

RED LAKE WATERSHED DISTRICT
THIEF RIVER FALLS, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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

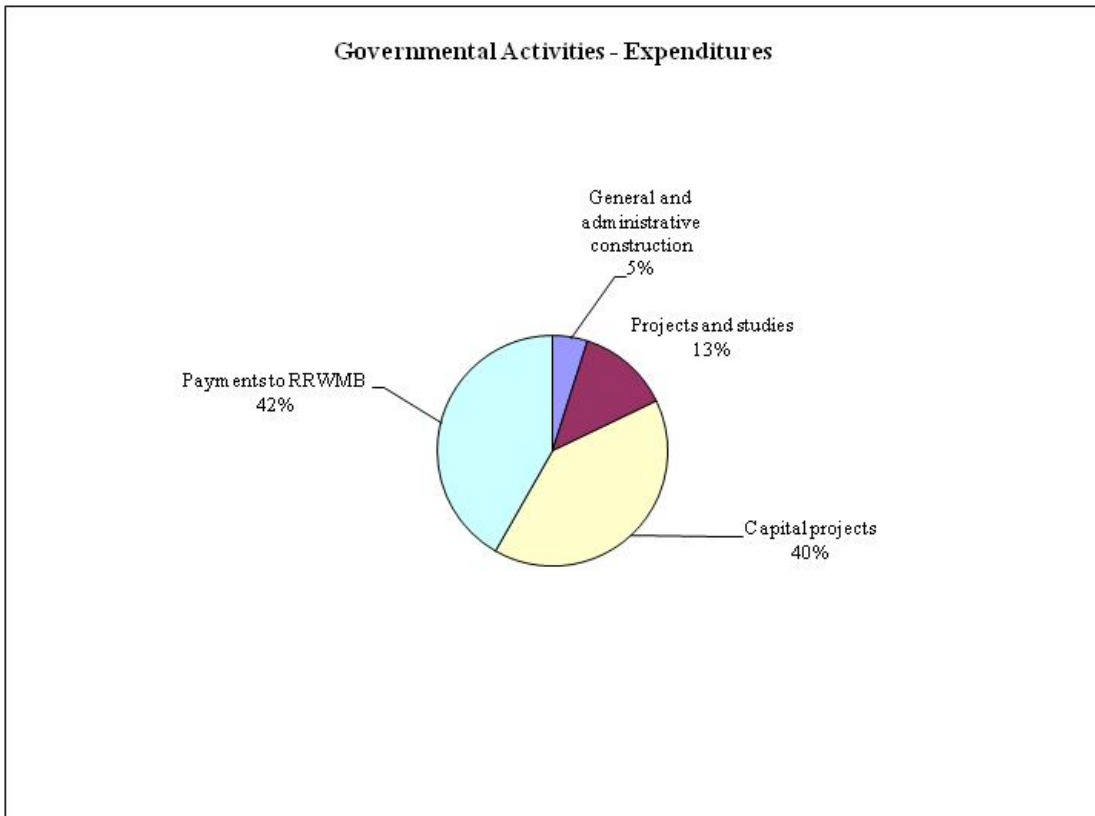
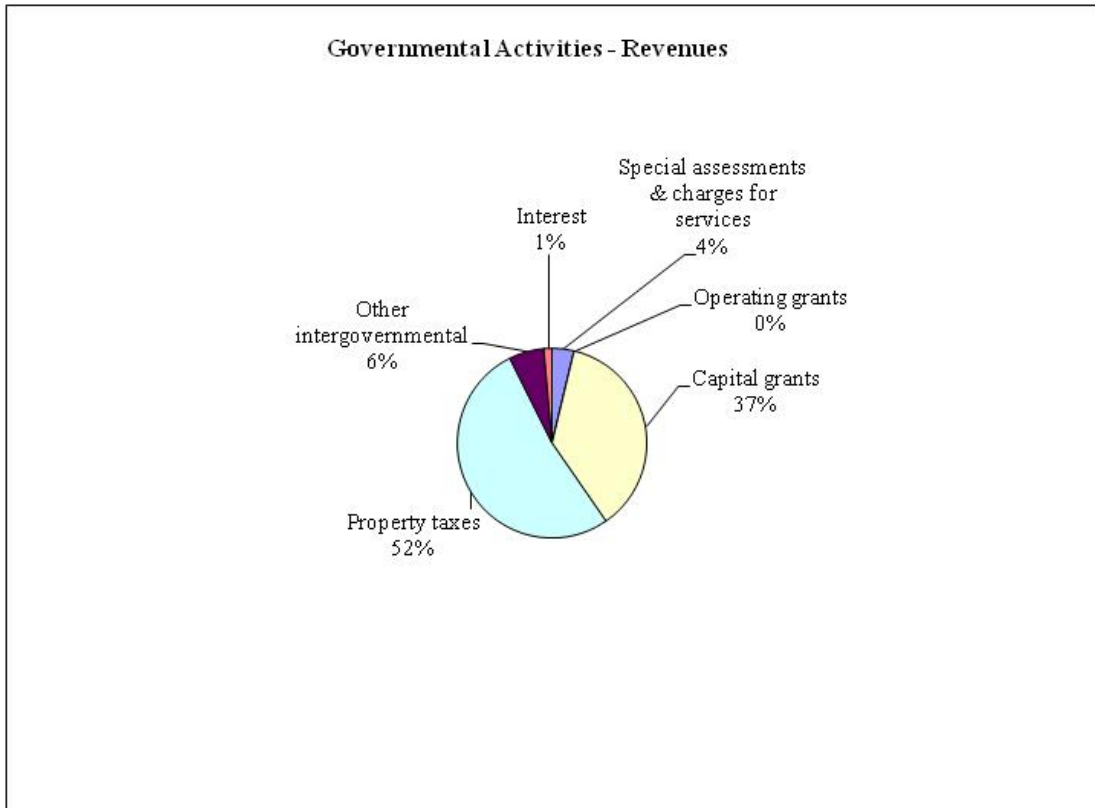
At the end of 2009 and 2008, the Red Lake Watershed District is able to report positive balances in net assets.

