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues & Other Sources Over (Under) Expenditures & Other Uses	37,673	290,997	167,957	496,627
Fund Balance (Deficit), January 1	<u>203,424</u>	<u>(309,811)</u>	<u>2,212,120</u>	<u>2,105,733</u>
Fund Balance (Deficit), December 31	<u>\$ 241,097</u>	<u>\$ (18,814)</u>	<u>\$ 2,380,077</u>	<u>\$ 2,602,360</u>

See accompanying notes to the basic financial statements.

RECONCILIATION OF CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 496,627
Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital additions	1,020,503
Depreciation expense	(262,945)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term note payable in the Statement of Activities	<u>30,901</u>
Change in Net Assets - Governmental Activities	<u>\$ 1,285,086</u>

See accompanying notes to the basic financial statements.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

The Red Lake Watershed District, (the "District") was established under the Minnesota Watershed Act as an agency of the State of Minnesota. The purpose of the District is to carry out conservation of the natural resources of the State of Minnesota through land utilization, flood control, and other needs upon sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. The District serves an area in Northwestern Minnesota and includes all of Red Lake County and parts of the following counties: Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Polk and Roseau. The District is governed by the Board of Managers, which is composed of seven members appointed by the county boards in accordance with Minnesota Statutes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, have been applied, to the extent applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Reporting Entity

The financial statements of the District include all organizations, funds and account groups over which the District's Board exercises significant influence over and, or is financially accountable or organizations for which the nature and significance of their relationship with the District is such that exclusion would cause the Red Lake Watershed District's financial statements to be misleading. Currently, the District does not have any component units.

B. Basis of Presentation

*Government-Wide Financial Statement*

The Statement of Net Assets and Statement of Activities display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements would distinguish between governmental and business-type activities (if any). Governmental activities are typically financed through taxes, intergovernmental revenues and other non-exchange revenues, because of this all of the District's activities are reported as governmental activities.

*Fund Financial Statements*

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

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

1. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined.

*Governmental Funds*

General Fund

The general fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than capital projects) where the expenditures are legally restricted for purposes specified in the grant or project agreements. The reporting entity includes the special revenue fund as a major fund.

Capital Projects Fund

The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of capital projects. The reporting entity includes the capital projects fund as a major fund.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

*Measurement Focus*

In government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting is used as appropriate:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

*Basis of Accounting*

In the government-wide Statement of Net Assets and Statement of Activities governmental activities are presented using a modified basis of accounting. This basis recognizes assets, liabilities, net assets, revenues and expenditures when they result from cash transactions with a provision for depreciation in government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payables, unpaid good or services received in the current year and accrued expenses) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the government-wide financials would be presented on the accrual basis of accounting.

D. Budgets

The budget is prepared using the same method of accounting as the financial statements. The annual adopted budget is not legally binding on the District, with the exception of the budget for the general fund, which is limited by state statute at \$250,000 and set by the Board for 2009 at \$177,300.

E. Revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the District's taxpayers are reported as program revenues. The District has the following program revenues; direct project cost reimbursements and project special assessments, rental income and operating and capital grants specific to projects. All other governmental revenues and general tax levies are classified as general revenue.

F. Property Taxes

The District levies property taxes on property owners within the District, which becomes an enforceable lien as of January 1. Taxes are levied in September and are payable to counties on May 15 and October 15 (November 15 for farm property) of the following year. The District levies the tax, while the respective counties collect and remit the tax collections to the District. Property taxes are recognized when received from the counties under the cash basis of accounting.

The District also levies special assessments through the counties against property owners who obtain direct benefits from projects or property owners who request, through the petition process, to have a project undertaken. The special assessment collections are recorded in a manner similar to that for property taxes.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

G. Cash and Investments

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by Minnesota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund. Funds with deficit averages are charged with the investment earnings lost in financing the deficits.

H. Capital Assets

The District's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate.

All capital assets are valued at historical cost or if donated recorded at its estimated fair value. Infrastructure assets acquired prior to January 1, 2004 are not capitalized, but subsequent acquisitions are recorded at cost.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as an expense in the Statement of Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. Capitalization thresholds of \$500 for equipment and building improvements and \$10,000 for infrastructure are used to report capital assets. Estimated useful lives being used are summarized below:

Building & improvements	19 - 40 years
Equipment, furniture and fixtures	5 – 15 years

In governmental fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

I. Long-Term Debt

All long-term debt arising from cash transactions to be repaid from governmental fund resources is reported as a liability only in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and the payment of principal and interest reported as expenditures.

