

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
DECEMBER 31, 2010

BOARD OF MANAGERS

2010

<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

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*Certified Public Accountants*

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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, 2010, 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, 2010 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 23, 2011, 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, 2010. 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 \$10,936,334 (Net assets). Of this amount, \$2,838,607 (unrestricted net assets) may be used to meet the government's ongoing designations and fiscal policies.
- The District's total net assets increased by \$439,689.
- As of the close of the current fiscal year, Red Lake Watershed District's governmental funds reported combined ending fund balance was \$2,838,607. 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 \$234,402 of which all was unrestricted.

### **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 \$10,936,334 by the close of the most recent fiscal year, which is an increase of \$439,689 over the prior year; more than a 4% increase over the prior year.

A portion of Red Lake Watershed District’s net assets (\$8,097,727 or 74%) 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**

	2010	2009
<b>ASSETS</b>		
Total current assets	\$ 2,838,607	\$ 2,602,360
Net capital assets	8,097,727	7,909,735
<b>TOTAL ASSETS</b>	<b>\$ 10,936,334</b>	<b>\$ 10,512,095</b>
<b>LIABILITIES</b>		
Note payable	\$ -	\$ 15,450
<b>NET ASSETS</b>	<b>\$ 10,936,334</b>	<b>\$ 10,496,645</b>

