

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
DECEMBER 31, 2011

BOARD OF MANAGERS

2011

<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
Albert Mandt	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, 2011, 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, 2011 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 27, 2012, 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.

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

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 as a whole. The schedules included in the supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

March 27, 2012  
Crookston, Minnesota

## 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, 2011. 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 \$12,319,861 (Net assets). Of this amount, \$4,269,442 (unrestricted net assets) may be used to meet the government's ongoing designations and fiscal policies.
- The District's total net assets increased by \$1,809,407.
- As of the close of the current fiscal year, Red Lake Watershed District's governmental funds reported combined ending fund balance was \$4,269,442. 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 \$294,705 of which all was unassigned.

### **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 24 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 \$12,319,861 by the close of the most recent fiscal year, which is an increase of \$1,809,407 over the prior year; more than a 17% increase over the prior year.

A portion of Red Lake Watershed District’s net assets (\$8,050,419 or 65%) 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>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Total current assets	\$ 4,269,442	\$ 2,838,607
Net capital assets	<u>8,050,419</u>	<u>7,671,847</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,319,861</u>	<u>\$ 10,510,454</u>
<b>NET ASSETS</b>	<u>\$ 12,319,861</u>	<u>\$ 10,510,454</u>

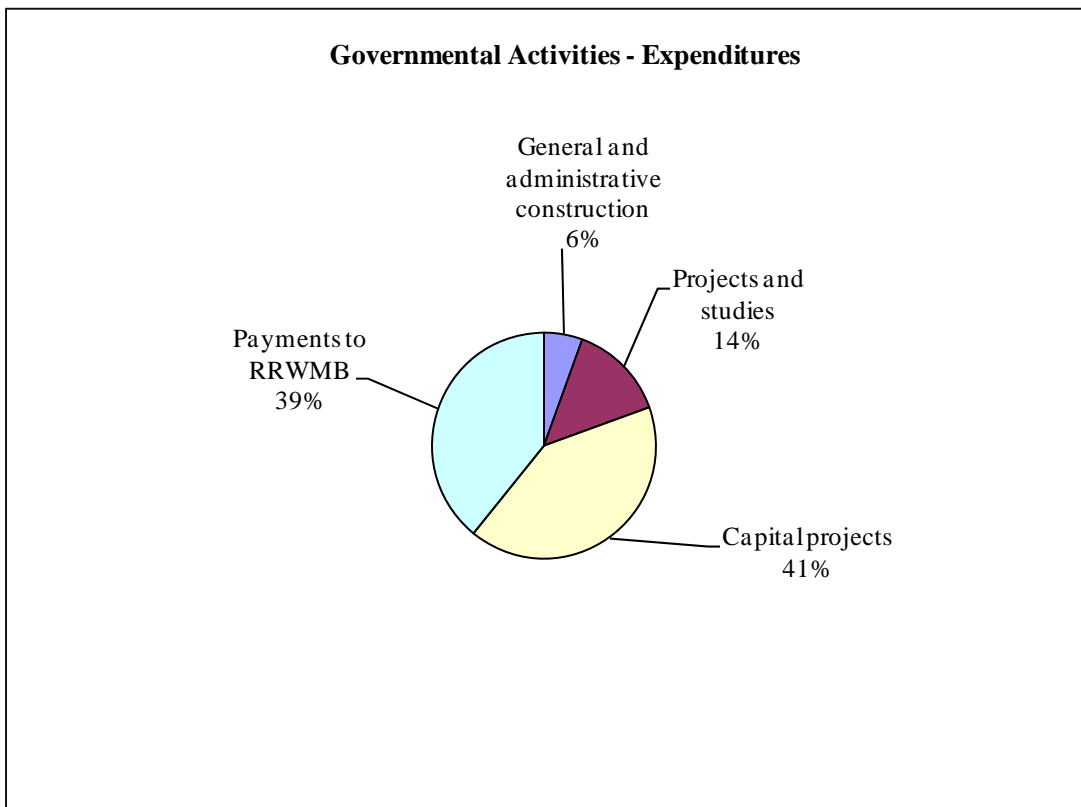
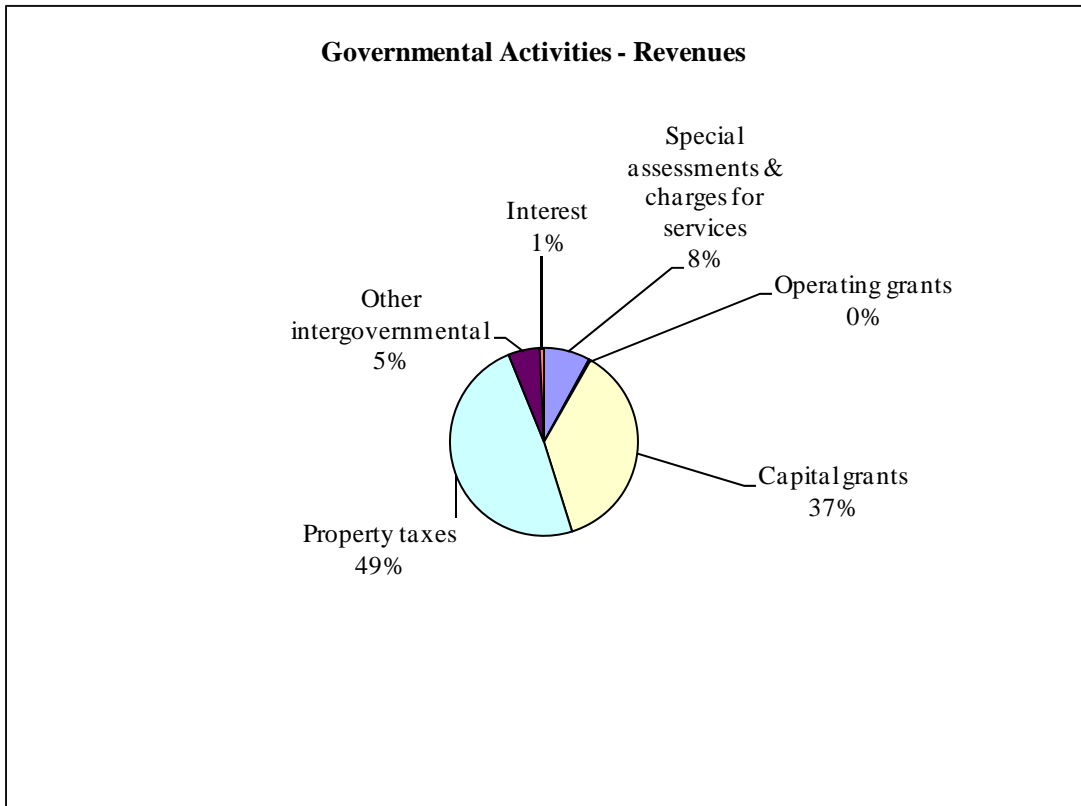
At the end of 2011 and 2010, the Red Lake Watershed District is able to report positive balances in net assets.