J. Compensated Absences

Full-time employees employed for six months with the District accrue 80 hours per year of vacation for the first five years of employment. During the next five years of employment, an employee accrues 120 hours per year and after ten years of employment, an employee accrues 160 hours per year of vacation. Qualifying part-time employees are entitled to vacation based on the percentage of hours worked per pay period. The maximum accumulation of vacation leave is 200 hours. Unused vacation leave is paid only upon termination of employment.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

Full-time employees employed with the District accrue eight hours of sick leave per month. Part-time employees who have worked 60 percent of the time for a period of nine months shall be entitled to sick leave based on the percentage of hours worked per pay period. The maximum accumulation of sick leave is 336 hours and does not vest upon termination of employment. No vested or accumulated liability has been recorded for accumulated compensated absences.

K. Equity

In the government-wide financial statements equity is classified as “net assets” and displayed in three components:

1. Investment in Capital Assets, Net of Related Debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by any outstanding debt issued that is attributable to the acquisition, construction, or improvements of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

L. Interfund Balances

In the process of aggregating the fund information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Subsequent Events

Red Lake Watershed District has evaluated subsequent events through March 3, 2010, the date which the financial statements were available to be issued.

NOTE 2. CASH AND INVESTMENTS

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's Board.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

At December 31, 2009, all deposits were protected by federal deposit insurance, corporate surety bond, or collateral as required by Minnesota Statute.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District may invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District has no investment policy that would further limit its investment choices.

NOTE 3. INTERFUND BALANCES

The following reconciles interfund receivables and payables as of December 31, 2009:

<u>Advances from/Advances to</u>	<u>Receivables</u>	<u>Payables</u>
Capital Projects Fund	\$ 120,693	\$ -
Special Revenue Fund	-	18,814
General Fund	-	120,693
	<u>\$ 120,693</u>	<u>\$ 139,507</u>

The \$120,693 interfund receivable and payable was created to show the amount due to the Capital Projects Fund for the new RLWD building. This amount will be allocated annually from the General Fund until monies borrowed from the Capital Projects Fund are paid. The \$18,814 interfund receivable and payable was created to cover cash shortage created from operations.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSET

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2009, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
<u>Capital Assets</u>				
Building and Improvements	\$ 712,140	\$ -	\$ -	\$ 712,140
Infrastructure Improvements	4,995,497	998,169	-	\$ 5,993,666
Engineering equipment	365,181	70,470	37,336	398,315
Office equipment	80,968	5,342	1,149	85,161
Land & Permanent Easements	1,295,117	100,218	-	1,395,335
Construction in progress	236,866	121,655	236,866	121,655
Total	<u>\$ 7,685,769</u>	<u>\$ 1,295,854</u>	<u>\$ 275,351</u>	<u>\$ 8,706,272</u>
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
<u>Accumulated Depreciation</u>				
Building and Improvements	\$ 46,705	\$ 30,469	\$ -	\$ 77,174
Infrastructure Improvements	194,506	224,523	-	419,029
Engineering equipment	252,017	38,873	37,575	253,315
Office equipment	40,364	7,804	1,149	47,019
Total	<u>533,592</u>	<u>301,669</u>	<u>38,724</u>	<u>796,537</u>
Net Capital Assets	<u>\$ 7,152,177</u>	<u>\$ 994,185</u>	<u>\$ 236,627</u>	<u>\$ 7,909,735</u>

Depreciation expense of \$301,669 for the year ended December 31, 2009 is included in general and administrative program costs.

