

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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RED LAKE WATERSHED DISTRICT
OFFICIAL DIRECTORY
DECEMBER 31, 2015

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
LeRoy Ose	Marshall	Secretary
Orville Knott	Red Lake	Manager
Les Torgerson	Clearwater	Manager
Albert Mandt (January 1- June 10)	East Polk	Manager
Vacant (June 11-December 31)		



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 remaining fund information of the Red Lake Watershed District as of and for the year ended December 31, 2015, 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 from 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

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 remaining fund information of the Red Lake Watershed District, as of December 31, 2015, and the respective changes in financial position 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, management's discussion and analysis, 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 accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and the supplementary statements are fairly stated in all material respects in relation to the financial statements as described in the basis of accounting described in Note 1.

The official directory and the management's 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 February 19, 2016 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 & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

February 19, 2016

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015, 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 \$2,299,052 for the year ended December 31, 2015.
- The general fund showed an increase on the modified cash basis fund balance in the amount of \$8,511.
- The District's General Fund ended the year with a fund balance of \$437,486.
- The District's combined fund balance at the close of the current year was \$5,220,513.

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 Statement of Net Cash Position and the Statement of Activities Arising from Cash Transactions on pages 14 and 15 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 16) 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").

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

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 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 accounting principles generally accepted in the United States of America. 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 14 and 15. 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.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 16 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 as 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 fund 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 \$2,924,542 between fiscal years 2015 and 2014. 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 \$18,145,542 at December 31, 2015, which is an increase of \$2,924,542 over the year ended December 31, 2014; which is more than an 18.50% increase over the prior year.

A portion of Red Lake Watershed District's net position (\$12,925,029 or 71.23%) reflects its investment in capital assets. Red Lake Watershed District uses these capital assets to provide services to citizens; consequently, these are not available for future spending.

A portion of Red Lake Watershed District's net position (\$156,211) reflects a portion of net position that is restricted for ditch maintenance.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	Governmental		Change 14-15
	Activities		
	2015	2014	
ASSETS			
Total Current Assets	\$ 5,220,513	\$ 2,921,461	\$ 2,299,052
Net Capital Assets	<u>12,925,029</u>	<u>12,299,539</u>	<u>625,490</u>
Total Assets	<u>\$ 18,145,542</u>	<u>\$ 15,221,000</u>	<u>\$ 2,924,542</u>
Net Position	<u>\$ 18,145,542</u>	<u>\$ 15,221,000</u>	<u>\$ 2,924,542</u>