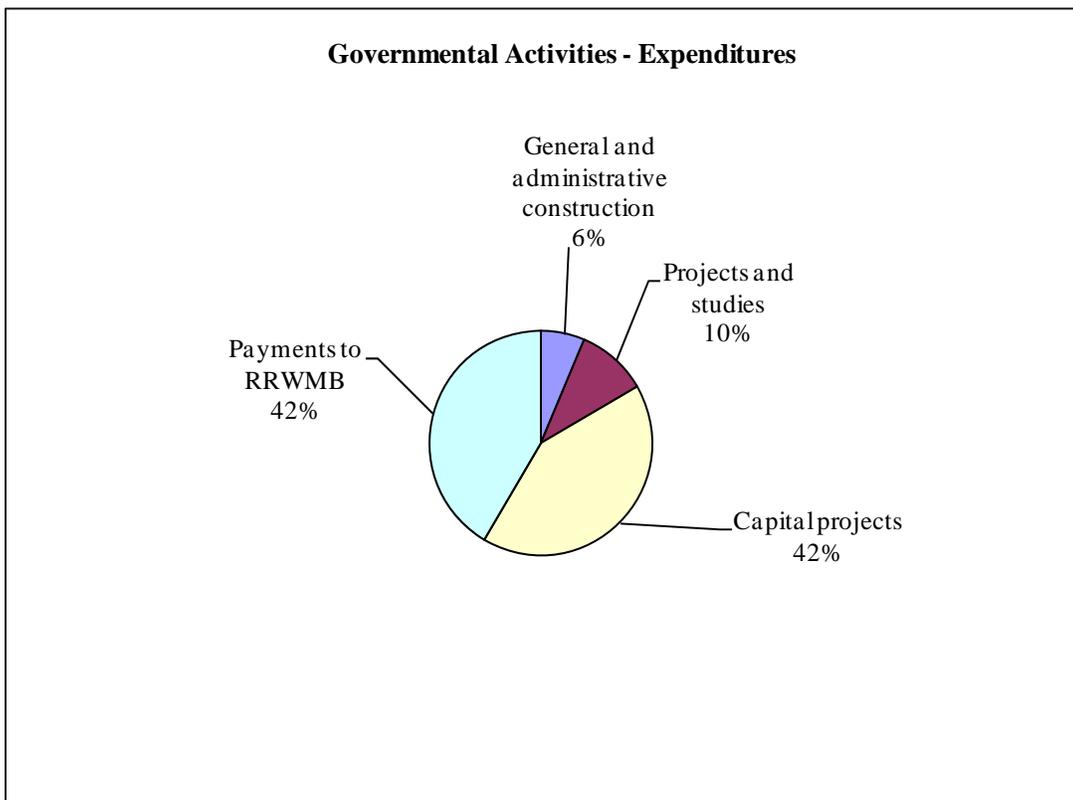
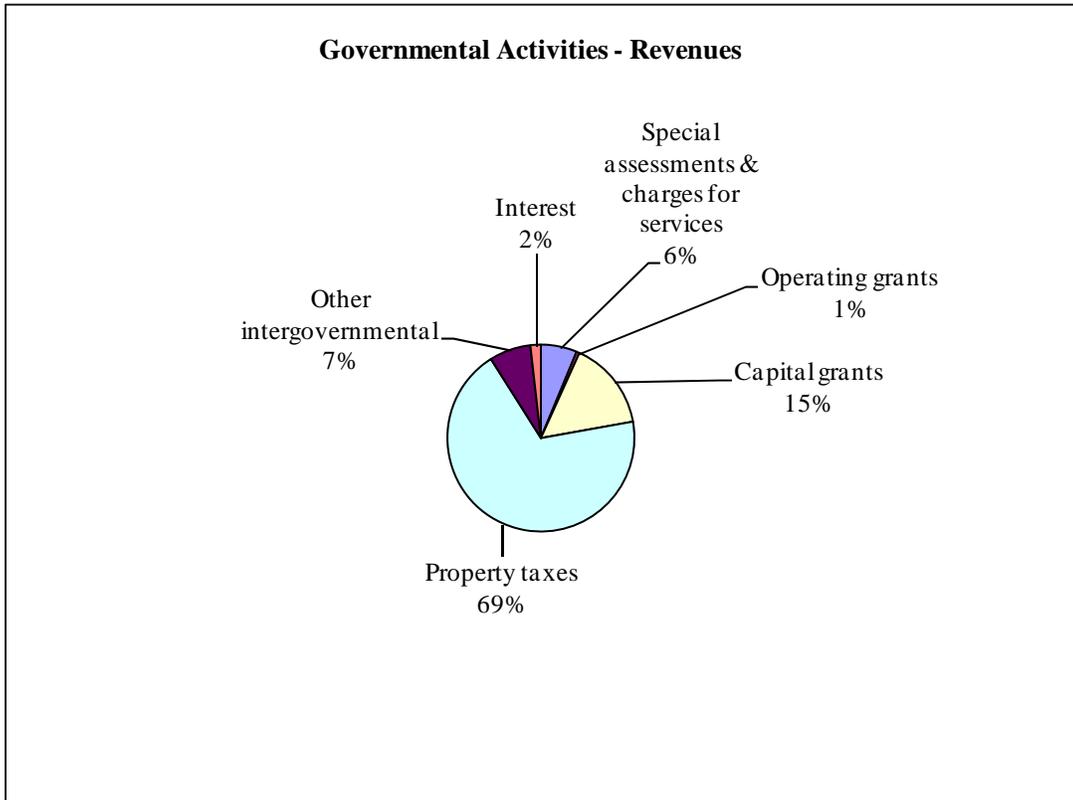
At the end of 2010 and 2009, the Red Lake Watershed District is able to report positive balances in net assets.

**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 2009 to the fiscal year 2010 in the amount of \$439,689. The details of the increase are as follows:

	2010	2009
<b>REVENUES</b>		
Special assessments and charges for services	\$ 188,493	\$ 135,399
Operating grants	16,000	-
Capital grants	465,547	1,328,735
General revenues:		
Property taxes	2,080,919	1,895,927
Other intergovernmental	216,035	216,035
Interest	54,674	51,145
<b>TOTAL REVENUES</b>	<b>3,021,668</b>	<b>3,627,241</b>
<b>EXPENSES</b>		
General and administration construction	641,237	114,652
Ongoing projects and studies	97,972	304,057
Capital projects	769,447	945,520
Payments to RRWMB	1,073,323	977,926
<b>TOTAL EXPENSES</b>	<b>2,581,979</b>	<b>2,342,155</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 439,689</b>	<b>\$ 1,285,086</b>

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2010:



**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 \$2,838,607. The total fund balance can be attributed to 1) General Fund, \$234,402; 2) Capital Projects Fund, \$2,757,370; as well as Special Revenue Fund with a deficit fund balance of (\$153,165).