**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 2010 to the fiscal year 2011 in the amount of \$1,809,407. The details of the increase are as follows:

	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>		
Special assessments and charges for services	\$ 405,228	\$ 188,493
Operating grants	16,000	16,000
Capital grants	1,881,331	465,547
General revenues:		
Property taxes	2,481,415	2,080,919
Other intergovernmental	275,507	216,035
Interest	37,650	54,674
<b>TOTAL REVENUES</b>	<u>5,097,131</u>	<u>3,021,668</u>
<b>EXPENSES</b>		
General and administration construction	181,175	641,237
Ongoing projects and studies	457,792	97,972
Capital projects	1,359,641	769,447
Payments to RRWMB	<u>1,289,116</u>	<u>1,073,323</u>
<b>TOTAL EXPENSES</b>	<u>3,287,724</u>	<u>2,581,979</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 1,809,407</u>	<u>\$ 439,689</u>

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2011:



**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 \$4,269,442. The total fund balance can be attributed to 1) General Fund, \$294,705; 2) Capital Projects Fund, \$4,280,451; as well as Special Revenue Fund with a deficit fund balance of (\$305,714).

The general fund increased by \$60,303 in 2011, which was due to 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 20, 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, 2011.

**Capital Asset and Debt Administration**

**Capital assets.** Red Lake Watershed District's investment in capital assets for its governmental activities as of December 31, 2011, amounts to \$8,050,419 (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)**

	2011		2010	
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation	Cost Less Accumulated Depreciation
Building and improvements	\$ 762,888	\$ 139,488	\$ 623,400	\$ 655,139
Infrastructure improvements	6,235,119	904,078	5,331,041	5,400,680
Engineering equipment	417,302	280,049	137,253	145,189
Office equipment	108,588	61,777	46,811	33,059
Land & permanent easements	1,567,050	-	1,567,050	1,437,780
Construction in progress	344,864	-	344,864	-
<b>Total</b>	<b>\$ 9,435,811</b>	<b>\$ 1,385,392</b>	<b>\$ 8,050,419</b>	<b>\$ 7,671,847</b>

**Other Items of Interest.** Construction was completed to RLWD Project No. 170A, lateral to Pennington County Ditch #75. Following construction the ditch system was renamed RLWD Ditch No. 13. Funding for this project was paid for by the Special Revenue Fund (benefitted landowners).