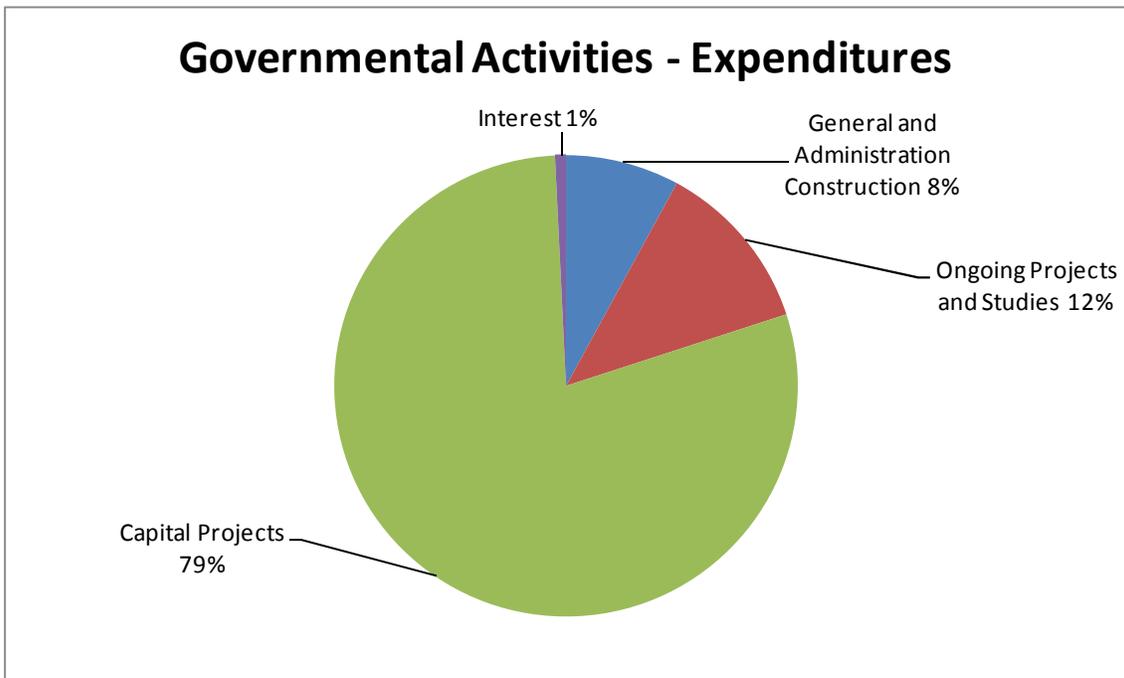
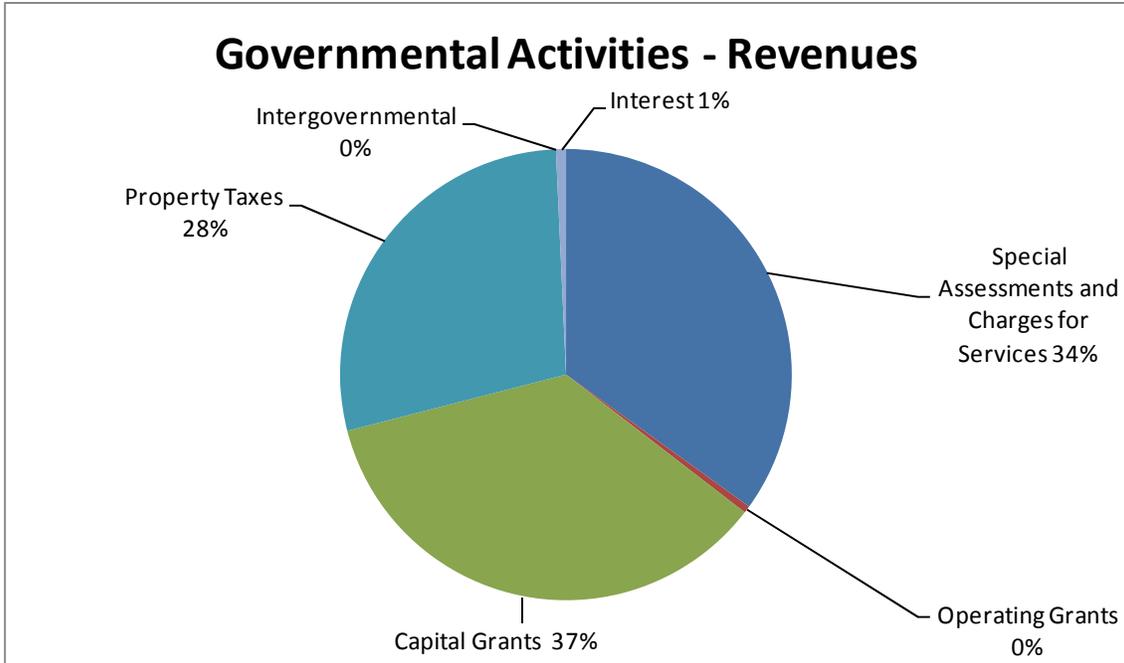
Changes in Net Cash Position

For the years ended December 31, 2015 and 2014, Net Position of the primary government (resulting from modified cash basis transaction) changed as follows:

	Governmental		Change 14-15
	Activities		
	2015	2014	
Revenues			
Program Revenues			
Special Assessments and Charges for Services	\$ 1,662,262	\$ 310,433	\$ 1,351,829
Operating Grants	24,496	15,525	8,971
Capital Grants	1,690,332	2,662,817	(972,485)
General Revenues			
Property Taxes	1,345,842	1,635,529	(289,687)
Intergovernmental	-	32,903	(32,903)
Interest	<u>34,334</u>	<u>29,864</u>	<u>4,470</u>
Total Revenues	<u>\$ 4,757,266</u>	<u>\$ 4,687,071</u>	<u>\$ 70,195</u>
Expenses			
General and Administration			
Construction	\$ 154,582	\$ 131,864	\$ 22,718
Ongoing Projects and Studies	233,832	1,470,789	(1,236,957)
Capital Projects	1,538,551	1,896,345	(357,794)
Allocated Interest	<u>14,925</u>	<u>12,556</u>	<u>2,369</u>
Total Expenses	<u>\$ 1,941,890</u>	<u>\$ 3,511,554</u>	<u>\$ (1,569,664)</u>
Increase in Net Position	<u>\$ 2,815,376</u>	<u>\$ 1,175,517</u>	

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2015:



RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Governmental Activities

To aid in the understanding of the Statement of Activities on page 15, 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, 2015, General Fund expenditures were \$940 under final budget. Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

General Fund increased by \$8,511 in 2015, 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At December 31, 2015, the District had approximately \$12,925,029 (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.