The general fund decreased by \$6,695 in 2010, which was due to a slightly lower 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 above the budgeted amounts for the year ended December 31, 2010.

**Capital Asset and Debt Administration**

**Capital assets.** Red Lake Watershed District's investment in capital assets for its governmental activities as of December 31, 2010, amounts to \$8,097,727 (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)**

	2010			2009	
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation	Cost Less Accumulated Depreciation	Cost Less Accumulated Depreciation
Building and improvements	\$ 762,888	\$ 107,749	\$ 655,139	\$ 634,966	
Infrastructure Improvements	6,498,253	671,693	5,826,560	5,574,637	
Engineering equipment	402,916	257,727	145,189	145,000	
Office equipment	87,790	54,731	33,059	38,142	
Land & Permanent Easements	1,437,780	-	1,437,780	1,395,335	
Construction in progress	-	-	-	121,655	
Total	<u>\$ 9,189,627</u>	<u>\$ 1,091,900</u>	<u>\$ 8,097,727</u>	<u>\$ 7,909,735</u>	

**Other Items of Interest.** The District will continue to work on and hold hearings required for the Thief River Falls Flood Damage Project (TRF FDR), RLWD Project 171A, and Improvement of Pennington County Ditch #1, RLWD Project #171. Funding for the TRF FDR Project is expected to be paid in part by a Minnesota Flood Damage Reduction Grant, matched by the Red Lake Watershed District using Capital Projects funds, and dollars collected by the establishment of a Water Management District, which will be paid from Special Revenue Funds. If these projects proceed as expected, construction may start in late 2011 and continue into 2012.

It is expected that a final hearing will be held on the construction of a lateral to Pennington County Ditch #75, RLWD Project #170A, will be held in early 2011 and upon approval of the Board of Managers, construction may be completed in 2011. Funding for this petitioned project will be paid from the Special Revenue Fund.

It is expected that the District will complete the construction of the Clearbrook Stormwater Retention Pond, RLWD Project #160, which will be funded from the Capital Projects Fund.

The District will also continue to develop plans and specification for the construction of two projects, CD#20 Grade Stabilization/SD#83, RLWD Project #14D, and Grand Marias Cut Channel, RLWD Project #60F. These projects will be funded through grants received from the Board of Water and Soil Resources' Clean Water Competitive Grant. Funding for RLWD Proj. #14D will be from the Special Revenue Fund and funding for RLWD Proj. #60F will be from the Capital Projects Fund.

More details of the 2010 construction and maintenance of Red Lake Watershed District projects are included in the 2010 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, 2010

ASSETS

Current Assets:

Petty cash	\$ 100
Pooled cash and investments	<u>2,838,507</u>
Total Current Assets	<u>2,838,607</u>

Capital Assets:

Property and equipment	9,189,627
Less: accumulated depreciation	<u>(1,091,900)</u>
Net Capital Assets	<u>8,097,727</u>

TOTAL ASSETS 10,936,334

NET ASSETS

Investment in capital assets, net of related debt	8,097,727
Unrestricted	<u>2,838,607</u>

