

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

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**RED LAKE WATERSHED DISTRICT**  
**OFFICIAL DIRECTORY**  
**DECEMBER 31, 2018**

Board of Managers

<u>Manager</u>	<u>County</u>	<u>Position</u>
Dale M. Nelson	Pennington	President
Gene Tiedemann	West Polk	Vice President
Terry Sorenson	East Polk	Treasurer
LeRoy Ose	Marshall	Secretary
Brian Dwight	Beltrami	Manager
Allan Page	Red Lake	Manager
Les Torgerson	Clearwater	Manager

## 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 modified cash basis 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 modified cash basis financial position of the governmental activities, each major fund, and the remaining fund information of the Red Lake Watershed District, as of December 31, 2018, and the respective changes in modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

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 opinions are 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, statement of receipts and disbursements and changes in fund balance, statement of direct expenditures by classification, and statement of receipts and disbursements and changes in amounts due to other governmental units 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, statement of receipts and disbursements and changes in fund balance, statement of direct expenditures by classification, and statement of receipts and disbursements and changes in amounts due to other governmental units 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 16, 2019 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 solely 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 the effectiveness of the District's 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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

February 16, 2019

**RED LAKE WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Our discussion and analysis of the Red Lake Watershed District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018, 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 14.

## **FINANCIAL HIGHLIGHTS**

- The District's governmental funds total revenues exceeded total expenditures, on the modified cash basis of accounting, by \$127,775 for the year ended December 31, 2018.
- The general fund showed a decrease on the modified cash basis fund balance in the amount of \$84,691.
- The District's General Fund ended the year with a fund balance of \$242,810.
- The District's combined fund balance at the close of the current year was \$4,739,851.

## **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 32) 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 34) 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.

**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**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, 2018**

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, the Special Revenue Fund, and the Capital Project Fund as significant or major governmental funds. There are no other 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 \$862,888 between fiscal years 2018 and 2017. 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 \$20,046,010 at December 31, 2018, which is an increase of \$862,888 over the year ended December 31, 2017; which is more than a 4.50% increase over the prior year.

A portion of Red Lake Watershed District's net position (\$15,306,159 or 76.36%) 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 (\$129,298) 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, 2018**

	Governmental Activities		Change
	2018	2017	17-18
<b>ASSETS</b>			
Total Current Assets	\$ 4,739,851	\$ 4,612,076	\$ 127,775
Net Capital Assets	15,306,159	14,571,046	735,113
<b>Total Assets</b>	<b>\$ 20,046,010</b>	<b>\$ 19,183,122</b>	<b>\$ 862,888</b>
 <b>Net Position</b>	 <b>\$ 20,046,010</b>	 <b>\$ 19,183,122</b>	 <b>\$ 862,888</b>

**Changes in Net Cash Position**

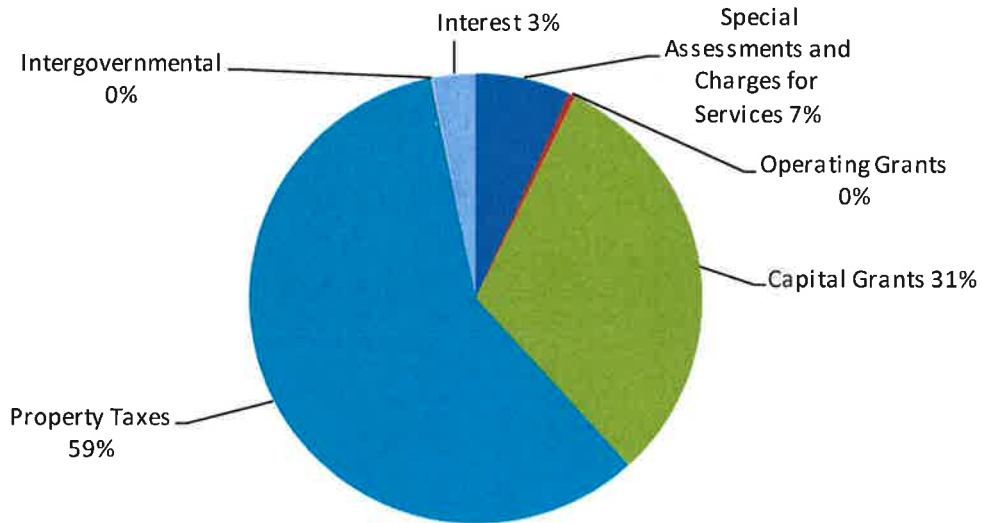
For the years ended December 31, 2018 and 2017, Net Position of the primary government (resulting from modified cash basis transaction) changed as follows:

