

**RED LAKE WATERSHED DISTRICT  
THIEF RIVER FALLS, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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OFFICIAL DIRECTORY

Board of Managers

<u>Manager</u>	<u>County</u>	<u>Position</u>
Dale M. Nelson	Pennington	President
Gene Tiedemann	West Polk	Vice President
Lee Coe	Beltrami	Treasurer
Orville Knott	Red Lake	Secretary
Les Torgerson	Clearwater	Manager
LeRoy Ose	Marshall	Manager
Albert Mandt	East Polk	Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements-modified cash basis as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Red Lake Watershed District, as of December 31, 2013, and the respective changes in financial position and budgetary comparison information thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### **Emphasis of a Matter**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to the matter.

### ***Other Matters***

#### *Other Information*

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 official directory, Budgetary Comparison Schedule and the accompanying supplementary statements as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedule and the supplementary statements are the responsibility of management and were derived from and relate directly to the underlying account and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 on the basis of accounting described in Note 1.

The official directory and the management discussion and analysis section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Red Lake Watershed District's internal control over financial reporting and compliance.

*Brady Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.  
THIEF RIVER FALLS, MINNESOTA**

March 1, 2014

**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Our discussion and analysis of the Red Lake Watershed District financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2013, within the limitations of the District's modified cash basis of accounting. Please read it in conjunction with the District's financial statements that begin on page 13.

**FINANCIAL HIGHLIGHTS**

- The District's governmental funds total revenues exceeded total expenditures, on the modified cash basis of accounting, by \$483,352 for the year ended December 31, 2013.
- The general fund showed an increase on the modified cash basis fund balance in the amount of \$58,121.
- The District's General Fund ended the year with a fund balance of \$386,322.
- The District's combined fund balance at the close of the current year was \$2,555,853.

**Overview of the Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's modified cash basis of accounting.

**Report Components**

This annual report consists of five parts as follows:

**Government—Wide Financial Statements:** The Statements of Net Cash Position and the Statement of Activities arising from Cash Transactions on pages 13 and 14 provide information about the activities of the District government-wide (or "as a whole") and present a longer-term view of the District's finances.

**Fund Financial Statements:** Fund financial statements (starting on page 15) focus on the individual parts of the District government. Fund financial statements also report the District's operations in more detail than the governmental-wide statements by providing information about the District's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

**Notes to the Basic Financial Statements:** The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Other Supplementary Information:** This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (starting on page 33) represent other financial information. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Other Supplementary Statements:** This part of the annual report (starting on page 35) includes other supplemental financial information which is provided to address certain specific

**RED LAKE WATERSHED DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013

needs of various users of the District's annual report. These statements and schedules include individual Fund Statements for Governmental Units.

**Basis of Accounting**

The District has elected to present its financial statements on a modified cash basis of accounting. This 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 this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the basic 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.

**Reporting the District as a Whole**

**The District's Reporting Entity Presentation**

This annual report includes all activities for which the Red Lake Watershed District Board of Managers is fiscally responsible. These activities, defined as the District's reporting entity, are operated within separate legal entities that make up the primary government. The District has no reportable component units.

**The Government-Wide Statement of Net Cash Position and the Statement of Activities Arising from Cash Transactions**

Our financial analysis of the District as a whole begins on page 7. The government-wide financial statements are presented on pages 13 and 14. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Cash Position and the Statement of Activities Arising from Cash Transactions report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all of the District's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the District's net cash position and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the District's net cash position—the difference between assets and liabilities—as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net cash position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base and the condition of the District's infrastructure, to assess the overall health of the District.

In the statements of Net Cash Position and the Statement of Activities Arising from Cash Transactions, the District has one type of activity:

**RED LAKE WATERSHED DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013

**Government Activities.** The District's basic services are reported here, including the general administration, and capital projects. Property taxes, state aids, and state and federal grants finance most of these activities.

**The Fund Financial Statements**

The fund financial statements begin on page 15 and provide detailed information about the most significant funds. Some funds are required to be established by state law and by bond covenants.

However, the Board of Managers establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The District's two kinds of funds—governmental and fiduciary—use different accounting approaches.

**Governmental funds—** Most of the District's basic services are reported governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District considers the General Fund and various Capital Project funds as significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other governmental funds.

**Fiduciary funds—** These funds types are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

**A FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Cash Position**

The District's combined government-wide Net Position, resulting from modified cash basis transactions increased by \$3,315,094 between fiscal years 2013 and 2012. As noted earlier, net position - modified cash basis may serve over time as a useful indicator of a government's financial position. In the case of Red Lake Watershed District, assets exceeded liabilities by \$14,045,483 by the close of the most recent fiscal year, which is an increase of \$3,315,094 over the prior year; more than a 4% increase over the prior year.

A portion of Red Lake Watershed District's net position (\$11,489,630 or 82%) 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 are 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**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Governmental		Change 12-13
	Activities		
	2013	2012	
<b>ASSETS</b>			
Total Current Assets	\$ 2,555,853	\$ 2,072,501	\$ 483,352
Net Capital Assets	<u>11,489,630</u>	<u>11,830,922</u>	<u>(341,292)</u>
<b>Total Assets</b>	<b><u>\$ 14,045,483</u></b>	<b><u>\$ 13,903,423</u></b>	<b><u>\$ 142,060</u></b>
<b>Net Position</b>	<b><u>\$ 14,045,483</u></b>	<b><u>\$ 13,903,423</u></b>	<b><u>\$ 142,060</u></b>