**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> |
|--|---------------------|-------------------|
| REVENUES | | |
| 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 |
| TOTAL REVENUES | <u>3,627,241</u> | <u>2,786,413</u> |
| EXPENSES | | |
| 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> |
| TOTAL EXPENSES | <u>2,342,155</u> | <u>2,344,560</u> |
| CHANGE IN NET ASSETS | <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 |
| Total | \$ 8,706,272 | \$ 796,537 | \$ 7,909,735 | \$ 7,152,177 |

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) |
| Total Governmental Activities | <u>\$ (2,369,579)</u> | <u>\$ -</u> | <u>\$ (2,369,579)</u> | <u>\$ 135,399</u> | <u>\$ -</u> | <u>\$ 1,328,735</u> | <u>(905,445)</u> |
| General Revenues: | | | | | | | |
| Tax levies | | | | | | | 1,895,927 |
| Intergovernmental, (not restricted to specific programs) | | | | | | | |
| State MV and disparity reduction credits | | | | | | | 216,035 |
| Allocated interest | | | | | | | <u>78,569</u> |
| Total General Revenue | | | | | | | <u>2,190,531</u> |
| Changes in Net Assets | | | | | | | 1,285,086 |
| Net Assets - Beginning | | | | | | | <u>9,211,559</u> |
| Net Assets - Ending | | | | | | | <u>\$ 10,496,645</u> |

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 |
|---|-------------------|----------------------------|----------------------------|---------------------|
| ASSETS | | | | |
| Petty cash | \$ 100 | \$ - | \$ - | \$ 100 |
| Pooled cash and investments | 361,690 | - | 2,240,570 | 2,602,260 |
| Due from other funds | - | - | 139,507 | 139,507 |
| TOTAL ASSETS | \$ 361,790 | \$ - | \$ 2,380,077 | \$ 2,741,867 |
| LIABILITIES | | | | |
| Due to other funds | \$ 120,693 | \$ 18,814 | \$ - | \$ 139,507 |
| TOTAL LIABILITIES | 120,693 | 18,814 | - | 139,507 |
| FUND BALANCE | | | | |
| Unrestricted | 241,097 | (18,814) | 2,380,077 | 2,602,360 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 361,790 | \$ - | \$ 2,380,077 | \$ 2,741,867 |

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 | \$ 10,496,645 |
|------------------|----------------------|

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

| | General | Special Revenue Fund | Capital Project Fund | Total |
|--|-------------------|----------------------------|----------------------------|---------------------|
| REVENUES | | | | |
| 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> |
| EXPENDITURES | | | | |
| 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 |
| OTHER FINANCING SOURCES (USES) | | | | |
| 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 Improvments | 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 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

| | 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 | 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 | <u>2,212,120</u> | <u>20,121</u> | <u>545,429</u> | <u>60,787</u> | <u>1,718,628</u> | <u>1,759,151</u> | <u>12,559</u> | <u>405,298</u> | <u>-</u> | <u>2,380,077</u> |
| Total - All Funds | <u>\$ 2,105,733</u> | <u>135,399</u> | <u>1,544,770</u> | <u>78,569</u> | <u>1,895,927</u> | <u>3,130,614</u> | <u>27,424</u> | <u>-</u> | <u>-</u> | <u>\$ 2,602,360</u> |

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> |

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Certified Public Accountants

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 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
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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.