	Governmental Activities		Change
	2018	2017	17-18
<b>Revenues</b>			
Program Revenues			
Special Assessments and Charges for Services	\$ 222,944	\$ 235,043	\$ (12,099)
Operating Grants	16,060	16,060	-
Capital Grants	1,025,877	950,015	75,862
General Revenues			
Property Taxes	1,939,947	1,468,953	470,994
Intergovernmental	1,805	1,805	-
Interest	104,215	65,441	38,774
<b>Total Revenues</b>	<b>3,310,848</b>	<b>2,737,317</b>	<b>573,531</b>
<b>Expenses</b>			
General and Administration	98,473	148,788	(50,315)
Ongoing Projects and Studies	158,237	268,581	(110,344)
Capital Projects	2,139,851	1,655,164	484,687
Allocated Interest	51,399	18,167	33,232
<b>Total Expenses</b>	<b>2,447,960</b>	<b>2,090,700</b>	<b>357,260</b>
<b>Increase in Net Position</b>	<b>862,888</b>	<b>646,617</b>	<b>216,271</b>
<b>Net Position - January 1</b>	<b>19,183,122</b>	<b>18,536,505</b>	<b>646,617</b>
<b>Net Position - December 31</b>	<b>\$ 20,046,010</b>	<b>\$ 19,183,122</b>	<b>\$ 862,888</b>

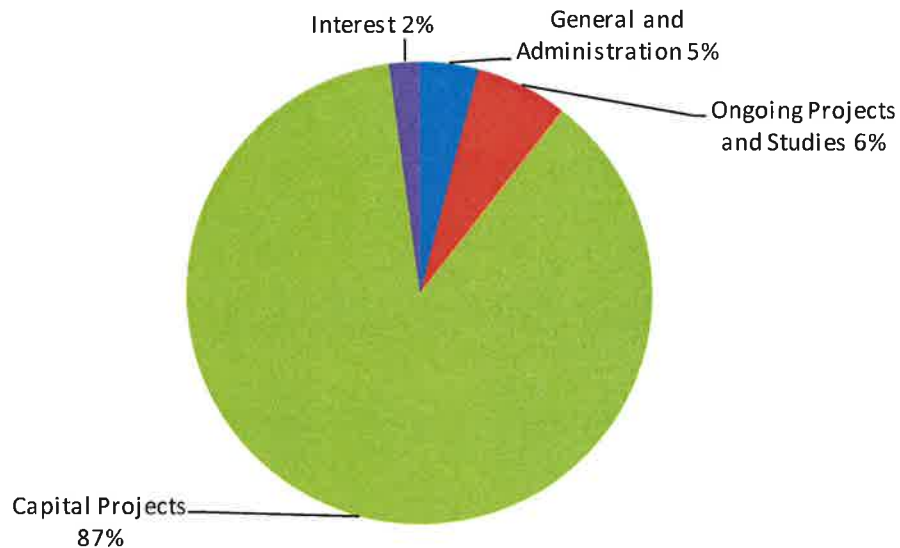
**RED LAKE WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2018:

**Governmental Activities - Revenues**



**Governmental Activities - Expenditures**



**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**Governmental Activities**

To aid in the understanding of the Statement of Activities Arising from Cash Transactions 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, 2018, General Fund expenditures were \$60,853 under final budget. The budget was not amended during the year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets—Modified Cash Basis**

At December 31, 2018, the District had approximately \$15,306,159 (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.

	2018		2017	
	Cost	Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation
Building and Improvements	\$ 775,594	\$ 319,310	\$ 456,284	\$ 478,790
Infrastructure Improvements	12,601,966	3,361,999	9,239,967	9,740,111
Engineering Equipment	400,130	353,789	46,341	67,292
Office Equipment	179,004	144,367	34,637	35,473
Land and Permanent Easements	3,681,959	-	3,681,959	3,018,474
Construction in Progress	1,846,971	-	1,846,971	1,230,906
	<u>\$ 19,485,624</u>	<u>\$ 4,179,465</u>	<u>\$ 15,306,159</u>	<u>\$ 14,571,046</u>

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

As noted below, construction will begin on several projects as well as work on several water quality grants, flow through-grants, cooperative projects with other agencies, and investigation into a flood control project.