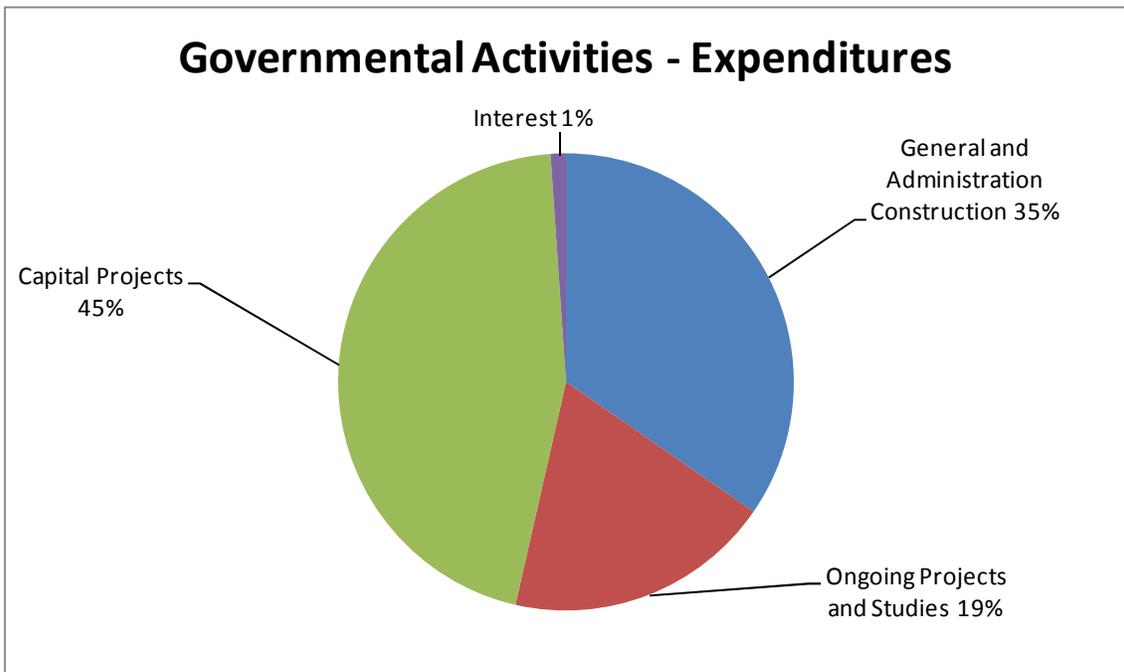
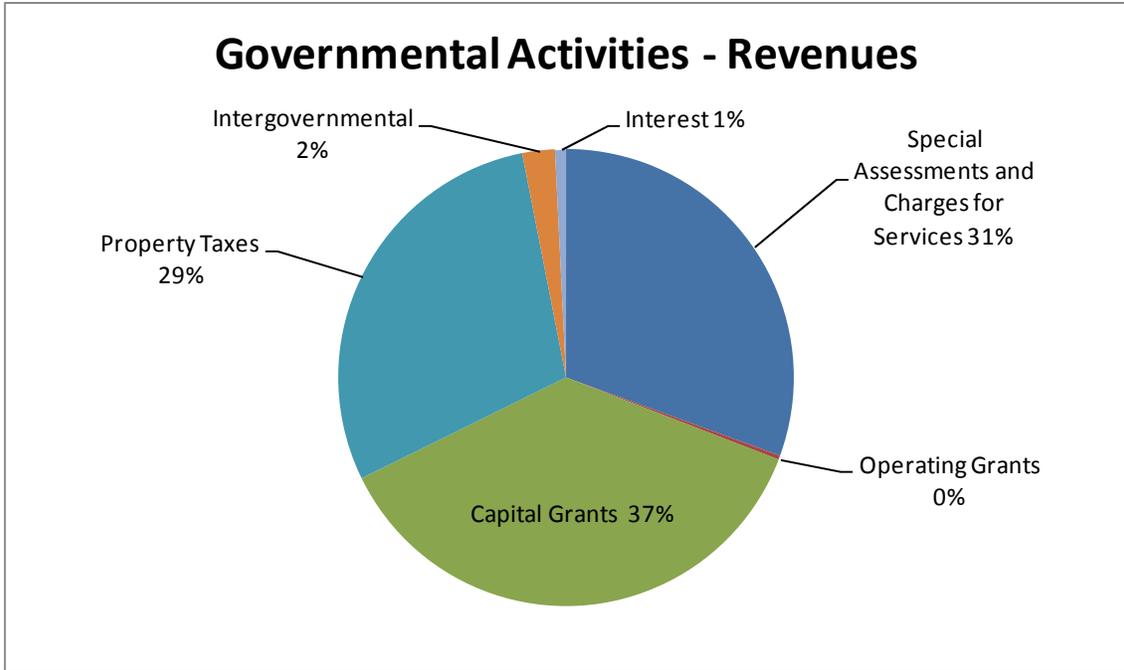
**Changes in Net Cash Position**

For the years ended December 31, 2013 and 2012, Net Position of the primary government (resulting from modified cash basis transaction) changed as follows:

	Governmental		Change 12-13
	Activities		
	2013	2012	
<b>Revenues</b>			
Program Revenues			
Special Assessments and Charges for Services	\$ 1,611,557	\$ 179,910	\$ 1,431,647
Operating Grants	14,969	170,898	(155,929)
Capital Grants	1,942,037	1,327,042	614,995
General Revenues			
Property Taxes	1,540,103	2,893,105	(1,353,002)
Intergovernmental	120,837	98,384	22,453
Interest	<u>40,542</u>	<u>54,257</u>	<u>(13,715)</u>
<b>Total Revenues</b>	<b><u>\$ 5,270,045</u></b>	<b><u>\$ 4,723,596</u></b>	<b><u>\$ 546,449</u></b>
<b>Expenses</b>			
General and Administration			
Construction	\$ 677,251	\$ 719,459	\$ (42,208)
Ongoing Projects and Studies	369,668	1,473,854	(1,104,186)
Capital Projects	886,881	923,608	(36,727)
Allocated Interest	<u>21,151</u>	<u>23,113</u>	<u>(1,962)</u>
<b>Total Expenses</b>	<b><u>\$ 1,954,951</u></b>	<b><u>\$ 3,140,034</u></b>	<b><u>\$ (1,185,083)</u></b>
<b>Increase in Net Position</b>	<b><u>\$ 3,315,094</u></b>	<b><u>\$ 1,583,562</u></b>	

**RED LAKE WATERSHED DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2013:



**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Governmental Activities**

To aid in the understanding of the Statement of Activities on page 14, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the District's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

**A FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**General Fund Budgetary Highlights**

For the year ended December 31, 2013, General Fund expenditures were \$50,813 under final budget. Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- Red Lake Watershed District's governmental funds reported combined ending fund balances of \$2,555,853.