NOTE 5. LONG-TERM DEBT

The District's long-term debt arising from cash transactions is comprised of the following issue:

	<u>Original</u> <u>Issue</u>	<u>Security</u> <u>Interest</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Amount</u> <u>Outstanding</u>	<u>Current</u> <u>Portion</u>
MN Clean Water Partnership Project		General				
Implementation Loan	\$ 309,009	Obligation	0.0%	6/15/2010	<u>\$ 15,450</u>	<u>\$ 15,450</u>

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

The following is a summary of the long-term debt transactions during the year:

	<u>Beginning of Year Balance</u>	<u>New Issues</u>	<u>Debt Retired</u>	<u>End of Year Balance</u>
MN Clean Water Partnership Project Implementation Loan	\$ 46,351	\$ -	\$ 30,901	\$ 15,450

The annual debt service requirements to maturity for the State loan payable are as follows:

<u>Year</u>	<u>Principal</u>
2010	15,450
Total	<u>\$ 15,450</u>

NOTE 6. OVERHEAD COST ALLOCATION

Overhead costs are allocated to all projects at 150% of direct salaries charged to projects. Overhead costs represent those costs incurred by the District for administration, employee benefits, engineering, and related operating expenditures, which are not charged directly to the project. The total overhead costs charged to projects in 2009 were \$485,239.

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the Red Lake Watershed District are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at [mnpera.com](http://mnpera.com) or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008 and 2007 were \$21,336, \$19,434, and \$18,092 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance coverages on its commercial property and for liability, personal and advertising injury, non-owned auto and a miscellaneous floater. Insurance coverage has not been reduced from the prior year, and settlements have not exceeded insurance coverage in any of the past three years.

NOTE 9. CONTINGENCIES

Grants

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2009, may be impaired. The District is not aware of any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

Claims and Litigation

The District is involved in some legal actions relating to projects undertaken or attempted to be undertaken. Although the outcomes cannot be determined, the District believes any potential liability would not have a material impact on the financial condition of the District.

SUPPLEMENTAL INFORMATION

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Revenues					Expenditures			Transfers	Fund Balance (Deficit) December 31
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating / Capital Grants and Contributions	Allocated Interest Earned	Taxes	Allocated Interest Charged	Salary & Overhead Allocation	In (Out)		
						Direct				
GENERAL FUND	\$ 203,424	1,027	-	13,048	177,299	630,792	8,148	(485,239)	-	\$ 241,097
SPECIAL REVENUE FUND JOBS:										
Branch A & 1, J.D. #2	7,178	-	-	147	-	371	-	1,054	-	5,900
Burnham Creek channel	(5,404)	13,077	-	-	-	6,867	42	3,688	-	(2,924)
Clearwater County ditch #1	1,044	-	-	14	-	-	-	653	-	405
Clearwater County joint ditch #1	(226)	-	-	-	-	-	4	-	-	(230)
Clearwater County joint ditch #4	1,191	-	-	26	-	-	-	24	-	1,193
Clearwater County joint ditch #5	1,556	-	-	33	-	-	-	-	-	1,589
Clearwater River project	26,626	-	-	571	-	-	-	-	-	27,197
Clearwater/Wild Rice River	(795)	8,071	-	42	-	360	-	1,335	-	5,623
Clifford Arveson ditch	3,227	937	-	59	-	1,676	-	170	-	2,377
Equality RLWD ditch #1, lat C	(912)	1,336	-	-	-	2,335	51	3,077	-	(5,039)
Improvement to Penn. Co. Dt. 1	-	-	-	-	-	384	3	584	-	(971)
J.D. ditch #72	(3,111)	3,057	-	-	-	11,650	173	10,589	-	(22,466)
K. Johnson petition	(876)	1,953	-	-	-	2,878	19	238	-	(2,058)
Krostue petition	(2,126)	4,428	-	-	-	1,151	1	454	-	696
Lost River project	21,649	-	-	455	-	2,160	-	417	-	19,527
Main J.D. #2 and branch B & C	(20,925)	4,134	-	-	-	2,429	440	953	-	(20,613)
Main J.D. 2C. ECK	688	2	-	14	-	-	-	189	-	515
Pine Lake maintenance	(4,664)	3,994	-	-	-	156	119	4,431	-	(5,376)
Polk Cnty ditch #33 improvement	4,973	2,072	-	117	-	1,521	-	662	-	4,979
Polk Cnty ditch #63 improvement	(25,463)	6,424	-	-	-	1,642	486	292	-	(21,459)
Polk Cnty ditch #'s 104, 61, 47, 94	(8,830)	5,131	-	-	-	6,832	172	1,111	-	(11,814)
Red Lake River project	66,040	-	-	1,395	-	74	-	1,246	-	66,115
RLWD ditch #1	14,974	1,966	-	308	-	1,384	-	992	-	14,872
RLWD ditch #3	9,187	-	-	179	-	1,495	-	1,299	-	6,572
RLWD ditch #7	(2,808)	13,344	-	-	-	6,210	12	1,514	-	2,800
RLWD Ditch #8	(4,646)	-	-	-	-	4,365	185	2,727	-	(11,923)
RLWD Ditch #9	3,253	-	-	67	-	150	-	262	-	2,908
RLWD Ditch #10	(27,674)	6,077	-	-	-	225	560	682	-	(23,064)
RLWD Ditch #11	44,158	-	-	931	-	1,987	-	166	-	42,936
RLWD Ditch #12	(388,988)	-	999,341	-	-	590,809	3,341	24,736	-	(8,533)
RLWD Ditch #13	(25,039)	-	-	-	-	40,627	808	7,546	-	(74,020)
Scott Baatz petition	(1,116)	1,000	-	-	-	180	16	210	-	(522)
State ditch #83	19,699	26,411	-	332	-	44,566	-	7,453	-	(5,577)
Thief River Falls drainage ditch	2,099	997	-	44	-	271	-	-	-	2,869
Winsor/Hangaard/Clearwater County petition	(13,750)	9,840	-	-	-	5,916	285	1,187	-	(11,298)
Total Special Revenue	(309,811)	114,251	999,341	4,734	-	740,671	6,717	79,941	-	(18,814)