TOTAL NET ASSETS \$ 10,936,334

RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2010

FUNCTION/PROGRAMS	Expenses			Program Revenues			Net (Expenses)
	Direct	Allocated Salaries & Overhead	Total	Special Assessments and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues
							and Changes in Net Assets
							Governmental Activities
General and administrative construction	\$ (641,237)	\$ 478,633	\$ (162,604)	\$ 915	\$ -	\$ -	\$ (161,689)
Ongoing projects and studies	(197,876)	(66,924)	(264,800)	160,260	16,000	56,066	(32,474)
Capital projects	(669,543)	(411,709)	(1,081,252)	27,318	-	409,481	(644,453)
Payments to RRWMB	(1,073,323)	-	(1,073,323)	-	-	-	(1,073,323)
Allocated interest	(25,189)	-	(25,189)	-	-	-	(25,189)
Total Governmental Activities	<u>\$ (2,607,168)</u>	<u>\$ -</u>	<u>\$ (2,607,168)</u>	<u>\$ 188,493</u>	<u>\$ 16,000</u>	<u>\$ 465,547</u>	<u>(1,937,128)</u>
General Revenues:							
Tax levies							2,080,919
Intergovernmental, (not restricted to specific programs)							
State MV and disparity reduction credits							216,035
Allocated interest							79,863
Total General Revenue							<u>2,376,817</u>
Changes in Net Assets							439,689
Net Assets - Beginning							<u>10,496,645</u>
Net Assets - Ending							<u>\$ 10,936,334</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, 2010

	General	Special Revenue Fund	Capital Project Fund	Total
<b>ASSETS</b>				
Petty cash	\$ 100	\$ -	\$ -	\$ 100
Pooled cash and investments	367,428	-	2,471,079	2,838,507
Due from other funds	-	-	286,291	286,291
<b>TOTAL ASSETS</b>	<b>\$ 367,528</b>	<b>\$ -</b>	<b>\$ 2,757,370</b>	<b>\$ 3,124,898</b>
<b>LIABILITIES</b>				
Due to other funds	\$ 133,126	\$ 153,165	\$ -	\$ 286,291
<b>TOTAL LIABILITIES</b>	<b>133,126</b>	<b>153,165</b>	<b>-</b>	<b>286,291</b>
<b>FUND BALANCE</b>				
Unrestricted	234,402	(153,165)	2,757,370	2,838,607
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 367,528</b>	<b>\$ -</b>	<b>\$ 2,757,370</b>	<b>\$ 3,124,898</b>

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

Total fund balance per Balance Sheet, from above	\$ 2,838,607
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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	9,189,627
Accumulated depreciation	(1,091,900)

Total Net Assets	<u>\$ 10,936,334</u>
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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, 2010

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Tax levies	\$ 180,900	\$ -	\$ 1,900,019	\$ 2,080,919
Intergovernmental				
Federal	-	-	169,119	169,119
State	-	16,000	411,414	427,414
Local	-	56,066	44,983	101,049
Special assessments	-	159,257	-	159,257
Miscellaneous	915	1,003	27,318	29,236
Allocated interest	12,576	4,436	62,851	79,863
Total Revenues	<u>194,391</u>	<u>236,762</u>	<u>2,615,704</u>	<u>3,046,857</u>
<b>EXPENDITURES</b>				
General and administrative construction	193,333	-	-	193,333
Ongoing projects and studies	-	366,550	-	366,550
Capital projects	-	-	1,136,765	1,136,765
Payments to RRWMB	-	-	1,073,323	1,073,323
Loan principal payments	-	-	15,450	15,450
Allocated interest	7,753	4,563	12,873	25,189
Total Expenditures	<u>201,086</u>	<u>371,113</u>	<u>2,238,411</u>	<u>2,810,610</u>
Revenues Over (Under) Expenditures	(6,695)	(134,351)	377,293	236,247
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	538,242	-	775,484	1,313,726
Transfers out	(538,242)	-	(775,484)	(1,313,726)
Net Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues & Other Sources Over (Under) Expenditures & Other Uses	(6,695)	(134,351)	377,293	236,247
Fund Balance (Deficit), January 1	<u>241,097</u>	<u>(18,814)</u>	<u>2,380,077</u>	<u>2,602,360</u>
Fund Balance (Deficit), December 31	<u>\$ 234,402</u>	<u>\$ (153,165)</u>	<u>\$ 2,757,370</u>	<u>\$ 2,838,607</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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 236,247
Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital additions	526,258
Depreciation expense	(338,266)
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>15,450</u>
Change in Net Assets - Governmental Activities	<u>\$ 439,689</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, 2010

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 2010 at \$180,900.