- General Fund increased by \$58,121 in 2013, 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 was paid off during 2013.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets—Modified Cash Basis**

At December 31, 2013, the District had approximately \$11,489,630 (net of accumulated depreciation) invested in capital assets. 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.

	2013			2012	
	Cost	Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation
Building and Improvements	\$ 762,888	\$ 202,805	\$ 560,083	\$ 591,709	\$ 591,709
Infrastructure Improvements	6,945,885	1,127,812	5,818,073	6,667,305	6,667,305
Engineering Equipment	433,222	346,388	86,834	120,581	120,581
Office Equipment	132,034	85,705	46,329	57,385	57,385
Land and Permanent Easements	1,876,741	-	1,876,741	1,767,061	1,767,061
Construction in Progress	3,101,570	-	3,101,570	2,626,881	2,626,881
	\$ 13,252,340	\$ 1,762,710	\$ 11,489,630	\$ 11,830,922	\$ 11,830,922

**RED LAKE WATERSHED DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

As noted below, the District will have two major projects in construction in 2014 as well as work on several water quality grants and flow through- grants.

**OTHER ITEMS OF INTEREST**

Construction was completed on RLWD Project No. 171A, Thief River Falls Flood Damage Reduction Project (TRF FDR). This project was completed in early June with final payment hearing for Spruce Valley Construction held on June 27, 2013. Funding for the TRF FDR Project was paid in part by a Minnesota Flood Damage Reduction Grant, matched by the Red Lake Watershed District using Capital Projects Funds, and a Water Management District that will be paid from a Special Revenue 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.

In 2013, the Red Lake Watershed District and Red Lake County Soil & Water Conservation District partnered to complete Phase II construction of an erosion control project in Red Lake County which will reduce the transportation of sediment to the Red Lake River. The outlet near the river was armored and stabilized during Phase I as well as a drop structure and erosion control mats installed to stabilize the steep slope above the river. The ditch upstream of the outlet was also re-sloped and stabilized with bio-rolls. Phase II of the project was to complete construction of an overflow ditch along with the replacement of an existing steel structure. Total cost of Phase I was \$146,722.82 and total cost of Phase II was \$33,732.67 with funds remaining from cost share funded with the Capital Project Fund.

In 2013, the Red Lake Watershed District and Middle Snake Tamarac Rivers Watershed District started construction on a Joint Powers Project referred to the public as Grand Marais Creek Outlet Restoration Project, Project 60F. Project 60F is a single component of the "Grand Marais Creek Subwatershed Flood Damage Reduction Project – Project 60B" which is described at length in the 2013 RLWD Annual Report. This project addresses the Natural Resource Enhancement goals of the 1998 Flood Damage Reduction Mediation Agreement and restoring an adequate and stable outlet to the Grand Marais Creek subwatershed and several of its tributaries. The project objective focuses on restoring riparian and aquatic characteristics along the lower six miles of the Grand Marais Creek to its confluence with the Red River. This lower reach was abandoned in the early 1900's as a result of drainage improvements. Since this project was initiated in 2011 costs have increased from an estimated cost of \$5.4 million to that of approximately \$6 million. This project will be funded in part through federal, state, and local dollars with the Red Lake Watershed Districts portion being funded through their Capital Project Funding.

In 2013 the Red Lake Watershed District in partnership with the United States Geological Surveys applied for and was approved for a \$400,000.00 flow through grant from the Legislative-Citizen Commission on Minnesota Resources (LCCMR) for a project referred to in this report as Glacial Ridge Water Quality Study, Project 152B. The projects goals are intended to measure and characterize water flows through all parts of the water cycle in 4 surface (SW) and groundwater (GW) basins covering 28,754 acres as well as measure and characterize water quality in four groundwater and surface-water basins for comparison with pre-restoration water quality. Although the LCCMR grant was intended to cover all costs of the project, it is assumed any overrun of Red Lake Watershed District staff time will be paid from the Capital Project Funding. This project is expected to continue into 2014 and 2015 with completion date being June 30, 2016.

**RED LAKE WATERSHED DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013

State of Minnesota flow-through grant with Federal Emergency Management Agency (FEMA) for flood plan analysis along on the Red Lake River in Polk, Red Lake, and Pennington Counties has been extended to April 30, 2015. This will allow time for FEMA to determine how past modeling within the city of Crookston and East Grand Forks will match present datum.

Bids for the construction for a new legal drainage system referred to in the 2013 Annual Report as RLWD Ditch #15 will be opened in early 2014 with construction to be completed by mid-September, 2014.