RED LAKE WATERSHED DISTRICT  
 THIEF RIVER FALLS, MINNESOTA  
 SCHEDULE OF CHANGES IN FUND BALANCES - MODIFIED CASH BASIS

	Fund Balance (Deficit) January 1	Revenues				Expenditures			Transfers	Fund Balance (Deficit) December 31
		Assessments and Other Charges for Services	Operating / Capital Grants and Contributions	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary & Overhead	In (Out)	
CAPITAL PROJECT FUND JOBS:										
Administrative construction	2,297,145	39	237,202	58,480	1,718,628	977,926	425	-	(851,490)	2,481,653
Badger Creek / Poplar River	6,302	-	-	135	-	-	-	-	-	6,437
Bench Marks	-	-	-	-	-	-	28	1,900	1,928	-
Black River project	-	-	-	-	-	921	35	1,534	2,490	-
Burnham Creek	-	-	-	-	-	200	4	514	718	-
BWSR flood storage pilot project	-	-	-	-	-	305	2	109	416	-
Clearwater conservation	-	-	-	-	-	569	12	-	581	-
Clearwater nonpoint	-	-	-	-	-	30,901	277	-	31,178	-
Clearwater public education	-	-	-	-	-	3,429	420	33,992	37,841	-
Clearwater River - habitat	-	-	-	-	-	-	7	360	367	-
Clearwater River - TMDLS	-	-	-	-	-	-	3	465	468	-
Clearwater River DISOXY TMDL	(15,073)	-	29,880	-	-	18,484	355	12,349	16,381	-
Clearwater stream water	(2,270)	-	-	-	-	1,643	109	3,160	7,182	-
Culvert Sizing	-	-	-	-	-	-	38	3,769	3,807	-
Ditch 66 WQ Study	-	-	99,023	-	-	97,670	4	994	-	355
Elm Lake	-	-	40,000	-	-	92,654	411	8,534	61,599	-
Emergency maintenance	101,051	-	-	2,172	-	-	-	-	-	103,223
Erosion control PJTS	-	-	-	-	-	8,165	83	1,614	9,862	-
Farm to stream water quality	(6,446)	-	9,539	-	-	503	53	4,559	2,022	-
Flood control studies	-	-	-	-	-	-	8	1,659	1,667	-
G.I.S.	-	-	-	-	-	139	167	15,444	15,750	-
Euclid East Impoundment	-	740	-	-	-	9,282	96	4,225	12,863	-
Brandt Channel Restoration	(92,344)	-	11,505	-	-	94,489	3,631	6,363	185,322	-
Grand Marais - Restoration	(21,728)	-	15,949	-	-	25,562	1,023	28,835	61,199	-
Brandt Impoundment	(2)	1,187	-	-	-	17,824	187	7,868	24,694	-
FEMA D-Firm Grant	-	-	-	-	-	-	3	1,163	-	(1,166)
Grand Marais Creek Subwatershed	-	-	10,948	-	-	6,955	58	3,993	58	-
Hydrologic analysis	-	-	-	-	-	-	70	5,972	6,042	-
Jerome Street Bank Stabilization	-	-	-	-	-	22,182	107	3,220	-	(25,509)
Lost River impoundment	-	-	-	-	-	-	7	423	430	-
Louisville/Parnell project	-	1,703	-	-	-	2,295	4	224	820	-
LRRWMB - Technical Com	(1,582)	-	13,570	-	-	6,401	64	5,900	377	-
Maintenance dams	-	-	-	-	-	10,209	122	2,725	13,056	-
Moose River project	-	-	-	-	-	11,877	205	5,089	17,171	-
Parnell impoundment	-	2,400	5,390	-	-	92,254	633	15,694	100,791	-