	2015			2014
	Cost	Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation
Building and Improvements	\$ 762,888	\$ 251,654	\$ 511,234	\$ 533,258
Infrastructure Improvements	12,260,172	1,870,409	10,389,763	8,089,227
Engineering Equipment	389,267	314,212	75,055	73,442
Office Equipment	139,308	112,035	27,273	40,558
Land and Permanent Easements	1,876,922	-	1,876,922	1,876,741
Construction in Progress	44,782	-	44,782	1,686,313
	\$ 15,473,339	\$ 2,548,310	\$ 12,925,029	\$ 12,299,539

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As noted below, the District had two major projects in construction in 2015 as well as work on several water quality grants, flow through-grants, and cooperative projects with other agencies.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

OTHER ITEMS OF INTEREST

Water Quality grants from the State of Minnesota, Minnesota Pollution Control Agency, for Surface Water Assessment Grants, Watershed Assessment Projects (watershed based TMDL), are ongoing for Clearwater River, Red Lake River, Thief River and Grand Marais Creek. Expenses over and above the grants are expended from the Capital Projects 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 Sub-watershed Flood Damage Reduction Project – Project 60B" which is described at length in the 2015 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 Sub-watershed and several of its tributaries. The project objective focused on restoring riparian and aquatic characteristics along the lower six miles of the Grand Marais Creek to its confluence with the Red River as well as construction of a diversion structure at the upper most reach of the restoration project. The diversion structure, referred to as Phase II, was bid in June 26, 2014 with low bid in the amount of \$466,166.00 being awarded to R.J. Zavoral & Sons, Inc. Since this entire project was initiated in 2011, costs increased from an estimated cost of \$5.4 million to a total project cost of \$6.3 million. This project was funded in part through federal, state, and local dollars with the Red Lake Watershed District's portion being funded through their Capital Project Funding. This project was completed in 2015 with a maintenance fund set up for yearly general maintenance.

In 2013, the Red Lake Watershed District in partnership with the United States Geological Survey, 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 project's 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. In 2014, USGS asked the Red Lake Watershed District to apply for a six month extension of the existing grant that was scheduled to expire on June 30, 2016. The grant extension was approved by the LCCMR. This project is expected to continue into 2016 and with the grant extension it is assumed that the project will be completed by December 31, 2016.

In August of 2014, the Red Lake Watershed District in partnership with the United States Geological Survey, was approved for a \$168,000.00 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 152C. The project's goals are intended work in conjunction with the existing \$400,000 grant mentioned above which is 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. In 2014 USGS asked the Red Lake Watershed District to apply for a six month extension of the existing grant that was scheduled to expire on June 30, 2016.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

The grant extension was approved by the LCCMR. This project is expected to continue into 2016 and with the grant extension it is assumed that the project will be completed by December 31, 2016.

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 was extended to April 30, 2015. This extension was intended to allow time for FEMA to determine how past modeling within the Cities of Crookston and East Grand Forks will match present datum.

Bids for the construction for a new 12.5 mile legal drainage system, referred to in the 2014 Annual Report as RLWD Ditch #15, were opened on March 13, 2014. Construction started late spring and due to frequent rainfall events and other contractual obligations by the contractor, construction on this project was not completed in the timeline outlined in the contract. At year end 2014, the project was approximately 95% complete and was completed in 2015, with final payment hearing held August 27, 2015.

In the mid 1980's, the Soil Conservation Service (SCS) worked with local landowners to fund eight erosion control and habitat restoration projects mostly in Red Lake County. In the late 1980's and at the request of SCS, the Red Lake Watershed District agreed to take over the inspection and repair of the dams in the foreseeable future. In 2015, after District staff inspected all eight dams, it was determined that three dams known by the public as Odney Flaot, Latendresse, and Miller Dams were all in need of substantial repair. At the direction of the Board, plans and specifications were developed for Odney Flaot and three quotes were accepted with low quote in the amount of \$68,124.75 being awarded to Wright Construction Inc. It is anticipated that construction on Odney Flaot will be completed in 2016. The District also asked staff to review and prioritize all the dams and bring recommendations back to the Board. Upon completion of the review, the Board of Managers decided to move forward with the plans and specification for repairs to Latendresse and Miller Dams as well with construction being completed in 2016.

The Red Lake Watershed District also entered into a cost share agreement with the Clearwater County Soil & Water Conservation Service to repair an erosion site along a legal drainage system referred to the public a Judicial Ditch #72. The project was administered by the SWCD with total cost of the project totaling \$82,816.80.