More details of the 2013 construction, maintenance, and ongoing water quality programs of Red Lake Watershed District are included in the 2013 Annual Report or by contacting the Red Lake Watershed District.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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**  
**STATEMENT OF NET CASH POSITION**  
**AS OF DECEMBER 31, 2013**

	Total
<b>Assets</b>	
Current Assets:	
Petty Cash	\$ 100
Pooled Cash and Investments	2,555,753
Total Current Assets	2,555,853
Capital Assets:	
Property and Equipment	13,252,340
Less: Accumulated Depreciation	(1,762,710)
Net Capital Assets	11,489,630
Total Assets	14,045,483
<b>Net Position</b>	
Net Investment in Capital Assets	11,489,630
Committed for Capital Projects	2,309,153
Unrestricted	246,700
Total Net Position	\$ 14,045,483

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses			Program Receipts and Sources			Net Cash Sources (Uses) and Changes in Net Cash Position
	Direct	Allocated Salaries and Overhead	Total	Special Assessments and Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>							
General and Administrative Construction	\$ (677,251)	\$ 548,988	\$ (128,263)	\$ 761	\$ -	\$ -	\$ (127,502)
Ongoing Projects and Studies	(369,668)	(92,098)	(461,766)	1,579,690	14,969	-	1,132,893
Capital Projects	(886,881)	(456,890)	(1,343,771)	31,106	-	1,942,037	629,372
Allocated Interest	(21,151)	-	(21,151)	-	-	-	(21,151)
<b>Total Governmental Activities</b>	<b>\$ (1,954,951)</b>	<b>\$ -</b>	<b>\$ (1,954,951)</b>	<b>\$ 1,611,557</b>	<b>\$ 14,969</b>	<b>\$ 1,942,037</b>	<b>\$ 1,613,612</b>
<b>General Receipts:</b>							
Tax Levies							\$ 1,540,103
Intergovernmental (not restricted to specific programs)							120,837
State MV and Disparity Reduction Credits							<u>40,542</u>
Allocated Interest							
<b>Total General Receipts</b>							<b>\$ 1,701,482</b>
Change in Net Position							\$ 3,315,094
Net Position - Beginning							13,903,423
Prior Period Adjustment - See Note 13 to the Financial Statements							<u>(3,173,034)</u>
Net Position - Beginning as Restated							<u>10,730,389</u>
Net Position - Ending							<u>\$ 14,045,483</u>

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2013**

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Petty Cash	\$ 100	\$ -	\$ -	\$ 100
Pooled Cash and Investments	<u>386,222</u>	<u>66,211</u>	<u>2,103,320</u>	<u>2,555,753</u>
Total Assets	<u><u>386,322</u></u>	<u><u>66,211</u></u>	<u><u>2,103,320</u></u>	<u><u>2,555,853</u></u>
 <u>FUND BALANCES</u>				
Fund Balances:				
Committed for Capital Projects	-	-	2,309,153	2,309,153
Unassigned	<u>386,322</u>	<u>(139,622)</u>	<u>-</u>	<u>246,700</u>
Total Fund Balances	<u>386,322</u>	<u>(139,622)</u>	<u>2,309,153</u>	<u>2,555,853</u>
Total Liabilities and Fund Balances	<u><u>\$ 386,322</u></u>	<u><u>\$ (139,622)</u></u>	<u><u>\$ 2,309,153</u></u>	<u><u>\$ 2,555,853</u></u>

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

Total Fund Balance per Statement of Balances Arising from Cash Transactions, from above	\$ 2,555,853
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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 cost of those assets are reported as expenditures in governmental funds. However, the statements of net position include those capital assets among the assets of the District as a whole.

	Cost of Capital Assets	13,252,340
	Accumulated Depreciation	<u>(1,762,710)</u>
Total Net Position		<u><u>\$ 14,045,483</u></u>

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES – GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2013**

<u>RECEIPTS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Property Taxes	\$ 181,250	\$ -	\$ 1,358,853	\$ 1,540,103
Special Assessments	-	1,579,380	-	1,579,380
Intergovernmental:				
Federal	-	-	135,310	135,310
State	1,805	119,033	1,110,276	1,231,114
Local	-	14,969	696,451	711,420
Other:				
Miscellaneous	761	310	31,106	32,177
Allocated Interest	4,320	1,429	34,792	40,541
	<u>188,136</u>	<u>1,715,121</u>	<u>3,366,788</u>	<u>5,270,045</u>
<u>DISBURSEMENTS</u>				
General and Administrative Construction	128,263	-	-	128,263
Ongoing Projects and Studies	-	453,548	-	453,548
Capital Projects	-	-	4,175,513	4,175,513
Payments to RRWMB	-	-	8,218	8,218
Allocated Interest	2,174	9,798	9,179	21,151
	<u>130,437</u>	<u>463,346</u>	<u>4,192,910</u>	<u>4,786,693</u>
Total Disbursements	<u>130,437</u>	<u>463,346</u>	<u>4,192,910</u>	<u>4,786,693</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	57,699	1,251,775	(826,122)	483,352
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	560,633	1,024,708	603,492	2,188,833
Transfers Out	(560,211)	-	(1,628,622)	(2,188,833)
	<u>422</u>	<u>1,024,708</u>	<u>(1,025,130)</u>	<u>-</u>
Net Other Sources (Uses)	<u>422</u>	<u>1,024,708</u>	<u>(1,025,130)</u>	<u>-</u>
Net Change in Fund Balances	58,121	2,276,483	(1,851,252)	483,352
FUND BALANCE JANUARY 1	<u>328,201</u>	<u>(2,416,105)</u>	<u>4,160,405</u>	<u>2,072,501</u>
FUND BALANCE DECEMBER 31	<u>\$ 386,322</u>	<u>\$ (139,622)</u>	<u>\$ 2,309,153</u>	<u>\$ 2,555,853</u>

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**  
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
AS OF DECEMBER 31, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 483,352
Governmental Funds Report Capital Outlay as Expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital Additions	3,201,770
Depreciation Expense	<u>(370,028)</u>
Change in Net Position - Governmental Activities	<u>\$ 3,315,094</u>

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF NET CASH POSITION – FIDUCIARY FUNDS**  
**AS OF DECEMBER 31, 2013**

<u>ASSETS</u>	<u>Agency Funds</u>
Cash	\$ _____ -
Total Assets	\$ _____ -
<u>LIABILITIES AND FUND BALANCES</u>	
Due To Red River Watershed Management Board	\$ _____ -
Total Liabilities	\$ _____ -

The Notes to the Financial Statements are an Integral Part of These Statements

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

As discussed further in Note 1C, these financial statements are presented on a modified cash basis of accounting. This 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 Board (GASB) pronouncements.