The final hearing for the Thief River Falls Flood Damage Project (TRF FDR), RLWD Project 171A, and Improvement of Pennington County Ditch #1, RLWD Project #171, was held in the fall of 2011. Bid opening for the construction of the two projects is scheduled in early 2012 with construction expected to be completed in the summer of 2012. Funding for the TRF FDR Project is to be paid in part by a Minnesota Flood Damage Reduction Grant, matched by the Red Lake Watershed District using Capital Projects funds, and funding for the establishment of a Water Management District will be paid from Special Revenue Fund.

Construction of the Clearbrook Stormwater Retention Pond, RLWD Proj. No. 160, has been delayed due to overly wet conditions. It is anticipated that with the drier conditions in the fall/early winter of 2011 (or a relocation of the retention pond), the project could be resumed and completed in 2012. This project will be funded from the Capital Projects Fund.

Late in 2011, Plans and specifications were developed for the construction of Marshall County Ditch #20 Grade Stabilization/State Ditch No. #83, RLWD Project No. 14D. This project will reduce sediment loads presently coming from CD #20 and settling into SD #83. A portion of the project will be funded through a grant received from the Board of Water and Soil Resources Clean Water Competitive Grant, Marshall County Ditch Authority, with remaining funds being paid from the Special Revenue Fund. Bids will be opened in early 2012 with construction completion anticipated in the summer of 2012.

The RLWD also was approved for a grant from the Board of Water and Soil Resources Clean Water Competitive Grant for a project referred to as Grand Marais Cut Channel Stabilization Project, RLWD Project 60FF. This project is intended to reduce sediment loads in the Red River of the North. The final engineer's report completed, informational meetings held, and bid opening are expected to be completed early in 2012, with construction to be concluded in the summer of 2012. The remaining expenditures will be from the Capital Projects Fund.

Water Quality grants from the State of Minnesota, Minnesota Pollution Control Agency, for Surface Water Assessment Grants, Watershed Assessment Projects (watershed based TMDL), and others are ongoing. Expenses over and above the grants are expended from the Capital Projects Fund.

More details of the 2011 construction, maintenance, and ongoing water quality programs of Red Lake Watershed District are included in the 2011 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, 2011

ASSETS

Current Assets:

Petty cash	\$ 100
Pooled cash and investments	<u>4,269,342</u>
Total Current Assets	<u>4,269,442</u>

Capital Assets:

Property and equipment	9,435,811
Less: accumulated depreciation	<u>(1,385,392)</u>
Net Capital Assets	<u>8,050,419</u>

TOTAL ASSETS 12,319,861

NET ASSETS

Investment in capital assets, net of related debt	8,050,419
Unrestricted	<u>4,269,442</u>

TOTAL NET ASSETS \$ 12,319,861

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	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
<b>FUNCTION/PROGRAMS</b>							
General and administrative construction	\$ (713,233)	\$ 532,058	\$ (181,175)	\$ 2,008	\$ -	\$ -	\$ (179,167)
Ongoing projects and studies	(356,169)	(101,623)	(457,792)	372,404	16,000	130,136	60,748
Capital projects	(929,206)	(430,435)	(1,359,641)	30,816	-	1,751,195	422,370
Payments to RRWMB	(1,289,116)	-	(1,289,116)	-	-	-	(1,289,116)
Allocated interest	(13,597)	-	(13,597)	-	-	-	(13,597)
Total Governmental Activities	<u>\$ (3,301,321)</u>	<u>\$ -</u>	<u>\$ (3,301,321)</u>	<u>\$ 405,228</u>	<u>\$ 16,000</u>	<u>\$ 1,881,331</u>	<u>(998,762)</u>
General Revenues:							
Tax levies							2,481,415
Intergovernmental, (not restricted to specific programs)							
State MV and disparity reduction credits							275,507
Allocated interest							51,247
Total General Revenue							<u>2,808,169</u>
Changes in Net Assets							1,809,407
Net Assets - Beginning							10,936,334
Prior period adjustment							<u>(425,880)</u>
Net Assets - Ending							<u>\$ 12,319,861</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, 2011