**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**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.

Red Lake Watershed District entered into a grant agreement with the Natural Resource Conservation Service for the study of projects which qualify for the Regional Conservation Partnership Programs (RCPP). The grant for the Pine Lake Watershed funded 70% of the cost of the study, not to exceed \$500,000, which included a study for the completion of a Watershed Protection Plan. Development of the plan continued into 2018 but due to various concerns with permitting agencies and costs associated with delays in moving forward, all funds earmarked for the plan were spent without a final plan being developed. It was estimated that an additional \$200,000 was needed to complete the plan. The District staff and consultant met with the Red River Retention Authority requesting additional cost share but were denied. The Board directed staff to gather additional information from the permitting agencies to determine if a final plan could be completed and what timeline it would take. A final decision on continuing the plan will be made in 2019.

Red Lake Watershed District entered into a second grant agreement with the Natural Resource Conservation Service for the study of projects which qualify for the Regional Conservation Partnership Programs (RCPP). The grant for the Four-Legged Lake Watershed funded 70% of the planning process, not to exceed \$265,088, which will include a study for the completion of a Watershed Protection Plan. After various efforts to get the plan completed with obvious issues moving forward, the Red Lake Watershed District ended this grant without completing the plan. NRCS is presently evaluating the completed portion of the plan and will determine what actions will have to take place to close the grant and reissue the remaining dollars to the Red River Retention Authority.

Red Lake Watershed District and local partners entered into a grant agreement with the Board of Water and Soil Resources (BWSR) to complete a Pilot Project referred to the public as "*Red Lake River One Watershed One Plan*". The grant, administered by Pennington Soil and Water Conservation District in the amount of \$127,266, was for the development of a comprehensive ten-year plan for the Red Lake River Watershed. The planning and writing of the grant were completed in 2016 with final approval by the BWSR Board in July of 2017. In 2018, funding through the BWSR Clean Water Fund in the amount of \$677,551 was awarded to this planning region to complete various projects identified in the workplan approved by the BWSR. In 2019 and 2020, the District and its planning partners, will complete the proper steps to assure the approved projects are constructed.

Red Lake Watershed District and local partners entered into a grant agreement with the Board of Water and Soil Resources (BWSR) to complete a Pilot Project referred to the public as "*Thief River One Watershed One Plan*". The planning process was started in late 2017 and continued through 2018. It is expected that final draft plan will be completed in early summer 2019, public comment period and hearing completed with final approval by BWSR in late 2019.

As part of a \$38,700 grant agreement applied for and approved by the Board of Water and Soil Resources, the Red Lake Watershed District developed a Drainage Database which allowed for better record maintenance with Inspection Plans and Reports. This project was finalized by December 31, 2018 and will be reconciled by BWSR in early 2019.

**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Red Lake Watershed District approved by motion to proceed with the investigation of developing a flood damage reduction project referred to as the Black River Impoundment. In late 2016, the RLWD has entered into agreements with three landowners and preliminary engineering was ordered. In June of 2017, options with landowners were exercised with land purchases and easements completed. In 2018, final engineering was completed and permitting was started along with an investigation of creating Wetland Banking credits within the template of the proposed project. In early 2018, the District was informed that no State funding was earmarked for this project. The Board of Managers decided that even though no funding was obtained, the RLWD would proceed with exercising the step submittals to the Red River Watershed Management Board to secure their funding for the project. The Board also elected to proceed with a public hearing which was held August 8, 2018. The District will continue to secure State cost share and to continue through the permitting process so should funding become available, project will be ready for construction.

Late 2017, the Red Lake Watershed District was petitioned by the City of Thief River Falls and Pennington County to investigate the drainage issues along the westside of the City. HDR Engineering, Inc. was hired to complete an analysis for the "Thief River Falls Westside Flood Damage Reduction Project". In 2018, the District held various landowner meetings as well as coordination with the City of Thief River Falls, Pennington County and Minnesota Department of Transportation to complete a preliminary design for the proposed project. The District officially labeled this project "Thief River Falls Westside Flood Damage Reduction Project No. 178." On September 8, 2018, the District signed a grant agreement with the State of Minnesota in the amount of \$1,500,000 to assist with 50% of the cost for this project. On December 10, 2018, the RLWD was informed that the District was approved for a \$400,000 Local Partnership Grant from the MnDOT. This was very good news as the Watershed District moves forward in completing the funding package for this project. It is the hopes of the District that a public hearing will be held on this project early spring 2019 with construction starting in July.

March of 2017, the Red Lake Watershed District and West Polk Soil and Water Conservation District partnered in a \$103,000 Board of Water and Soil Resource Conservation Legacy Grant. The grant was used to complete various items that would stabilize the outlet channel for a public drainage system referred to the RLWD as Polk County Ditch 63 Improvement, Project 134. The project was substantially completed the fall of 2017 with minor revisions to the project completed in 2018.