**A. FINANCIAL 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. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

**B. BASIS OF PRESENTATION**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. The District has only governmental activities generally which are financed through taxes, intergovernmental revenues, and other non-exchange revenues, because of all of this all of the District's activities are reported as governmental activities.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity 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 constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are typically organized into three major categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

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:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, AND
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**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 Project Fund**

The Capital Project Fund is used to account for resources restricted for the acquisition, construction and maintenance of specific capital projects or items. The reporting entity includes the capital projects fund as a major fund.

**Fiduciary Funds**

**Agency Funds**

Agency funds account for assets held by the District in a purely custodial capacity. The reporting entity includes one agency fund. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The agency fund is as follows:

<b>Fund</b>	<b>Brief Description</b>
Red River Water Management Board	Property Taxes are levied by the District and submitted to the Management Board.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

**Major Funds**

<b>Fund</b>	<b>Brief Description</b>
General Governmental	See above for description
Capital Projects Fund	See above for description
Special Revenue Fund	See above for description

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**MEASUREMENT FOCUS**

In the government-wide Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions, governmental activities are presented using the economics 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.

**BASIS OF ACCOUNTING**

In the government-wide Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognized assets, liabilities, Net Position/fund equity, revenues, and expenditures/expenses when they result from cash transactions. The 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 this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *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 accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

**D. ASSETS, LIABILITIES, AND EQUITY**

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of one year or less. 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.

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. Costs associated with infrastructure on property not owned by the District are immediately expensed.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as an expense in the Statement of Net Position, with accumulated depreciation reflected in the Statement of Net Position. 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 of \$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.

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.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

**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.

Full-time employees employed with the District accrue eight hours of sick leave per month. Part-time employees who have worked 60% 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.

**EQUITY**

**Government-Wide Statements**

Equity is classified as Net Position and displayed in three components:

- a. Restricted Net Position – Consists of Net Position 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.
- b. Unrestricted Net Position – All other Net Position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
- c. Net Investment in Capital Assets – 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.

It is the District’s policy to first use restricted Net Position prior to the use of unrestricted Net Position when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

**EQUITY CLASSIFICATION**

**Fund Financial Statements**

Governmental fund equity is classified as fund balance.

**E. REVENUES, EXPENDITURES AND EXPENSES**

**PROGRAM REVENUES**

In the Statement of Activities Arising from Cash Transactions, 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 are reported as general revenue. All taxes are classified as general revenue even if restricted for a specific purpose.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

**F. USE OF ESTIMATES**

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the District required management to make estimates and assumptions that affect certain reported amounts and disclosures, accordingly, actual results could differ from those estimates.

**G. FUND BALANCE CLASSIFICATIONS**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – consists of amounts that are not in spendable form, such as inventory and prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* – consists of internally imposed constraints. These constraints are established by the Board of Managers.

*Assigned* – consists of internally imposed constraints. These constraints reflect specific purpose for which it is the District's intended use. These constraints are established by the Board of Managers and/or management.

*Unassigned* – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

**INTERFUND BALANCES**

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

**H. NET POSITION**

For the year ended December 31, 2013, the District implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, *Elements of Financial Statements*.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local government unit, the district is subject to various federal, state, and local laws and contractual regulations. The following instance of noncompliance is considered material to the financial statements:

**A. DEFICIT FUND BALANCES**

For the year ended December 31, 2013, a deficit fund balance in the amount of \$139,622 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 3 DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS**

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers Certificates of Deposit to be cash.

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 in Minnesota Statutes, as follows:

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or any of its municipalities.
- d. Bankers Acceptance of United States banks eligible for purchases by the Federal Reserve System.
- e. Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

g. Futures contracts sold under authority of Minnesota Statutes 471.56, Subd. 5.

The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial credit risk - deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's Board, all of which are members of the Federal Reserve System.

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

At December 31, 2013, the carrying amount of the District's deposits was \$2,555,853 and the bank balance was \$4,161,267. The bank balance was covered by Federal Depository Insurance and by collateral held by the District's agent in the District's name at December 31, 2013.

**NOTE 4 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 modified 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.

**NOTE 5 DEFINED BENEFIT PENSION PLANS**

**A. PLAN DESCRIPTION**

All full-time employees and certain part-time employees of the Red Lake Watershed District are covered by defined benefit pension plans 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, Chapters 353 and 356.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan 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 Benefit Plan members. The retiring member receives the higher of a 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 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 earlier 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 be 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 public 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 Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, MN, 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 2013. The Red Lake Watershed 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 PERF members. The District's contributions to the Public Employees Retirement Fund for the year ended December 31, 2013, 2011, and 2010 were \$26,934, \$24,935, and \$24,177, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2013**

**Related-Party Investments**

As of December 31, 2013, the District held no related-party investments.

**NOTE 6 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these various risks of loss with the purchase of insurance through commercial insurance providers. The District carries commercial insurance coverage on its commercial property and for liability, personal and advertising injury, non-owned auto and a miscellaneous floater.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**NOTE 7 INTERFUND TRANSFERS**

The following reconciles interfund transfers during the fiscal year ending December 31, 2013:

	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects Fund	\$ 603,492	\$ 1,628,622
Special Revenues Fund	1,024,708	-
General Fund	560,633	560,211
Total	\$ 2,188,833	\$ 2,188,833

The transfers made between funds were to cover cash shortfalls as well as close out funds with excess balances.