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Petty cash	\$ 100	\$ -	\$ -	\$ 100
Pooled cash and investments	378,235	-	3,891,107	4,269,342
Due from other funds	-	-	389,344	389,344
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 378,335</u>	<u>\$ -</u>	<u>\$ 4,280,451</u>	<u>\$ 4,658,786</u>
<b>LIABILITIES</b>				
Due to other funds	<u>\$ 83,630</u>	<u>\$ 305,714</u>	<u>\$ -</u>	<u>\$ 389,344</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	<u>83,630</u>	<u>305,714</u>	<u>-</u>	<u>389,344</u>
<b>FUND BALANCE</b>				
Spendable:				
Committed for Capital Project	-	-	4,280,451	4,280,451
Unassigned	<u>294,705</u>	<u>(305,714)</u>	<u>-</u>	<u>(11,009)</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>294,705</u>	<u>(305,714)</u>	<u>4,280,451</u>	<u>4,269,442</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 378,335</u>	<u>\$ -</u>	<u>\$ 4,280,451</u>	<u>\$ 4,658,786</u>

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

Total fund balance per Balance Sheet, from above \$ 4,269,442

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	9,435,811
Accumulated depreciation	<u>(1,385,392)</u>

Total Net Assets \$ 12,319,861

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, 2011

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Tax levies	\$ 178,689	\$ -	\$ 2,302,726	\$ 2,481,415
Intergovernmental				
Federal	-	-	663,612	663,612
State	-	16,000	1,312,098	1,328,098
Local	-	130,136	50,992	181,128
Special assessments	-	314,206	-	314,206
Miscellaneous	2,008	58,198	30,816	91,022
Allocated interest	6,622	2,332	42,293	51,247
Total Revenues	<u>187,319</u>	<u>520,872</u>	<u>4,402,537</u>	<u>5,110,728</u>
<b>EXPENDITURES</b>				
General and administrative construction	123,170	-	-	123,170
Ongoing projects and studies	-	668,671	-	668,671
Capital projects	-	-	1,585,339	1,585,339
Payments to RRWMB	-	-	1,289,116	1,289,116
Allocated interest	3,846	4,966	4,785	13,597
Total Expenditures	<u>127,016</u>	<u>673,637</u>	<u>2,879,240</u>	<u>3,679,893</u>
Revenues Over (Under) Expenditures	60,303	(152,765)	1,523,297	1,430,835
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	508,333	5,412	532,738	1,046,483
Transfers out	(508,333)	(5,196)	(532,954)	(1,046,483)
Net Other Sources (Uses)	<u>-</u>	<u>216</u>	<u>(216)</u>	<u>-</u>
Revenues & Other Sources Over (Under) Expenditures & Other Uses	60,303	(152,549)	1,523,081	1,430,835
Fund Balance (Deficit), January 1	<u>234,402</u>	<u>(153,165)</u>	<u>2,757,370</u>	<u>2,838,607</u>
Fund Balance (Deficit), December 31	<u>\$ 294,705</u>	<u>\$ (305,714)</u>	<u>\$ 4,280,451</u>	<u>\$ 4,269,442</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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 1,430,835
Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital additions	717,265
Depreciation expense	<u>(338,693)</u>
Change in Net Assets - Governmental Activities	<u>\$ 1,809,407</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, 2011

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  
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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.

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NOTES TO BASIC FINANCIAL STATEMENTS

When fund balance resources are available for use, it is the government's policy to use restricted, committed, assigned, and unassigned resources as they are needed in that order.

*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 2011 at \$178,900.

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.

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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.

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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. Net Assets/Fund Balance

The difference between assets and liabilities is “Net Assets” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority which is the Board of Managers through a resolution.

Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed.

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NOTES TO BASIC FINANCIAL STATEMENTS

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

M. 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.

N. 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.

O. Subsequent Events

Red Lake Watershed District has evaluated subsequent events through March 27, 2012, 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.

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, 2011, 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.



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NOTES TO BASIC FINANCIAL STATEMENTS

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, 2011:

<u>Advances from/Advances to</u>	<u>Receivables</u>	<u>Payables</u>
Capital Projects Fund	\$ 385,611	\$ -
Special Revenue Fund	-	305,755
General Fund	-	79,856
	<u>\$ 385,611</u>	<u>\$ 385,611</u>

The \$79,856 interfund receivable and payable was created to show the amount due to the Capital Projects Fund for the new RLWD building and garage. This amount will be allocated annually from the General Fund until monies borrowed from the Capital Projects Fund are paid. The \$305,755 interfund receivable and payable was created to cover cash shortage created from operations.