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES - MODIFIED CASH BASIS

	Fund Balance (Deficit) January 1	Revenues				Expenditures			Transfers	Fund Balance (Deficit) December 31
		Assessments and Other Charges for Services	Operating / Capital Grants and Contributions	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary & Overhead	In (Out)	
CAPITAL PROJECT FUND JOBS (continued)										
Permits	-	-	-	-	-	8,794	662	58,400	67,856	-
Project Development	-	-	-	-	-	1,285	236	20,036	21,557	-
Red Lake Res./Good Lake	-	-	-	-	-	13,672	220	8,059	21,951	-
Red River Corridor	-	-	-	-	-	-	8	729	737	-
Ring dike program -										
General	(42)	200	3,628	-	-	400	-	6,275	2,631	(258)
Litchenberg	-	267	-	-	-	-	-	-	(267)	-
R. Stengl	(36)	-	-	-	-	-	-	-	36	-
Schauer	(1)	-	-	-	-	-	-	-	1	-
Swanson	(3,967)	3,961	6	-	-	-	-	-	-	-
Black	(12,784)	-	12,754	-	-	-	-	-	30	-
Christenson - RLWD	-	-	471	-	-	-	-	638	87	(80)
Hipscher - RLWD	-	-	-	-	-	-	-	213	27	(186)
Philipp - RLWD	-	-	53	-	-	-	-	212	159	-
Egeland - RLWD	-	9,624	44,293	-	-	53,752	-	5,350	7,388	2,203
Smsky - NRCS	-	-	-	-	-	58,405	-	1,847	-	(60,252)
Wagner - NRCS	-	-	-	-	-	8,824	-	565	-	(9,389)
G. Peterson - NRCS	-	-	-	-	-	5,971	-	232	-	(6,203)
Gld. Stengl - NRCS	-	-	-	-	-	5,210	-	-	-	(5,210)
Svendson - RLWD	-	-	87	-	-	-	-	117	15	(15)
L. Hanson - NRCS	-	-	-	-	-	3,049	-	61	-	(3,110)
Newton - NRCS	-	-	-	-	-	7,645	-	1,535	-	(9,180)
RRWMB protocol grant	-	-	-	-	-	-	41	2,310	2,351	-
Stream gauging	-	-	-	-	-	363	448	26,364	27,175	-
TR WS Sediment Inves	(36,103)	-	-	-	-	21,852	1,224	31,235	-	(90,414)
Upper Lost River/Nassett Brook										
WQ Assessment Grant	-	-	8,131	-	-	6,490	100	4,363	-	(2,822)
WS Ditch System Inventory & Mapping	-	-	-	-	-	-	205	13,376	13,581	-
Water Quality	-	-	-	-	-	18,499	557	32,184	51,240	-
Web Page Development	-	-	3,000	-	-	2,405	36	6,788	6,229	-
Wetland Banking	-	-	-	-	-	9,696	171	1,759	11,626	-
Total Capital Projects	2,212,120	20,121	545,429	60,787	1,718,628	1,759,151	12,559	405,298	-	2,380,077
Total - All Funds	\$ 2,105,733	135,399	1,544,770	78,569	1,895,927	3,130,614	27,424	-	-	\$ 2,602,360

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
SCHEDULE OF DIRECT EXPENDITURES BY CLASSIFICATION - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