**NOTE 8 CAPITAL ASSETS**

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b><u>Capital Assets</u></b>					
Building and Improvements	\$ 762,888	\$ -	\$ -	\$ -	\$ 762,888
Infrastructure Improvements	7,813,656	(3,416,761)	2,548,990	-	6,945,885
Engineering Equipment	426,203	-	12,032	5,013	433,222
Office Equipment	128,304	-	3,730	-	132,034
Land & Permanent Easements	1,767,061	-	109,680	-	1,876,741
Construction in Progress	2,626,881	(52,649)	3,007,419	2,480,081	3,101,570
Total	\$ 13,524,993	\$ (3,469,410)	\$ 5,681,851	\$ 2,485,094	\$ 13,252,340
<b><u>Accumulated Depreciation</u></b>					
Building and Improvements	\$ 171,179	\$ -	\$ 31,626	\$ -	\$ 202,805
Infrastructure Improvements	1,146,351	(296,376)	277,837	-	1,127,812
Engineering Equipment	305,622	-	45,779	5,013	346,388
Office Equipment	70,919	-	14,786	-	85,705
Total	1,694,071	(296,376)	370,028	5,013	1,762,710
	\$ 11,830,922	\$ (3,173,034)	\$ 5,311,823	\$ 2,480,081	\$ 11,489,630

Depreciation expense of \$296,376 for the year ended December 31, 2013 is included in general and administrative program costs. See Note 13 for explanation of prior period adjustment.

**RED LAKE WATERSHED DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF DECEMBER 31, 2013

**NOTE 9 OVERHEAD COST ALLOCATION**

Overhead costs are allocated to all projects at 150% of direct salaries 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 2013 were \$548,988.

**NOTE 10 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; there, 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, 2013, 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 not presently involved in any legal actions relating to projects undertaken or attempted to be undertaken.

**NOTE 11 CONSTRUCTION COMMITMENTS**

During the year the District had entered into construction projects that had not been completed at year end. The amounts committed for the Grand Marais Creek Outlet Restoration Project at December 31, 2013 was \$169,586.

**NOTE 12 SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 1, 2014, which is the date these financial statements were available to be issued.

**NOTE 13 PRIOR PERIOD ADJUSTMENT**

A prior period adjustment has been made to reduce the cost and related accumulated depreciation on certain infrastructure assets. Management has determined that these assets did not belong to the District and therefore did not belong on the District's financial statements. The effect on the financial statements is to reduce both capital assets and net position by \$3,173,034.

## SUPPLEMENTARY INFORMATION

**RED LAKE WATERSHED DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual 2013</u>	<u>Variance</u>
REVENUES				
Tax Levies	\$ 181,250	\$ 181,250	\$ 181,250	\$ -
Intergovernmental				
State	-	-	1,805	1,805
Miscellaneous	-	-	761	761
Allocated Interest	-	-	4,320	4,320
	<u>181,250</u>	<u>181,250</u>	<u>188,136</u>	<u>6,886</u>
Total Revenues				
EXPENDITURES				
General and Administrative	181,250	181,250	128,263	(52,987)
Interest	-	-	2,174	2,174
	<u>181,250</u>	<u>181,250</u>	<u>130,437</u>	<u>(50,813)</u>
Total Expenditures				
Revenue Over (Under) Expenditures	-	-	57,699	57,699
OTHER FINANCING SOURCES (USES)				
Transfers In	563,250	563,250	560,633	(2,617)
Transfers Out	(563,250)	(563,250)	(560,211)	3,039
	<u>-</u>	<u>-</u>	<u>422</u>	<u>422</u>
Net Other Sources (Uses)				
Revenues & Other Sources Over (Under) Expenditures & Other Uses	-	-	58,121	<u>\$ 58,121</u>
FUND BALANCE JANUARY 1	<u>328,201</u>	<u>328,201</u>	<u>328,201</u>	
FUND BALANCE DECEMBER 31	<u>\$ 328,201</u>	<u>\$ 328,201</u>	<u>\$ 386,322</u>	

See Note to the Budgetary Comparison Schedule

**RED LAKE WATERSHED DISTRICT**  
NOTE TO THE BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 1 – BUDGETARY COMPARISON**

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 2013 at \$181,250. All appropriations lapse at year-end.

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE – SPECIAL REVENUE PROJECTS -**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Revenues				Expenses				Transfer	Fund Balance (Deficit) December 31
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	
GENERAL FUND	\$ 328,201	\$ 761	\$ 1,805	\$ 4,320	\$ 181,250	\$ 677,251	\$ 2,174	\$ (548,988)	\$ 422	\$ 386,322
SPECIAL REVENUE FUND JOBS:										
Red Lake River Project	67,430	-	-	426	-	6,352	-	2,897	-	58,607
Clearwater River Project	27,543	-	-	177	-	-	-	160	-	27,560
Lost River Project	15,083	-	632	94	-	359	-	1,130	-	14,320
RLWD Ditch #1	6,913	-	-	41	-	800	-	772	-	5,382
RLWD Ditch #3	(3,147)	4,818	-	-	-	1,808	12	718	-	(867)
State Ditch #83	(56,354)	15,595	9,112	-	-	49,136	422	14,436	-	(95,641)
RLWD Ditch #7	3,996	7,425	-	38	-	3,310	-	749	-	7,400
Pine Lake Maintenance	1,851	4,027	-	11	-	496	-	3,841	-	1,552
RLWD Ditch #8	(15,723)	2,273	-	-	-	751	100	294	-	(14,595)
RLWD Ditch #9	3,430	-	-	21	-	313	-	294	-	2,844
J.D. Ditch #72	(5,357)	2,073	5,225	-	-	2,193	38	2,377	-	(2,667)
Clearwater/Wild Rice River Branch A & 1, J.D. #2	6,210	4,272	-	35	-	139	-	5,423	-	4,955
Main J.D. #2 and Branch B&C	4,553	-	-	25	-	160	-	1,262	-	3,156
Main J.D. 2C. Eck	(12,832)	6,245	-	-	-	1,393	73	1,555	-	(9,608)
Krostue Petition	(597)	4,634	-	7	-	-	-	160	-	3,884
Krostue Petition	4,328	-	-	25	-	960	-	492	-	2,901
Clearwater County Joint Ditch #4	1,011	-	-	7	-	-	-	76	-	942
Clearwater County Joint Ditch #5	(5,182)	5,172	-	-	-	80	21	225	-	(336)
Clearwater County Ditch #1	422	-	-	3	-	-	-	-	-	425
Clifford Arveson Ditch	1,524	-	-	8	-	1,450	-	294	-	(212)
Winsor/Hangaard/Clearwater County Petition	(4,947)	6,495	-	-	-	3,861	40	4,884	-	(7,237)
Equality RLWD Ditch #1, lat C	2,993	3,189	-	28	-	600	-	231	-	5,379
K. Johnson Petition	3,012	2,028	-	19	-	900	-	458	-	3,701
Polk County Ditch #'s 104, 61, 47, 94	(1,697)	9,823	-	-	-	4,530	3	3,414	-	179
TRF Drainage Ditch (Challenger Ditch)	2,267	9	-	12	-	300	-	544	-	1,444
Scott Baatz Petition	2,059	1,000	-	14	-	240	-	351	-	2,482
Polk County Ditch #63 Improvement	16,503	3	-	102	-	1,200	-	695	-	14,713
Polk County Ditch #33 Improvement	559	2,447	-	4	-	1,680	-	541	-	789
RLWD Ditch #10	(4,181)	7,046	-	-	-	7,387	20	1,894	-	(6,436)
RLWD Ditch #11	37,050	-	-	235	-	1,440	-	972	-	34,873
RLWD Ditch #12	(23,555)	14,880	-	-	-	7,680	151	4,665	-	(21,171)
Improvement to Penn. Co. Dt. 1	(705,074)	775,027	-	-	-	54,300	782	3,978	-	10,893
RLWD Ditch #15	(60,806)	-	-	-	-	131,985	914	12,128	-	(205,833)
Burnham Creek Channel	9,304	14,696	-	68	-	5,500	-	5,912	-	12,656
RLWD Ditch #13	4,644	-	-	29	-	350	-	379	-	3,944
Thief River Falls Flood Damage Reduction Project	(1,739,338)	686,513	119,033	-	-	69,797	7,222	13,897	1,024,708	-
TOTAL SPECIAL REVENUE	(2,416,105)	1,579,690	134,002	1,429	-	361,450	9,798	92,098	1,024,708	(139,622)