RED LAKE WATERSHED DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSET

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2011, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
<u>Capital Assets</u>					
Building and Improvements	\$ 762,888	\$ -	\$ -	\$ -	\$ 762,888
Infrastructure improvments	6,498,253	(443,266)	180,132	-	6,235,119
Engineering equipment	402,916	-	41,762	(27,376)	417,302
Office equipment	87,790	-	22,556	(1,758)	108,588
Land & permanent easements	1,437,780	-	129,270	-	1,567,050
Construction in progress	-	-	344,864	-	344,864
Total	<u>\$ 9,189,627</u>	<u>\$ (443,266)</u>	<u>\$ 718,584</u>	<u>\$ (29,134)</u>	<u>\$ 9,435,811</u>
	<u>Beginning</u> <u>Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
<u>Accumulated Depreciation</u>					
Building and improvements	\$ 107,749	\$ -	\$ 31,739	\$ -	\$ 139,488
Infrastructure improvements	671,693	(17,386)	249,771	-	904,078
Engineering equipment	257,727	-	48,956	(26,634)	280,049
Office equipment	54,731	-	8,227	(1,181)	61,777
Total	<u>1,091,900</u>	<u>(17,386)</u>	<u>338,693</u>	<u>(27,815)</u>	<u>1,385,392</u>
Net Capital Assets	<u>\$ 8,097,727</u>	<u>\$ (425,880)</u>	<u>\$ 379,891</u>	<u>\$ (1,319)</u>	<u>\$ 8,050,419</u>

Depreciation expense of \$379,891 for the year ended December 31, 2011 is included in general and administrative program costs.

NOTE 5. 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 2011 were \$532,058.

RED LAKE WATERSHED DISTRICT  
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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 General Employees Retirement Fund (GERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

GERF 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.

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 GERF 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.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org) 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$24,177, \$22,763, and \$21,336 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

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, 2011, 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.

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

NOTE 10. DEFICIT FUND BALANCE

Special Revenue Fund

A deficit fund balance in the amount of \$305,755 exists in the special revenue fund. The deficit is expected to be recovered by future revenues, or if necessary, by transfers from other funds.

NOTE 11. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$425,880 was made to governmental activities beginning net assets. It was determined that certain prior year project costs capitalized did not constitute infrastructure assets that the District would have any future rights or benefits.

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, 2011

Fund	Revenues					Expenditures			Transfers	Fund Balance (Deficit) December 31
	Assessments and Other Charges for Services	Operating / Capital Grants and Contributions	Allocated Interest Earned	Taxes	Allocated Interest Charged	Salary & Overhead Allocation	In (Out)			
	January 1				Direct					
GENERAL FUND	\$ 234,402	2,008	-	6,622	178,689	655,228	3,846	(532,058)	-	\$ 294,705
SPECIAL REVENUE FUND JOBS:										
Branch A & 1, J.D. #2	5,463	-	-	56	-	160	-	244	-	5,115
Burnham Creek channel	3,356	19,442	-	53	-	7,385	-	3,755	-	11,711
Clearwater County ditch #1	413	-	-	5	-	-	-	-	-	418
Clearwater County joint ditch #1	(235)	-	-	-	-	-	-	2	-	(237)
Clearwater County joint ditch #4	991	-	-	10	-	-	-	-	-	1,001
Clearwater County joint ditch #5	(6,032)	882	-	-	-	1,410	83	1,937	-	(8,580)
Clearwater River project	27,422	-	-	287	-	-	-	50	-	27,659
Clearwater/Wild Rice River	6,437	5,499	-	86	-	350	-	1,929	-	9,743
Clifford Arveson ditch	1,673	1,976	-	15	-	1,055	-	121	-	2,488
Equality RLWD ditch #1, lat C	(2,124)	3,345	-	-	-	629	10	412	-	170
Improvement to Penn. Co. Dt. 1	(40,896)	-	-	-	-	62,557	812	15,204	-	(119,469)
J.D. ditch #72	(12,599)	18,016	-	-	-	1,347	73	937	-	3,060
K. Johnson petition	2,416	2,070	-	21	-	1,272	-	1,466	-	1,769
Krostue petition	1,351	5,753	-	59	-	1,190	-	198	-	5,775
Lateral Petition to Penn. CD #31	(23)	-	-	-	-	-	-	(23)	-	-
Lost River project	19,268	-	-	199	-	-	-	547	-	18,920
Main J.D. #2 and branch B & C	(17,556)	4,672	-	-	-	1,376	175	1,587	-	(16,022)
Main J.D. 2C. ECK	531	-	-	6	-	-	-	52	-	485
Pine Lake maintenance	414	4,201	-	10	-	421	-	2,414	-	1,790
Polk Cnty ditch #33 improvement	6,069	-	-	52	-	2,174	-	1,389	-	2,558
Polk Cnty ditch #63 improvement	(8,285)	16,557	-	-	-	765	21	431	-	7,055
Polk Cnty ditch #'s 104, 61, 47, 94	(7,912)	14,483	-	-	-	9,824	66	2,860	-	(6,179)
Red Lake River project	66,730	-	-	698	-	-	-	205	-	67,223
RLWD ditch #1	13,402	-	-	133	-	2,026	-	657	-	10,852
RLWD ditch #3	4,291	3,001	7,669	-	-	19,730	24	5,560	-	(10,353)
RLWD ditch #7	5,321	5,408	-	60	-	685	-	5,017	-	5,087
RLWD Ditch #8	(15,748)	1,628	-	-	-	2,611	168	51	-	(16,950)
RLWD Ditch #9	3,595	293	-	39	-	149	-	153	-	3,625
RLWD Ditch #10	(15,407)	6,418	-	-	-	674	136	778	-	(10,577)
RLWD Ditch #11	40,544	-	-	420	-	849	-	662	-	39,453
RLWD Ditch #12	(41,582)	15,199	-	-	-	7,284	364	2,974	5,196	(31,809)
RLWD Ditch #12 FEMA	3,760	-	1,436	-	-	-	-	-	(5,196)	-
RLWD Ditch #13 - project dismissed	(57,370)	57,370	-	-	-	-	216	-	216	-
RLWD Ditch #13	(39,431)	164,516	-	-	-	121,119	655	4,392	-	(1,081)
Scott Baatz petition	2,677	1,000	-	13	-	460	-	2,006	-	1,224
State ditch #83	4,722	15,740	16,000	73	-	42,655	-	8,160	-	(14,280)
TRF drainage ditch (Challenger Ditch)	3,645	6	-	37	-	315	-	-	-	3,373
Thief River Falls Flood Damage Reduction Proj.	(105,377)	-	121,031	-	-	272,926	2,092	34,223	-	(293,587)
Winsor/Hangaard/Clearwater County petition	(7,079)	4,929	-	-	-	3,650	69	1,275	-	(7,144)
Total Special Revenue	(153,165)	372,404	146,136	2,332	-	567,048	4,966	101,623	216	(305,714)