The District was informed of a slope failure on a project completed in late 2012 referred to as the Grand Marais Creek Cut Channel. The Board of Managers instructed the Engineer to inspect the problem and report back to the Board. Upon review it was determined that additional repairs should be completed at which point the Board agreed to repair the project for the estimated cost of \$64,147. This project was completed in 2015.

More details of the 2015 construction, maintenance, and ongoing water quality programs of Red Lake Watershed District are included in the 2015 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, 2015

	Total
Assets	
Current Assets:	
Petty Cash	\$ 100
Pooled Cash and Investments	5,220,413
Total Current Assets	5,220,513
Capital Assets:	
Property and Equipment	15,473,339
Less: Accumulated Depreciation	(2,548,310)
Net Capital Assets	12,925,029
Total Assets	18,145,542
Net Position	
Investment in Capital Assets	12,925,029
Restricted for Ditch Maintenance	156,211
Unrestricted	5,064,302
Total Net Position	\$ 18,145,542

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

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:							
General and Administrative Construction	\$ (704,260)	\$ 549,678	\$ (154,582)	\$ 1,976	\$ -	\$ -	\$ (152,606)
Ongoing Projects and Studies	(171,096)	(62,736)	(233,832)	1,615,396	24,496	-	1,406,060
Capital Projects	(1,051,609)	(486,942)	(1,538,551)	44,890	-	1,690,332	196,671
Allocated Interest	(14,925)	-	(14,925)	-	-	-	(14,925)
Total Governmental Activities	\$ (1,941,890)	\$ -	\$ (1,941,890)	\$ 1,662,262	\$ 24,496	\$ 1,690,332	\$ 1,435,200
General Receipts:							
Tax Levies							\$ 1,345,842
Intergovernmental (not restricted to specific programs)							109,166
State MV, Disparity Reduction Credits, and PERA aid							34,334
Allocated Interest							1,489,342
Total General Receipts							2,924,542
Change in Net Position							15,221,000
Net Position - Beginning							18,145,542
Net Position - Ending							

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

<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	437,386	156,211	4,626,816	5,220,413
Total Assets	<u>\$ 437,486</u>	<u>\$ 156,211</u>	<u>\$ 4,626,816</u>	<u>\$ 5,220,513</u>
 <u>FUND BALANCES</u>				
Fund Balances:				
Restricted for Ditch Maintenance	\$ -	\$ 156,211	\$ -	\$ 156,211
Committed for Capital Projects	-	-	4,626,816	4,626,816
Unassigned	437,486	-	-	437,486
Total Fund Balances	<u>437,486</u>	<u>156,211</u>	<u>4,626,816</u>	<u>5,220,513</u>
Total Fund Balances	<u>\$ 437,486</u>	<u>\$ 156,211</u>	<u>\$ 4,626,816</u>	<u>\$ 5,220,513</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	\$ 5,220,513
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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 statement of net position include those capital assets among the assets of the District as a whole.

	Cost of Capital Assets	15,473,339
	Accumulated Depreciation	<u>(2,548,310)</u>
Total Net Position		<u>\$ 18,145,542</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>RECEIPTS</u>	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
Property Taxes	\$ 157,200	\$ -	\$ 1,188,642	\$ 1,345,842
Special Assessments	-	1,602,046	-	1,602,046
Intergovernmental:				
Federal	-	-	-	-
State	1,805	16,000	1,375,005	1,392,810
Local	-	8,496	422,688	431,184
Other:				
Miscellaneous	1,976	13,350	44,890	60,216
Allocated Interest	3,790	910	29,634	34,334
	<u>164,771</u>	<u>1,640,802</u>	<u>3,060,859</u>	<u>4,866,432</u>
Total Receipts				
	<u>164,771</u>	<u>1,640,802</u>	<u>3,060,859</u>	<u>4,866,432</u>
<u>DISBURSEMENTS</u>				
General and Administrative Construction	154,582	-	-	154,582
Ongoing Projects and Studies	-	233,832	-	233,832
Capital Projects	-	-	2,164,041	2,164,041
Allocated Interest	1,678	6,288	6,959	14,925
	<u>156,260</u>	<u>240,120</u>	<u>2,171,000</u>	<u>2,567,380</u>
Total Disbursements				
	<u>156,260</u>	<u>240,120</u>	<u>2,171,000</u>	<u>2,567,380</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	8,511	1,400,682	889,859	2,299,052
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	200,000	-	200,000
Transfers Out	-	-	(200,000)	(200,000)
	<u>-</u>	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>
Net Other Sources (Uses)				
	<u>-</u>	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>
Net Change in Fund Balances	8,511	1,600,682	689,859	2,299,052
FUND BALANCE JANUARY 1	<u>428,975</u>	<u>(1,444,471)</u>	<u>3,936,957</u>	<u>2,921,461</u>
FUND BALANCE DECEMBER 31	<u>\$ 437,486</u>	<u>\$ 156,211</u>	<u>\$ 4,626,816</u>	<u>\$ 5,220,513</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 2,299,052
Governmental Funds Report Capital Outlay as Expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital Additions	1,157,859
Depreciation Expense	<u>(532,369)</u>
Change in Net Position - Governmental Activities	<u>\$ 2,924,542</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION – FIDUCIARY FUNDS
AS OF DECEMBER 31, 2015