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE - CAPITAL PROJECTS - MODIFIED**  
**CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Revenues				Expenses			Transfer	Fund Balance (Deficit) December 31	
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead		In (Out)
CAPITAL PROJECT FUND JOBS:										
Moose River Project	-	-	-	-	-	8,218	54	7,801	16,073	-
Lost River Impoundment	-	-	-	-	-	-	4	968	972	-
Stream Gauging	-	-	-	-	-	25,348	157	33,556	59,061	-
Culvert Sizing	-	-	-	-	-	-	18	5,724	5,742	-
Shirrick Dam	-	-	-	-	-	1,876	8	1,278	3,162	-
Hydrologic Analysis	-	-	-	-	-	-	24	6,179	6,203	-
Flood Control Study	-	-	-	-	-	-	-	54	54	-
Emergency Maintenance	107,468	-	-	696	-	-	-	-	-	108,164
Water Quality	-	-	-	-	-	29,292	184	35,949	65,425	-
Maintenance Dams	-	-	-	-	-	1,539	7	2,396	3,942	-
Elm Lake	-	-	-	-	-	-	4	834	838	-
Red Lake Res./Good Lake	-	-	-	-	-	10,071	20	5,144	15,235	-
Parnell Impoundment	-	2,400	-	-	-	8,766	21	4,388	10,775	-
Permits	-	-	-	-	-	6,972	276	90,760	98,008	-
Project Development	-	-	-	-	-	1,697	153	41,219	43,069	-
Louisville/Parnell Project	-	-	-	-	-	2,071	8	2,440	4,519	-
G.I.S.	-	-	-	-	-	486	133	40,460	41,079	-
Wetland Banking	-	6,551	-	16	-	-	-	569	-	5,998
Glacial Ridge	3,315	-	97,922	-	-	103,402	18	3,472	5,655	-
North Parnell Storage Site	-	-	-	-	-	450	1	417	868	-
Clearwater River - TMDL	-	-	-	-	-	1	12	4,373	4,386	-
Clearbrook Stormwater Pjt.	(70,227)	5,333	-	-	-	74	425	182	65,575	-
Erosion Control Projects	-	-	-	-	-	22,120	22	1,668	23,810	-
TR WS Sediment Investigation	-	-	-	-	-	-	-	25	25	-
FEMA D-Firm Grant	(8,600)	-	11,573	-	-	-	-	3,071	98	-
C. Flage Erosion Cont.	(143,011)	3,350	133,217	-	-	35,053	877	885	43,259	-
Web Page Development	-	-	3,873	17	-	1,200	-	594	(2,096)	-
Administrative Construction	4,628,186	-	45,720	33,880	1,358,853	-	-	-	(1,586,181)	4,480,458
County Ditch 20/State Ditch 83	18,585	8,319	11,474	110	-	9,105	-	2,995	(26,388)	-
Badger Creek/Poplar River	6,660	-	-	44	-	-	-	-	(6,704)	-
Burnham Creek - BR6	-	-	-	-	-	-	1	248	249	-
B. CRK. Erosion Control	-	-	-	(8)	-	-	-	1,809	1,817	-
B. CRK. Fish Habitat	-	-	-	-	-	-	3	930	933	-
Grand Marais Creek Subwatershed	-	-	5,612	-	-	3,387	14	3,594	1,383	-
Euclid East Impoundment	-	1,721	-	-	-	3,307	17	2,517	4,120	-
Brandt Impoundment	-	-	-	-	-	765	6	1,743	2,514	-