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:										
Administrative construction	2,836,255	-	275,507	35,147	2,302,726	1,289,116	475	-	(532,954)	3,627,090
Badger Creek / Poplar River	6,568	-	-	69	-	-	-	41	-	6,596
Bench Marks	-	-	-	-	-	-	-	64	64	-
Black River project	-	-	-	-	-	350	7	1,040	1,397	-
Burnham Creek	-	-	-	-	-	-	3	746	749	-
BWSR flood storage pilot project	-	-	-	-	-	-	2	370	372	-
C. Flage Erosion Cont.	-	-	-	-	-	-	-	41	-	(41)
Clearwater conservation	-	-	-	-	-	-	-	81	81	-
Clearwater public education (River Watch)	-	-	-	-	-	5,929	208	33,423	39,560	-
Clearwater River - TMDL	-	-	-	-	-	84	38	4,716	4,838	-
Clearwater River Dissolved Oxygen TMDL	-	-	-	-	-	-	1	336	337	-
Clearbrook Stormwater Pjt.	(13,366)	-	-	-	-	-	138	283	-	(13,787)
County Ditch 20/State Ditch 83	-	-	157,702	-	-	2,265	-	2,021	-	153,416
Culvert Sizing	-	-	-	-	-	-	31	7,749	7,780	-
Ditch 66 WQ Study	-	263	242,161	699	-	238,943	-	594	-	3,586
Elm Lake	-	-	-	-	-	-	3	425	428	-
Emergency maintenance	105,327	-	-	1,104	-	-	-	-	-	106,431
Erosion control projects	-	-	-	-	-	29,006	125	3,723	32,854	-
Farm to stream water quality	-	-	-	-	-	-	4	581	585	-
G.I.S.	-	200	-	-	-	553	96	19,694	20,143	-
Glacial ridge	3,895	-	-	-	-	-	40	540	-	3,315
Euclid East Impoundment	-	2,155	-	-	-	15,809	81	2,283	16,018	-
Brandt Channel Restoration	-	1,444	-	1	-	1,514	-	535	604	-
Grand Marais - Restoration	-	-	114,723	-	-	143,827	366	18,510	-	(47,980)
Grand Marais Cut Channel Stabilization	-	-	607,274	5,273	-	8,615	-	1,048	-	602,884
Brandt Impoundment	-	204	-	-	-	4,996	36	3,025	7,853	-
FEMA D-Firm Grant	(40,415)	-	419,857	-	-	406,282	747	6,140	6,887	(26,840)
Grand Marais Creek Subwatershed	(205)	-	3,521	-	-	8,726	38	3,067	5,961	(2,554)
Hydrologic analysis	-	-	-	-	-	300	112	18,180	18,592	-
Lost River impoundment	-	-	-	-	-	-	3	344	347	-
Louisville/Parnell project	-	372	-	-	-	2,282	12	1,505	3,427	-
LRRWMB - Technical Com	-	-	374	-	-	374	-	-	-	-
Maintenance dams	-	-	-	-	-	120	4	803	927	-
MAWD Summer Tour	-	5,844	-	-	-	8,395	178	23,624	26,353	-
Moose River project	-	-	-	-	-	8,040	78	4,534	12,652	-
North Parnell storage site	-	-	-	-	-	-	1	192	193	-
Parnell impoundment	-	2,400	156	-	-	6,686	36	4,940	9,106	-