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.

RED LAKE WATERSHED DISTRICT  
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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.

RED LAKE WATERSHED DISTRICT  
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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. 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 23, 2011, 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.

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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, 2010, 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, 2010:

<u>Advances from/Advances to</u>	<u>Receivables</u>	<u>Payables</u>
Capital Projects Fund	\$ 286,291	\$ -
Special Revenue Fund	-	153,165
General Fund	-	133,126
	<u>\$ 286,291</u>	<u>\$ 286,291</u>

The \$133,126 interfund receivable and payable was created to show the amount due to the Capital Projects Fund for the new RLWD building & Garage. This amount will be allocated annually from the General Fund until monies borrowed from the Capital Projects Fund are paid. The \$153,165 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, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Building and Improvements	\$ 712,140	\$ 50,748	\$ -	\$ 762,888
Infrastructure Improvements	5,993,666	504,587	-	6,498,253
Engineering equipment	398,315	53,505	(48,904)	402,916
Office equipment	85,161	2,629	-	87,790
Land & Permanent Easements	1,395,335	42,445	-	1,437,780
Construction in progress	121,655	-	(121,655)	-
Total	<u>\$ 8,706,272</u>	<u>\$ 653,914</u>	<u>\$ (170,559)</u>	<u>\$ 9,189,627</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Accumulated Depreciation</u>				
Building and Improvements	\$ 77,174	\$ 30,575	\$ -	\$ 107,749
Infrastructure Improvements	419,029	252,664	-	671,693
Engineering equipment	253,315	47,315	(42,903)	257,727
Office equipment	47,019	7,712	-	54,731
Total	<u>796,537</u>	<u>338,266</u>	<u>(42,903)</u>	<u>1,091,900</u>
Net Capital Assets	<u>\$ 7,909,735</u>	<u>\$ 315,648</u>	<u>\$ (127,656)</u>	<u>\$ 8,097,727</u>

Depreciation expense of \$338,266 for the year ended December 31, 2010 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 2010 were \$478,633.

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

RED LAKE WATERSHED DISTRICT  
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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.

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

RED LAKE WATERSHED DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS

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 6.0%, respectively, of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.0% for Coordinated Plan GERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$22,763, \$21,336, and \$19,434 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, 2010, 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, 2010