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE - CAPITAL PROJECTS - MODIFIED**  
**CASH BASIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Revenues					Expenses			Transfer	Fund Balance (Deficit) December 31
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	
Brandt Channel Restoration	2,205	2,760	-	13	-	1,008	-	569	(3,401)	-
Grand Marais - Restoration	(55,488)	-	1,375,767	-	-	3,122,823	3,713	30,375	-	(1,836,632)
Grand Marais Cut Channel Stabilization	(321,929)	-	(11,474)	-	-	87,527	2,476	7,218	26,285	(404,339)
Clearwater Public Education (River Watch)	-	-	-	-	-	497	46	14,717	15,260	-
Red River Basin Long Term Flood Control	-	-	-	-	-	24,178	144	3,546	27,868	-
BWSR Flood Storage Pilot Project	-	-	-	-	-	450	2	552	1,004	-
Ditch 66 WQ Study Glacial Ridge	17,174	-	25,815	24	-	38,496	-	665	(3,852)	-
Glacial Ridge/LCCMR	-	-	-	-	-	-	40	240	280	-
Thief River TMDL	(6,944)	672	60,672	-	-	37,476	88	31,206	-	(14,370)
Red Lake River Watershed Assessment	(2,589)	-	79,759	-	-	34,617	66	45,865	-	(3,378)
RLRVR Grand Marais Swag	(10,804)	-	24,389	-	-	21,494	22	3,794	-	(11,725)
Grand Marais Wrap	-	-	77,295	-	-	83,075	90	8,934	-	(14,804)
Clearwater River SWAGG	-	-	-	-	-	-	-	219	-	(219)
Clearbrook FDR PJT	-	-	-	-	-	-	-	88	88	-
TR SWAGG	(3,596)	-	423	-	-	-	25	660	3,858	-
Total Capital Projects	4,160,405	31,106	1,942,037	34,792	1,358,853	3,726,841	9,179	456,890	(1,025,130)	2,309,153
Total All Funds	\$ 2,072,495	\$ 1,611,557	\$ 2,077,844	\$ 40,541	\$ 1,540,103	\$ 4,765,542	\$ 21,151	\$ -	\$ -	\$ 2,555,853

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION - GOVERNMENTAL**  
**FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>DIRECT EXPENDITURES:</u>	<u>2013</u>
Salaries -	
Inspection	\$ 3,348
Survey - preliminary	1,578
Survey - construction	498
Drafting	14,138
Engineering	92,518
Project Administration	186,237
Field Work - Water Programs	9,898
Other	50,778
Compensated Absences	39,871
Payroll Taxes and Benefits	118,486
Manager's Expense	20,129
Travel, Mileage, Meetings and Per Diems	3,418
Audit	9,015
Legal	25,275
Appraisal and Viewers	23,432
Other Professional Fees	207,213
Office Supplies	12,845
Office Equipment	3,730
Dues & Subscriptions	4,764
Insurance and Bonds	40,308
Repairs and Maintenance	16,825
Utilities	7,084
Telephone	9,882
Advertising and Publications	6,975
Truck Expense	19,889
Land Acquisition and Easements	110,468
Construction	2,970,687
Engineering Costs & Fees	8,478
Engineering Fees	593,846
Engineering Equipment	12,032
Glacial Ridge	141,897
	<hr/>
Total Expenditures	<u>\$ 4,765,542</u>

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN AMOUNTS**  
**DUE TO OTHER GOVERNMENTAL UNITS –**  
**TRUST AND AGENCY FUND – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

RECEIPTS

<u>Property Taxes</u>	
Beltrami County	\$ 117,953
Clearwater County	213,020
Itasca County	1,450
Koochiching County	10,301
Mahnomen County	1,983
Marshall County	44,313
Pennington County	242,461
Polk County	623,679
Red Lake County	103,549
Roseau County	144
State - MV	<u>45,720</u>
 TOTAL RECEIPTS	 <u>1,404,573</u>

DISBURSEMENTS

Red River Watershed Management Board	<u>1,404,573</u>
 EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	 -
 AMOUNT DUE TO OTHER GOVERNMENTAL UNITS, JANUARY 1	 <u>-</u>
 AMOUNT DUE TO OTHER GOVERNMENTAL UNITS, DECEMBER 31	 <u>\$ -</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund, and the remaining fund information of the Red Lake Watershed District of Thief River Falls, Minnesota as of and for the year ended as of and for the year ended December 31, 2013 and the related notes to the financial statements, and have issued our report thereon dated March 1, 2014.

### Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor Pursuant to Minn. § Stat. 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except for tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Red Lake Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above reference provisions.

### Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**THIEF RIVER FALLS, MINNESOTA**

March 1, 2014



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of the Red Lake Watershed District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Red Lake Watershed District's basic financial statements and have issued our report thereon dated March 1, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Red Lake Watershed District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Red Lake Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Red Lake Watershed District's internal control.

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

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **Red Lake Watershed District's Response to Finding**

Red Lake Watershed District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**THIEF RIVER FALLS, MINNESOTA**

March 1, 2014

**RED LAKE WATERSHED DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Schedule of Findings and Responses**

**2013-001 Finding**

**Criteria**

An appropriate system of internal controls requires that a District make a determination that financial statements and the underlying general ledger accounts are properly stated on the modified cash basis of accounting. This requires the Districts personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

**Condition**

The District's auditors prepared the financial statements as of December 31, 2013. An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated on the modified cash basis of accounting. This requires the District's personnel to maintain a working knowledge of current modified cash basis accounting principles and required financial statement disclosures.

**Cause**

The District could put together the financial statements on the modified cash basis of accounting; however, they have requested assistance in ensuring all required disclosures are properly included and changes made by GASB are implemented.

**Effect**

The District requested that the auditors prepare the financial statements.

**Recommendation**

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

**Management's Response**

The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

**RED LAKE WATERSHED DISTRICT**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with the Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will implement recommendations to establish internal control policies for findings immediately.
3. Official Responsible for Insuring CAP  
The administrator is the official responsible for insuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The District will implement recommendations to establish internal control policies for findings immediately.
5. Plan to Monitor Completion of CAP  
The Board of Managers will be monitoring this corrective action plan.