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	-	-	-	-	-	6,032	399	84,656	91,087	-
Project Development	-	-	-	-	-	4,023	270	38,484	42,777	-
Red Lake Res./Good Lake	-	-	-	-	-	12,639	65	6,346	19,050	-
Red River Basin Long Term Flood Control	(10,001)	-	10,000	-	-	14,310	116	2,065	16,492	-
Red River Corridor	-	-	-	-	-	-	3	413	416	-
Red Lake River Watershed Assessment	-	-	-	-	-	9,689	22	3,366	-	(13,077)
Ring dike program -										
General	-	-	2,462	-	-	-	-	3,625	1,048	(115)
Christenson - RLWD	(9)	1,102	843	-	-	1,979	-	223	266	-
Hipscher - RLWD	-	-	-	-	-	-	-	-	-	-
Egeland - RLWD	(33)	-	375	-	-	501	-	-	159	-
Srnsky - NRCS	(1,759)	1,759	-	-	-	-	-	-	-	-
Wagner - NRCS	(22,014)	3,142	18,872	-	-	-	-	-	-	-
G. Peterson - NRCS	(8,436)	1,206	7,229	-	-	-	-	-	1	-
Gld. Stengl - NRCS	(24,441)	-	37,797	-	-	13,356	-	-	-	-
Liedberg	(57,210)	-	63,898	-	-	6,688	-	-	-	-
Vatnsdal	(4,298)	-	3,666	-	-	-	-	-	632	-
Stordahl	118	-	-	-	-	129	-	-	11	-
Radi	(3,636)	7,600	-	-	-	82,618	-	1,486	-	(80,140)
Adams	(91)	-	-	-	-	-	-	-	91	-
Bible Baptist Church	(19)	3,125	18,790	-	-	24,383	-	671	3,132	(26)
Stream gauging	-	-	-	-	-	10,502	245	28,615	39,362	-
Ten Year Overall Plan	-	-	-	-	-	19,554	223	8,586	28,363	-
Thief River TMDL	(1,231)	-	17,091	-	-	7,396	139	39,846	-	(31,521)
TR WS Sediment Investigation	-	-	-	-	-	-	5	1,237	1,242	-
TR SWAGG	-	-	19,531	-	-	23,327	54	2,936	-	(6,786)
Upper Lost River/Nassett Brook										
WQ Assessment Grant	(7,629)	-	4,873	-	-	-	58	1,171	3,985	-
Water Quality	-	-	-	-	-	22,015	292	35,432	57,739	-
Web Page Development	-	-	-	-	-	1,200	11	2,197	3,408	-
Wetland Banking	-	-	-	-	-	1,467	19	2,925	4,411	-
WS Ditch System Inventory & Mapping	-	-	-	-	-	-	1	957	958	-
Total Capital Projects	2,757,370	30,816	2,026,702	42,293	2,302,726	2,444,020	4,785	430,435	(216)	4,280,451
Total - All Funds	\$ 2,838,607	405,228	2,172,838	51,247	2,481,415	3,666,296	13,597	-	-	\$ 4,269,442

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, 2011 AND 2010

<u>DIRECT EXPENDITURES:</u>	<u>2011</u>	<u>2010</u>
Salaries -		
Inspection	\$ 10,448	\$ 4,683
Survey - preliminary	7,591	8,811
Survey - construction	422	426
Drafting	11,706	7,161
Engineering	68,648	78,261
Project administration	197,399	182,954
Field work -water programs	10,669	12,459
Other	29,467	28,972
Compensated absences	33,903	31,852
Payroll taxes and benefits	110,962	109,258
Manager's expenses	22,919	19,673
Travel, mileage, meetings and per diems	1,863	2,412
Audit	8,380	8,105
Legal	24,275	22,689
Appraisal and viewers	16,746	8,837
Other professional fees	466,630	136,266
Office supplies	15,797	12,481
Office equipment	22,556	2,629
Dues & subscriptions	4,702	3,757
Insurance and bonds	28,826	30,544
Rent	-	1,210
Repairs and maintenance	11,864	9,227
Utilities	6,215	5,500
Telephone	10,136	8,755
Advertising and publications	14,641	8,480
Truck expense	19,130	15,412
Red River Watershed Management Board	1,289,116	1,073,323
Cost share assistance	9,338	-
Land acquisition and easements	129,271	42,445
Construction	356,737	502,266
Engineering costs & fees	6,895	4,558
Engineering fees	428,390	301,073
Engineering equipment	31,538	35,951
Glacial Ridge	238,943	45,570
Ring dike reimbursement	20,173	3,971
Loan payments	-	15,450
	<hr/>	<hr/>
Total Expenditures	<u>\$ 3,666,296</u>	<u>\$ 2,785,421</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, 2011, and have issued our report thereon dated March 27, 2012. 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 27, 2012  
Crookston, Minnesota