<u>DIRECT EXPENDITURES:</u>	<u>2009</u>	<u>2008</u>
Salaries -		
Inspection	\$ 11,830	\$ 9,592
Survey - preliminary	5,349	5,518
Survey - construction	522	496
Reducing field notes	-	17
Drafting	7,927	12,117
Engineering	62,935	61,260
Project administration	184,828	165,633
Field work -water programs	16,364	27,602
Other	29,640	64,903
Compensated absences	28,573	26,345
Payroll taxes and benefits	111,080	94,687
Manager's expenses	24,686	15,996
Travel, mileage, meetings and per diems	3,261	4,399
Audit	8,039	6,095
Legal	13,620	20,893
Appraisal and viewers	7,688	9,900
Other professional fees	52,767	29,760
Office supplies	12,660	13,968
Office equipment	5,342	3,427
Dues & subscriptions	2,253	2,328
Insurance and bonds	23,731	23,757
Rent	1,210	1,430
Repairs and maintenance	9,229	15,298
Utilities	5,697	4,545
Telephone	10,524	8,339
Advertising and publications	4,118	6,229
Truck expense	15,370	15,543
Red River Watershed Management Board	977,926	860,916
Cost share assistance	569	2,869
Land acquisition and easements	100,218	106,100
Construction	973,785	514,670
Engineering costs & fees	9,119	19,650
Engineering fees	222,101	305,858
Engineering equipment	62,654	18,099
Glacial Ridge	94,098	178,214
Loan payments	30,901	30,901
	<hr/>	<hr/>
Total Expenditures	<u>\$ 3,130,614</u>	<u>\$ 2,687,354</u>

**Drees, Risky & Vallager, Ltd.**  
*Certified Public Accountants*

Grand Forks:  
 1405 Library Circle  
 Telephone (701) 746-4466  
 FAX (701) 772-6659

Crookston:  
 117 South Broadway  
 Telephone (218) 281-3789  
 FAX (218) 281-5245

AUDITORS' REPORT ON LEGAL COMPLIANCE

Board of Managers  
 Red Lake Watershed District  
 Thief River Falls, Minnesota 56701

We have audited the financial statements of the Red Lake Watershed District, as of and for the year ended December 31, 2009, and have issued our report thereon dated March 3, 2010. The District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and TIF district. Our study included all of the listed categories, except TIF which was not applicable to the District.

The results of our tests indicate that for the items tested the Red Lake Watershed District complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the Red Lake Watershed District had not complied with such legal provisions.

This report is intended solely for the information and use of the District Board of Managers, management, and the Office of the State Auditor of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

March 3, 2010  
 Crookston, Minnesota

*Members of Minnesota and North Dakota Society of CPA's  
 Members of American Institute of Certified Public Accountants*

**Drees, Risky & Vallager, Ltd.**  
*Certified Public Accountants*

Grand Forks:  
1405 Library Circle  
Telephone (701) 746-4466  
FAX (701) 772-6659

Crookston:  
117 South Broadway  
Telephone (218) 281-3789  
FAX (218) 281-5245

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

Board of Managers  
Red Lake Watershed District  
Thief River Falls, Minnesota 56701

We have audited the financial statements of the governmental activities of Red Lake Watershed District as of and for the year ended December 31, 2009, and have issued our report thereon dated March 3, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red Lake Watershed District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Red Lake Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Red Lake Watershed District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency 08-1 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency 08-1 described above we consider to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Red Lake Watershed 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.

The District's response to the findings identified in our audit is described in the accompanying schedule of control deficiencies and findings on compliance. We did not audit Red Lake Watershed District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

March 3, 2010  
Crookston, Minnesota

RED LAKE WATERSHED DISTRICT  
SCHEDULE OF INTERNAL CONTROL AND NON-COMPLIANCE  
WITH LAWS AND REGULATION FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2009

Deficiency 08-1

Condition:

Lack of sufficient segregation of duties.

Cause of condition:

Size and cost constraints limiting the number of District personnel available within the municipality to perform accounting duties.

Effect:

The lack of segregation of duties reduces the level of internal controls over financial reporting which could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation:

The areas should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

Management's Response:

The District is aware of this situation and will continue to monitor operations, but believes it would not be cost efficient at this time to add staff and believes its most effective control lies in its awareness and oversight of this situation.