<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	\$ _____ -

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

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, Mahnomon, 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 for 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 61 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 which are generally 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 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, 2015

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 Projects Fund

The Capital Projects Fund is used to account for resources committed 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:

Fund	Brief Description
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, 2015

Major Funds

Fund	Brief Description
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 with the provisions for capital assets, deferred inflows of resources, deferred outflows of resources, and debt and depreciation in the government wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2015

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.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in these categories.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 are reported as expenditures.

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. As of January 1, 2014, half of the employee's remaining sick leave will be paid at the employee's current hourly rate to the employee upon retirement. If employee quits or is terminated for any reason, no payment shall be made to employee. District Office shall maintain leave records by posting leave earned and taken, and calculating a current balance for each employee. There will be no payment in lieu of sick leave, except when retirement of employment occurs. No vested or accumulated liability has been recorded for accumulated compensated absences.

PENSIONS

Plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
- c. Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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.

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.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 Cash Position and Statement of Activities Arising from Cash Transactions, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

H. NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets, 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. There are no instances of noncompliance that are considered material to the financial statements.

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.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

- 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 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, 2015, the carrying amount of the District's deposits was \$5,220,513 and the bank balance was \$5,309,595. 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, 2015.

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.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 5 DEFINED BENEFIT PENSION PLANS

The District prepares its financial statements on the modified cash basis of accounting as described in Note 1 and has not adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* or GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The following footnote is for informational purposes only and includes amounts for deferred inflows of resources, deferred outflows of resources and net pension liability that would have been recorded under generally accepted accounting principles.

PLAN DESCRIPTION

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

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 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Contributions – Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2015. The District's contributions to the GERP for the year ended December 31, 2015, were \$28,286. The District's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At December 31, 2015, the District's liability is \$362,776 for its proportionate share of the GERP's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was .0070%

At December 31, 2015, the District's proportionate share of the GERP's deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 18,290
Changes in proportion	-	14,092
Difference between projected and actual investment earnings	34,342	-
Contributions paid to PERA subsequent to the measurement date	14,143	-
Total	\$ 48,485	\$ 32,382

\$14,143 of deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2016	\$ (2,208)
2017	(2,208)
2018	(2,208)
2019	8,586

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Actuarial Assumptions – The total pension liability in the June 30, 2015, actual valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2034, then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 20, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The Discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity – The following presents the District’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

District Proportionate Share of NPL		
1% Decrease (6.9%)	Current (7.9%)	1% Increase (8.9%)
\$ 570,413	\$ 362,776	\$ 191,300

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Related-Party Investments

As of December 31, 2015, 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 ended December 31, 2015:

	Transfers In	Transfers Out
Capital Projects Fund	\$ -	\$ 200,000
Special Revenues Fund	200,000	-
Total	\$ 200,000	\$ 200,000

The transfer made between funds was to fund a portion of the Brandt Channel Project.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 8 CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Building and Improvements	\$ 762,888	\$ -	\$ -	\$ 762,888
Infrastructure Improvements	9,494,875	2,765,297		12,260,172
Engineering Equipment	392,381	31,823	34,937	389,267
Office Equipment	140,845	2,709	4,246	139,308
Land & Permanent Easements	1,876,741	181		1,876,922
Construction in Progress	1,686,313	44,782	1,686,313	44,782
Total	<u>\$ 14,354,043</u>	<u>\$ 2,844,792</u>	<u>\$ 1,725,496</u>	<u>\$ 15,473,339</u>
<u>Accumulated Depreciation</u>				
Building and Improvements	\$ 229,630	\$ 22,024	\$ -	\$ 251,654
Infrastructure Improvements	1,405,648	464,761	-	1,870,409
Engineering Equipment	318,939	29,590	34,317	314,212
Office Equipment	100,287	15,994	4,246	112,035
Total	<u>2,054,504</u>	<u>532,369</u>	<u>38,563</u>	<u>2,548,310</u>
	<u>\$ 12,299,539</u>	<u>\$ 2,312,423</u>	<u>\$ 1,686,933</u>	<u>\$ 12,925,029</u>

Depreciation expense of \$532,369 for the year ended December 31, 2015 is included in general and administrative program costs.