In March of 2018, the Red Lake Watershed District and Agassiz National Wildlife Refuge applied for and received a \$242,000 MnDNR Conservation Partnership Grant. This grant will assist Agassiz National Wildlife Refuge in completing a three-phase project, designed to establish and enhance native wildlife habitat and increase biodiversity in portions of the refuge. Phase I of the grant, which included cattail spraying to approximately 1,700 acres of wetland complex, was completed in August of 2018. Phase II which included the rehabilitation of the Thief Bay Water Control Structure was completed in September of 2018.

It should also be noted that in 2017 the District received two legal drainage petitions in Polk County. One petition was for the establishment of a public drainage system referred to as Red Lake Watershed District Ditch #16, Project No. 177 and the other petition was for the improvement to Polk County Ditch #39, Project No. 179. In 2018, a preliminary hearing was had on Project No. 177 at which time viewers were hired. In 2019, it is assumed that viewing will be completed on Project 177 along with final hearing and construction. It is assumed that Preliminary Hearing, Viewing and Final Hearing will be held with construction either starting late 2019 or early 2020.

**RED LAKE WATERSHED DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**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, 2018**

	<u>Total</u>
Assets	
Current Assets:	
Petty Cash	\$ 100
Pooled Cash and Investments	4,739,751
Total Current Assets	<u>4,739,851</u>
Capital Assets:	
Property and Equipment	19,485,624
Less: Accumulated Depreciation	<u>(4,179,465)</u>
Net Capital Assets	<u>15,306,159</u>
Total Assets	<u>20,046,010</u>
Net Position	
Investment in Capital Assets	15,306,159
Restricted for Ditch Maintenance	129,298
Unrestricted	<u>4,610,553</u>
Total Net Position	<u>\$ 20,046,010</u>

See Notes to the Basic Financial Statements

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ (767,115)	\$ 668,642	\$ (98,473)	\$ 7,938	\$ -	\$ -	\$ (90,535)
Ongoing Projects and Studies	(99,624)	(58,613)	(158,237)	173,972	16,060	-	31,795
Capital Projects	(1,529,822)	(610,029)	(2,139,851)	41,034	-	1,025,877	(1,072,940)
Allocated Interest	(51,399)	-	(51,399)	-	-	-	(51,399)
Total Governmental Activities	<u>\$ (2,447,960)</u>	<u>\$ -</u>	<u>\$ (2,447,960)</u>	<u>\$ 222,944</u>	<u>\$ 16,060</u>	<u>\$ 1,025,877</u>	<u>\$ (1,183,079)</u>
<b>General Receipts:</b>							
Tax Levies							\$ 1,939,947
Intergovernmental (not restricted to specific programs)							1,805
State MV, Disparity Reduction Credits, and PERA Aid							<u>104,215</u>
Allocated Interest							<u>2,045,967</u>
Total General Receipts							862,888
Change in Net Position							<u>19,183,122</u>
Net Position - Beginning							<u>\$ 20,046,010</u>
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, 2018**

<u>ASSETS</u>	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
Petty Cash	\$ 100	\$ -	\$ -	\$ 100
Pooled Cash and Investments	242,710	129,298	4,367,743	4,739,751
Total Assets	<u>\$ 242,810</u>	<u>\$ 129,298</u>	<u>\$ 4,367,743</u>	<u>\$ 4,739,851</u>
<u>FUND BALANCES</u>				
Restricted for Ditch Maintenance	\$ -	\$ 129,298	\$ -	\$ 129,298
Committed for Capital Projects	-	-	4,367,743	4,367,743
Unassigned	242,810	-	-	242,810
Total Fund Balances	<u>\$ 242,810</u>	<u>\$ 129,298</u>	<u>\$ 4,367,743</u>	<u>\$ 4,739,851</u>

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

Total Fund Balance per Statement of Balances Arising from Cash Transactions, from above	\$ 4,739,851
-----------------------------------------------------------------------------------------	--------------

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 cash position includes those capital assets among the assets of the District as a whole.