Fund	Revenues				Expenditures			Transfers	Fund Balance (Deficit) December 31	
	Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating / Capital Grants and Contributions	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Salary & Overhead Allocation		In (Out)
GENERAL FUND	\$ 241,097	915	-	12,576	180,900	671,966	7,753	(478,633)	-	\$ 234,402
SPECIAL REVENUE FUND JOBS:										
Branch A & I, J.D. #2	5,900	-	-	112	-	-	-	549	-	5,463
Burnham Creek channel	(2,924)	21,745	-	149	-	11,009	-	4,605	-	3,356
Clearwater County ditch #1	405	-	-	8	-	-	-	-	-	413
Clearwater County joint ditch #1	(230)	-	-	-	-	-	5	-	-	(235)
Clearwater County joint ditch #4	1,193	-	-	23	-	-	-	225	-	991
Clearwater County joint ditch #5	1,589	-	-	-	-	1,394	9	6,218	-	(6,032)
Clearwater River project	27,197	-	-	550	-	-	-	325	-	27,422
Clearwater/Wild Rice River	5,623	2,080	-	142	-	369	-	1,039	-	6,437
Clifford Arveson ditch	2,377	1,001	-	37	-	1,405	-	337	-	1,673
Equality RLWD ditch #1, lat C	(5,039)	4,758	-	-	-	1,153	78	612	-	(2,124)
Improvement to Penn. Co. Dt. 1	(971)	-	-	-	-	33,764	680	5,481	-	(40,896)
J.D. ditch #72	(22,466)	19,882	-	-	-	8,899	155	961	-	(12,599)
K. Johnson petition	(2,058)	6,150	-	3	-	730	-	949	-	2,416
Krostue petition	696	2,013	-	28	-	1,186	-	200	-	1,351
Lateral Petition to Penn. CD #31	-	-	-	-	-	-	-	23	-	(23)
Lost River project	19,527	-	-	391	-	-	-	650	-	19,268
Main J.D. #2 and branch B & C	(20,613)	4,708	-	-	-	575	389	687	-	(17,556)
Main J.D. 2C. ECK	515	5	-	11	-	-	-	-	-	531
Pine Lake maintenance	(5,376)	8,152	-	-	-	-	71	2,291	-	414
Polk Cnty ditch #33 improvement	4,979	1,939	-	131	-	680	-	300	-	6,069
Polk Cnty ditch #63 improvement	(21,459)	14,831	-	-	-	901	277	479	-	(8,285)
Polk Cnty ditch #'s 104, 61, 47, 94	(11,814)	14,634	-	-	-	7,177	160	3,395	-	(7,912)
Red Lake River project	66,115	-	-	1,338	-	49	-	674	-	66,730
RLWD ditch #1	14,872	-	-	293	-	1,214	-	549	-	13,402
RLWD ditch #3	6,572	-	-	119	-	1,763	-	637	-	4,291
RLWD ditch #7	2,800	8,166	-	86	-	4,389	-	1,342	-	5,321
RLWD Ditch #8	(11,923)	-	-	-	-	2,429	293	1,103	-	(15,748)
RLWD Ditch #9	2,908	696	-	66	-	-	-	75	-	3,595
RLWD Ditch #10	(23,064)	8,590	-	-	-	-	400	533	-	(15,407)
RLWD Ditch #11	42,936	-	-	846	-	1,952	-	1,286	-	40,544
RLWD Ditch #12	(8,533)	1,003	-	-	-	19,471	480	14,101	-	(41,582)
RLWD Ditch #12 FEMA	-	-	56,066	-	-	50,042	418	1,846	-	3,760
RLWD Ditch #13 - project dismissed	(74,020)	-	-	-	-	(13,205)	(365)	(3,080)	-	(57,370)
RLWD Ditch #13	-	-	-	-	-	33,084	433	5,914	-	(39,431)
Scott Baatz petition	(522)	4,000	-	24	-	550	-	275	-	2,677
State ditch #83	(5,577)	25,055	16,000	21	-	23,978	-	6,799	-	4,722
Thief River Falls drainage ditch	2,869	1,001	-	58	-	270	-	13	-	3,645
Thief River Falls Flood Damage Reduction Proj.	-	-	-	-	-	99,904	891	4,582	-	(105,377)
Winsor/Hangaard/Clearwater County petition	(11,298)	9,851	-	-	-	4,494	189	949	-	(7,079)
Total Special Revenue	(18,814)	160,260	72,066	4,436	-	299,626	4,563	66,924	-	(153,165)