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 2015 was \$549,678.

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, 2015, 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.

RED LAKE WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 Odney Flaot Wildlife Dam outlet repair project at December 31, 2015 was \$68,125.

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through February 19, 2016, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

RED LAKE WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

REVENUES	Original and Final Budget	Actual 2015	Variance
Tax Levies	\$ 157,200	\$ 157,200	\$ -
Intergovernmental			
State	-	1,805	1,805
Miscellaneous	-	1,976	1,976
Allocated Interest	-	3,790	3,790
	<u>157,200</u>	<u>164,771</u>	<u>7,571</u>
Total Revenues	<u>157,200</u>	<u>164,771</u>	<u>7,571</u>
EXPENDITURES			
General and Administrative	157,200	154,582	(2,618)
Interest	-	1,678	1,678
	<u>157,200</u>	<u>156,260</u>	<u>(940)</u>
Total Expenditures	<u>157,200</u>	<u>156,260</u>	<u>(940)</u>
Revenue Over Expenditures	-	8,511	<u>8,511</u>
FUND BALANCE JANUARY 1	<u>428,975</u>	<u>428,975</u>	
FUND BALANCE DECEMBER 31	<u>\$ 428,975</u>	<u>\$ 437,486</u>	

See Note to the Budgetary Comparison Schedule

RED LAKE WATERSHED DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2015

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 2015 at \$157,200. 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, 2015

	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	\$ 428,975	\$ 1,976	\$ 1,805	\$ 3,790	\$ 157,200	\$ 704,260	\$ 1,678	\$ (549,678)	\$ -	\$ 437,486
SPECIAL REVENUE FUND JOBS:										
Red Lake River Project	58,128	-	-	296	-	-	-	356	-	58,068
Clearwater River Project	27,641	-	-	140	-	-	-	1,245	-	26,536
Lost River Project	12,364	-	-	57	-	458	-	3,345	-	8,618
RLWD Ditch #1	4,181	-	-	14	-	288	-	1,669	-	2,238
RLWD Ditch #3	440	4,796	-	12	-	-	-	90	-	5,158
State Ditch #83	(44,342)	37,802	24,496	-	-	28,952	93	6,639	-	(17,728)
RLWD Ditch #7	8,890	4,867	-	35	-	5,234	-	135	-	8,423
Pine Lake Maintenance	1,096	4,063	-	6	-	567	-	3,264	-	1,334
RLWD Ditch #8	(13,734)	8,625	-	-	-	465	55	23	-	(5,652)
RLWD Ditch #9	2,516	-	-	12	-	313	-	-	-	2,215
J.D. Ditch #72	1,462	4,553	-	-	-	3,536	10	4,530	-	(2,061)
Clearwater/Wild Rice River	4,749	2,235	-	-	-	97	8	14,618	-	(7,739)
Branch A & 1, J.D. #2	1,662	-	-	8	-	225	-	316	-	1,129
Main J.D. #2 and Branch B&C	(5,246)	6,301	-	-	-	842	14	383	-	(184)
Main J.D. 2C. Eck	3,559	-	-	13	-	-	-	962	-	2,610
Krostue Petition	1,784	2,000	-	11	-	985	-	118	-	2,692
Clearwater County Joint Ditch #1	(137)	-	-	-	-	-	-	-	-	(137)
Clearwater County Joint Ditch #4	343	-	-	2	-	-	-	-	-	345
Clearwater County Joint Ditch #5	1,161	46	-	4	-	789	-	459	-	(37)
Clearwater County Ditch #1	290	-	-	-	-	-	-	-	-	290
Clifford Arveson Ditch	(750)	2,951	-	-	-	-	3	276	-	1,922
Winsor/Hangaard/Clearwater County Petition	(3,793)	6,011	-	-	-	5,130	22	1,457	-	(4,391)
Equality RLWD Ditch #1, lat C	3,790	1,728	-	37	-	753	-	1,031	-	3,771
K. Johnson Petition	4,067	1,940	-	14	-	1,902	-	129	-	3,990
Polk County Ditch #'s 104, 61, 47, 94	(3,332)	5,359	-	-	-	6,947	33	332	-	(5,285)
TRF Drainage Ditch (Challenger Ditch)	951	978	-	5	-	-	-	-	-	1,934
Scott Baatz Petition	2,127	-	-	7	-	1,121	-	45	-	968
Polk County Ditch #63 Improvement	13,079	-	-	56	-	2,423	-	2,215	-	8,497
Polk County Ditch #33 Improvement	220	2,508	-	-	-	1,485	-	933	-	310
RLWD Ditch #10	(3,004)	1,101	-	-	-	174	15	732	-	(2,824)
RLWD Ditch #11	33,262	-	-	165	-	1,563	-	281	-	31,583
RLWD Ditch #12	(21,762)	15,450	-	-	-	5,777	97	1,256	-	(13,442)
Improvement to Penn. Co. Dt. 1	5,138	-	-	-	-	7,471	7	2,330	-	(4,670)
Brandt Channel Ditch #15	(1,485,592)	1,481,083	-	-	-	80,361	5,624	9,936	200,000	99,570
Burnham Creek Channel	(53,086)	14,778	-	-	-	7,305	267	1,044	-	(46,924)
RLWD Ditch #13	3,115	-	-	16	-	-	-	45	-	3,086
Thief River Falls Flood Damage Reduction Project	(5,708)	6,221	-	-	-	5,933	40	2,542	-	(8,002)
TOTAL SPECIAL REVENUE	\$ (1,444,471)	\$ 1,615,396	\$ 24,496	\$ 910	\$ -	\$ 171,096	\$ 6,288	\$ 62,736	\$ 200,000	\$ 156,211