RED LAKE WATERSHED DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Pass through Agency/ Program Title	Federal CFDA Number	Amount Expended
Department of Homeland Security Pass Through Programs From:		
Minnesota Department of Natural Resources Cooperating Technical Partners DFIRM Program	97.045	<u>419,857</u>
Minnesota Department of Natural Resources FEMA Disaster	97.036	<u>1,594</u>
Total Department of Homeland Security		<u>421,451</u>
Department of the Interior Direct Programs Fish and Wildlife Management Assistance	15.608	<u>242,161</u>
Total Federal Awards Expended		<u><u>\$ 663,612</u></u>

RED LAKE WATERSHED DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE A - RISK-BASED AUDIT APPROACH

The dollar threshold used to distinguish between Type A and B programs is \$300,000. The District did not qualify as a low risk auditee.

NOTE B - METHOD OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared using the cash-basis method of accounting.

NOTE C - TESTED AS MAJOR PROGRAM

Cooperating Technical Partners

97.045

RED LAKE WATERSHED DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

2010-1

Condition: Lack of sufficient segregation of duties.

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

Current Status: No change, see current year finding 2011-1

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

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 Telephone (701) 746-4466  
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 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, 2011, and have issued our report thereon dated March 27, 2012. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting, 2011-1. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 findings and questioned costs. 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 27, 2012  
Crookston, Minnesota



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

Grand Forks:  
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FAX (701) 772-6659

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REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Red Lake Watershed District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Red Lake Watershed District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Red Lake Watershed District's management. Our responsibility is to express an opinion on Red Lake Watershed District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Red Lake Watershed District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Red Lake Watershed District's compliance with those requirements.

In our opinion, Red Lake Watershed District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of Red Lake Watershed District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Red Lake Watershed District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Red Lake Watershed District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be significant deficiency.

Red Lake Watershed District's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Red Lake Watershed District's responses and, accordingly, we express no opinion on the responses.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above

This report is intended solely for the information and use of the board of managers, management, others within the organization, and federal awarding agencies and pass-through entities 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 27, 2012  
Crookston, Minnesota

RED LAKE WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

SUMMARY OF AUDIT RESULTS

1. The Auditor's Report expresses an unqualified opinion on the basic financial statements of Red Lake Watershed District.
2. A significant deficiency was disclosed during the audit of the financial statements that would be reported in the Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Red Lake Watershed District were disclosed during the audit.
4. A significant deficiency relating to internal control was identified during the audit which has been reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. The deficiency is not reported as a material weakness.
5. The auditor's report on compliance for the major award programs for the District expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with section 501(a) of OMB Circular A-133 are reported in the schedule of findings and questioned costs.
7. The programs tested as major included:
 

Cooperating Technical Partners	CFDA# 97.045
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8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Red Lake Watershed District did not qualify to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

Deficiency 2011-1

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.

**FINDINGS - MAJOR FEDERAL AWARDS**

See Deficiency 2011-1

**Red Lake Watershed District**  
**1000 Pennington Ave S**  
**Thief River Falls, MN 56701**

Drees, Risky & Vallager, Ltd.  
117 South Broadway  
Crookston, MN 56716

Audit Period: January 1 through December 31, 2011

The findings from the December 31, 2011 schedule of findings and questioned costs are discussed below:

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Significant Deficiencies**

2011-1 Insufficient segregation of duties

*Recommendation:* cash receipting and disbursements and general journal entry procedures should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

*Action Taken:* We are aware of the situation and will continue to monitor operations, but believe it would not be cost efficient at this time to add staff and the most effective control lies in awareness and oversight of this situation.

**FINDINGS – FEDERAL AWARDS PROGRAMS AUDIT**

Same as above.

If there are any questions regarding this corrective action plan, please call Myron Jesme at (218) 681-5800.

Myron Jesme, Administrator  
RED LAKE WATERSHED DISTRICT