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	2,481,653	-	246,630	60,616	1,900,019	1,073,323	3,856	-	(775,484)	2,836,255
Badger Creek / Poplar River	6,437	-	-	131	-	-	-	-	-	6,568
Bench Marks	-	-	-	-	-	-	13	1,066	1,079	-
Black River project	-	-	-	-	-	62	20	1,161	1,243	-
BWSR flood storage pilot project	-	-	-	-	-	275	27	1,571	1,873	-
Clearwater nonpoint	-	-	-	-	-	15,450	210	-	15,660	-
Clearwater public education	-	-	-	-	-	3,340	329	26,857	30,526	-
Clearwater River - habitat	-	-	-	-	-	-	-	25	25	-
Clearwater River - TMDLS	-	-	-	-	-	-	2	298	300	-
Clearwater River DISOXY TMDL	-	-	-	-	-	-	37	2,316	2,353	-
Clearwater stream water	-	-	-	-	-	10,180	75	3,111	-	(13,366)
Culvert Sizing	-	-	-	-	-	-	55	6,168	6,223	-
Ditch 66 WQ Study	355	-	40,091	-	-	45,570	5	1,526	6,655	-
Elm Lake	-	-	-	-	-	1,343	51	1,542	2,936	-
Emergency maintenance	103,223	-	-	2,104	-	-	-	-	-	105,327
Erosion control PJTS	-	-	-	-	-	49,390	271	2,776	52,437	-
Farm to stream water quality	-	-	-	-	-	-	6	572	578	-
Flood control studies	-	-	-	-	-	-	28	2,668	2,696	-
G.I.S.	-	-	-	-	-	370	441	40,228	41,039	-
Glacial ridge	-	-	5,479	-	-	-	42	1,542	-	3,895
Euclid East Impoundment	-	1,291	-	-	-	20,728	197	3,810	23,444	-
Brandt Channel Restoration	-	722	295	-	-	826	16	2,987	2,812	-
Grand Marais - Restoration	-	-	42,860	-	-	53,995	304	9,211	20,650	-
Brandt Impoundment	-	-	-	-	-	40,596	507	15,756	56,859	-
FEMA D-Firm Grant	(1,166)	-	49,306	-	-	90,355	422	11,872	14,094	(40,415)
Grand Marais Creek Subwatershed	-	-	6,177	-	-	5,561	53	5,565	4,797	(205)
Hydrologic analysis	-	-	-	-	-	72	153	19,736	19,961	-
Jerome Street Bank Stabilization	(25,509)	-	-	-	-	27,221	709	408	53,847	-
Lost River impoundment	-	-	-	-	-	-	5	406	411	-
Louisville/Parnell project	-	1,703	-	-	-	3,472	46	838	2,653	-
LRRWMB - Technical Com	-	4,908	133	-	-	243	35	4,785	22	-
Maintenance dams	-	-	-	-	-	-	16	1,091	1,107	-
Moose River project	-	-	-	-	-	7,560	130	6,330	14,020	-
Parnell impoundment	-	2,400	6,241	-	-	17,308	188	8,008	16,863	-