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, 2015

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,512	\$ 38	\$ 5,547	\$ 14,097	\$ -
Lost River Impoundment	-	-	-	-	-	-	-	193	193	-
Stream Gauging	-	-	-	-	-	101	34	10,048	10,183	-
Culvert Sizing	-	-	-	-	-	-	14	6,916	6,930	-
Schirrick Dam	-	-	-	-	-	721	3	1,128	1,852	-
Pine Lake PWT	(2,246)	-	24,310	-	-	81,512	220	11,690	-	(71,358)
Hydrologic Analysis	-	-	-	-	-	-	13	6,479	6,492	-
Flood Control Study	-	-	-	-	-	-	4	776	780	-
Benchmarks	-	-	-	-	-	-	5	1,487	1,492	-
Emergency Maintenance	108,695	-	-	556	-	-	-	-	-	109,251
RRWMB - Technical Com	-	-	460	-	-	460	-	-	-	-
Water Quality	-	597	-	-	-	52,010	266	67,014	118,693	-
Maintenance Dams	-	-	-	-	-	21,034	64	5,644	26,742	-
Odney Flaot Dam	-	-	-	-	-	13,627	19	1,134	-	(14,780)
Latundresse Dam	-	-	-	-	-	15,277	11	190	-	(15,478)
Miller Dam	-	-	-	-	-	16,111	16	633	-	(16,760)
Elm Lake	-	-	-	-	-	50	5	2,636	2,691	-
Red Lake Res./Good Lake	-	-	-	-	-	14,150	21	3,063	17,234	-
Parnell Impoundment	-	3,210	-	-	-	22,158	69	6,654	25,671	-
Greenwood 27 Bank Stabilization	-	-	-	-	-	-	-	95	95	-
Rocksbury Erosion Site	-	-	-	-	-	-	-	169	169	-
Permits	-	-	-	-	-	13,742	260	94,103	108,105	-
Project Development	-	-	-	-	-	3,988	90	33,187	37,265	-
Louisville/Parnell Project	-	11,847	-	10	-	8,146	-	1,838	(1,873)	-
Ring Dike Program - General	-	-	-	-	-	-	1	760	762	1
Ross Ring Dike	-	-	-	-	-	-	1	348	-	(349)
G.I.S.	-	-	-	-	-	140	108	27,991	28,239	-
Wetland Banking	5,753	-	-	26	-	-	-	1,059	-	4,720
Ten Year Overall Plan	(16,824)	-	11,894	-	-	1,631	132	25,880	-	(32,573)
Clearwater River - TMDL	-	-	-	-	-	-	3	566	569	-
Erosion Control Projects	-	-	62,719	-	-	116,141	169	8,334	61,925	-
WS Ditch System Inventory & Mapping	-	-	19,350	82	-	-	-	142	-	19,290
FEMA D-Firm Grant	-	-	5,619	6	-	3,373	-	1,625	(627)	-
Web Page Development	-	-	1,500	1	-	1,340	-	1,872	1,711	-
Administrative Construction	5,147,697	25,013	53,681	28,952	1,188,642	-	-	-	(1,699,267)	4,744,718
Burnham Creek - BR6	-	-	-	-	-	-	1	436	437	-
B. CRK. Erosion Control	(240,771)	-	194,180	1	-	-	531	685	47,806	-
B. CRK. Fish Habitat	(98,518)	-	50,000	-	-	225	316	1,008	50,067	-
Grand Marais Creek Subwatershed	(1,929)	-	1,847	-	-	-	3	274	359	-
Euclid East Impoundment	-	3,094	-	-	-	3,387	12	1,579	1,884	-
Brandt Impoundment	-	408	-	-	-	5,965	21	1,500	7,078	-