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

Fund	Revenues				Expenditures			Transfers	Fund Balance (Deficit) December 31	
	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	-	-	-	-	-	16,501	903	80,021	97,425	-
Project Development	-	-	-	-	-	914	412	40,354	41,680	-
Red Lake Res./Good Lake	-	-	-	-	-	198	34	1,633	1,865	-
Red River Basin Long Term Flood Control	-	-	-	-	-	13,462	40	392	3,893	(10,001)
Red River Corridor	-	-	-	-	-	-	-	25	25	-
Ring dike program -										
General	(258)	-	4,300	-	-	64	-	6,692	2,714	-
Christenson - RLWD	(80)	4,756	28,058	-	-	35,632	-	1,780	4,669	(9)
Hipscher - RLWD	(186)	-	-	-	-	-	-	-	186	-
Egeland - RLWD	2,203	(959)	7,258	-	-	9,576	-	179	1,220	(33)
Srnsky - NRCS	(60,252)	1,759	59,814	-	-	3,500	-	166	586	(1,759)
Wagner - NRCS	(9,389)	-	-	-	-	15,058	-	713	3,146	(22,014)
G. Peterson - NRCS	(6,203)	-	-	-	-	3,304	-	134	1,205	(8,436)
Gld. Stengl - NRCS	(5,210)	4,046	-	-	-	22,693	-	584	-	(24,441)
Svendson - RLWD	(15)	-	-	-	-	-	-	-	15	-
L. Hanson - NRCS	(3,110)	-	6,010	-	-	4,903	-	-	2,003	-
Newton - NRCS	(9,180)	3,490	61,465	-	-	55,423	-	352	-	-
Liedberg	-	-	-	-	-	55,079	-	2,131	-	(57,210)
Vatnsdal	-	-	-	-	-	5,028	-	702	1,432	(4,298)
Stordahl	-	2,761	15,783	-	-	20,080	-	978	2,632	118
Radi	-	-	-	-	-	3,448	-	188	-	(3,636)
Adams	-	-	408	-	-	-	-	570	71	(91)
Bible Baptist Church	-	-	47	-	-	-	-	75	9	(19)
Stream gauging	-	-	-	-	-	10,749	298	19,507	30,554	-
Ten Year Overall Plan	-	-	-	-	-	48	1	357	406	-
Thief River TMDL	-	-	-	-	-	120	9	1,102	-	(1,231)
TR WS Sediment Inves	(90,414)	-	43,660	-	-	43,798	2,275	25,751	118,578	-
Upper Lost River/Nassett Brook										
WQ Assessment Grant	(2,822)	-	-	-	-	2,130	82	2,595	-	(7,629)
Water Quality	-	441	-	-	-	18,287	485	34,287	52,618	-
Web Page Development	-	-	1,501	-	-	1,221	20	2,493	2,233	-
Wetland Banking	-	-	-	-	-	5,373	65	3,718	9,156	-
Total Capital Projects	<u>2,380,077</u>	<u>27,318</u>	<u>625,516</u>	<u>62,851</u>	<u>1,900,019</u>	<u>1,813,829</u>	<u>12,873</u>	<u>411,709</u>	<u>-</u>	<u>2,757,370</u>
Total - All Funds	<u>\$ 2,602,360</u>	<u>188,493</u>	<u>697,582</u>	<u>79,863</u>	<u>2,080,919</u>	<u>2,785,421</u>	<u>25,189</u>	<u>-</u>	<u>-</u>	<u>2,838,607</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, 2010 AND 2009

	2010	2009
<u>DIRECT EXPENDITURES:</u>		
Salaries -		
Inspection	\$ 4,683	\$ 11,830
Survey - preliminary	8,811	5,349
Survey - construction	426	522
Reducing field notes	-	-
Drafting	7,161	7,927
Engineering	78,261	62,935
Project administration	182,954	184,828
Field work -water programs	12,459	16,364
Other	28,972	29,640
Compensated absences	31,852	28,573
Payroll taxes and benefits	109,258	111,080
Manager's expenses	19,673	24,686
Travel, mileage, meetings and per diems	2,412	3,261
Audit	8,105	8,039
Legal	22,689	13,620
Appraisal and viewers	8,837	7,688
Other professional fees	136,266	52,767
Office supplies	12,481	12,660
Office equipment	2,629	5,342
Dues & subscriptions	3,757	2,253
Insurance and bonds	30,544	23,731
Rent	1,210	1,210
Repairs and maintenance	9,227	9,229
Utilities	5,500	5,697
Telephone	8,755	10,524
Advertising and publications	8,480	4,118
Truck expense	15,412	15,370
Red River Watershed Management Board	1,073,323	977,926
Cost share assistance	-	569
Land acquisition and easements	42,445	100,218
Construction	502,266	973,785
Engineering costs & fees	4,558	9,119
Engineering fees	301,073	222,101
Engineering equipment	35,951	62,654
Glacial Ridge	45,570	94,098
Ring dike reimbursement	3,971	-
Loan payments	15,450	30,901
	\$ 2,785,421	\$ 3,130,614
Total Expenditures		

**Drees, Risky & Vallager, Ltd.**  
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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, 2010, and have issued our report thereon dated March 23, 2011. 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 23, 2011  
 Crookston, Minnesota

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

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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, 2010, and have issued our report thereon dated March 23, 2011. 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 certain deficiencies in internal control over financial reporting, described in the accompanying schedule of finding and responses that we consider to be significant deficiencies in internal control over financial reporting, 2010-1. 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.

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 responses. 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 23, 2011  
Crookston, Minnesota

RED LAKE WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2010

Deficiency 2010-1

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.