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, 2015

Fund Balance (Deficit) January 1	Revenues				Expenses			Transfer	Fund Balance (Deficit) December 31	
	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	-	-	-	-	2,768	8	237	3,013	-	
Grand Marais - Restoration	(820,608)	400	1,038,171	-	1,021,327	3,919	22,281	829,564	-	
Grand Marais Cut Channel Stabilization	-	-	-	-	61,583	166	2,398	64,147	-	
Clearwater Public Education (River Watch)	-	321	-	-	3,198	47	14,209	17,133	-	
Red River Basin Long Term Flood Control	-	-	-	-	512	17	5,385	5,914	-	
Four Legged Lake PWT	(4,918)	-	20,624	-	47,172	84	10,378	-	(41,928)	
BWSR Flood Storage Pilot Project	-	-	-	-	-	-	70	70	-	
Glacial Ridge/LCCMR/400k	(69,687)	-	101,231	-	31,544	20	1,915	1,935	-	
Glacial Ridge/LCCMR/168k	(38,545)	-	53,633	-	15,088	9	366	375	-	
Thief River TMDL	(5,808)	-	30,383	-	8,767	60	32,601	-	(16,853)	
Red Lake River Watershed Assessment	(10,433)	-	18,866	-	5,105	62	14,690	-	(11,424)	
RLRVR Grand Marais SWAG	-	-	-	-	-	-	95	95	-	
Grand Marais WRAP	(6,451)	-	47,678	-	48,026	55	7,211	-	(14,065)	
Clearwater River WRAP	(5,440)	-	46,800	-	15,381	47	37,388	-	(11,456)	
Clearwater River SWAG	(3,010)	-	14,747	-	12,827	15	3,035	-	(4,140)	
Total Capital Projects	3,936,957	44,890	1,797,693	29,634	1,188,642	6,959	486,942	(200,000)	4,626,816	
Total All Funds	\$ 2,921,461	\$ 1,662,262	\$ 1,823,994	\$ 34,334	\$ 1,345,842	\$ 2,552,455	\$ 14,925	\$ -	\$ -	\$ 5,220,513

RED LAKE WATERSHED DISTRICT
STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION –
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>DIRECT EXPENDITURES:</u>	<u>2015</u>
Salaries -	
Inspection	\$ 3,221
Survey - preliminary	1,852
Survey - construction	195
Drafting	5,867
Engineering	75,562
Project Administration	199,499
Field Work - Water Programs	15,164
Other	64,225
Compensated Absences	43,159
Payroll Taxes and Benefits	121,956
Manager's Expense	25,004
Travel, Mileage, Meetings and Per Diems	4,503
Audit	8,750
Legal	18,619
Appraisal and Viewers	320
Other Professional Fees	149,545
Office Supplies	13,390
Office Equipment	2,709
Dues & Subscriptions	4,570
Insurance and Bonds	20,833
Repairs and Maintenance	13,999
Utilities	7,624
Telephone	9,034
Advertising and Publications	4,701
Truck Expense	16,141
Land Acquisition and Easements	181
Construction	1,309,252
Engineering Costs & Fees	12,565
Engineering Fees	321,560
Engineering Equipment	31,823
Glacial Ridge	46,632
	<hr/>
Total Expenditures	<u><u>\$ 2,552,455</u></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, 2015

RECEIPTS

<u>Property Taxes</u>	
Beltrami County	\$ 88,949
Clearwater County	171,383
Itasca County	923
Koochiching County	8,120
Mahnomen County	1,569
Marshall County	47,809
Pennington County	213,658
Polk County	563,572
Red Lake County	92,555
Roseau County	104
State - MV	<u>53,681</u>
 TOTAL RECEIPTS	 <u>1,242,323</u>

DISBURSEMENTS

Red River Watershed Management Board	<u>1,242,323</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 and the standards applicable to the 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 of Thief River Falls, Minnesota as of and for the year ended December 31, 2015 and the related notes to the financial statements, and have issued our report thereon dated February 19, 2016.

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 referenced 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

February 19, 2016



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

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, 2015, 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 February 19, 2016.

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 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2015-001 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 from 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

February 19, 2016

RED LAKE WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-001 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 District's 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, 2015. 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, 2015

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.