	Cost of Capital Assets	19,485,624
	Accumulated Depreciation	<u>(4,179,465)</u>
Total Net Position		<u>\$ 20,046,010</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, 2018**

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
<u>RECEIPTS</u>				
Property Taxes	\$ -	\$ -	\$ 1,939,947	\$ 1,939,947
Special Assessments	-	166,634	-	166,634
Intergovernmental:				
Federal	-	60	243,010	243,070
State	1,805	16,000	718,686	736,491
Local	-	-	64,181	64,181
Other:				
Miscellaneous	7,938	7,338	41,034	56,310
Allocated Interest	8,848	3,441	91,926	104,215
Total Receipts	18,591	193,473	3,098,784	3,310,848
<u>DISBURSEMENTS</u>				
General and Administrative	98,472	-	-	98,472
Ongoing Projects and Studies	-	158,237	-	158,237
Capital Projects	-	-	2,874,964	2,874,964
Allocated Interest	4,810	1,641	44,949	51,400
Total Disbursements	103,282	159,878	2,919,913	3,183,073
Net Change in Fund Balances	(84,691)	33,595	178,871	127,775
FUND BALANCE JANUARY 1	327,501	95,703	4,188,872	4,612,076
FUND BALANCE DECEMBER 31	\$ 242,810	\$ 129,298	\$ 4,367,743	\$ 4,739,851

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, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ 127,775
Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital Additions	1,291,686
Depreciation Expense	<u>(556,573)</u>
Change in Net Position - Governmental Activities	<u>\$ 862,888</u>

See Notes to the Basic Financial Statements

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF NET CASH POSITION – FIDUCIARY FUNDS**  
**AS OF DECEMBER 31, 2018**

<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 THE BASIC FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2018**

**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 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 THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

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 and are all considered major programs for financial statement purposes.

**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**

Red River Water Management Board

**Brief Description**

Property Taxes are levied by the District and submitted to the Management Board.



**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**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 economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**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 THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**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 Cash Position, with accumulated depreciation reflected in the Statement of Net Cash 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 \$5,000 for infrastructure are used to report capital assets. Estimated useful lives being used are summarized below:

Building and Improvements	19-40 years
Equipment, Furniture and Fixtures	3-15 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 cash 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 cash 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 THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**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.

Currently the District does not have long-term debt.

**COMPENSATED ABSENCES**

Full-time employees starting on the date of employment will 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, after ten years of employment but less than twenty, an employee accrues 160 hours per year of vacation, and after 20 years of employment an employee accrues 200. 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 400 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 the employee quits or is terminated for any reason, no payment shall be made to the 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."

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

- c. Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.

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.

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

*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 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.

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

- 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 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, 2018, the carrying amount of the District's deposits was \$4,739,851 and the bank balance was \$4,892,072. 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, 2018.

**Related-Party Investments**

As of December 31, 2018, the District held no related-party investments.

**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 THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

**NOTE 5 DEFINED BENEFIT PENSION PLANS**

**Plan Description**

All full-time and certain part-time employees of the Red Lake Watershed District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (accounted for in the General Employees Fund), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

General Employees Plan 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 survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for members of the General Employees Plan vest after five years of credited service.

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

For all General Employees Plan 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. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

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 before retirement benefits begin.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants.

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Plan. That report may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org).

**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 Red Lake Watershed District makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in 2018. In 2018, the Red Lake Watershed District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.5 percent for Coordinated Plan members. The Red Lake Watershed District's contributions to the General Employees Fund for the years ended December 31, 2018, 2017 and 2016 were \$33,961, \$30,223, and \$27,201, respectively.

**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 CAPITAL ASSETS**

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Capital Assets</b>				
Building and Improvements	\$ 775,594	\$ -	\$ -	\$ 775,594
Infrastructure Improvements	12,601,966	-	-	12,601,966
Engineering Equipment	426,170	2,455	28,495	400,130
Office Equipment	169,323	9,681	-	179,004
Land and Permanent Easements	3,018,474	663,485	-	3,681,959
Construction in Progress	1,230,906	616,065	-	1,846,971
Total	<u>\$ 18,222,433</u>	<u>\$ 1,291,686</u>	<u>\$ 28,495</u>	<u>\$ 19,485,624</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<b>Accumulated Depreciation</b>				
Building and Improvements	\$ 296,804	\$ 22,506	\$ -	\$ 319,310
Infrastructure Improvements	2,861,855	500,144	-	3,361,999
Engineering Equipment	358,878	23,406	28,495	353,789
Office Equipment	133,850	10,517	-	144,367
Total	<u>3,651,387</u>	<u>556,573</u>	<u>28,495</u>	<u>4,179,465</u>
	<u>\$ 14,571,046</u>	<u>\$ 735,113</u>	<u>\$ -</u>	<u>\$ 15,306,159</u>



**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

Depreciation expense of \$556,573 for the year ended December 31, 2018 is included in general and administrative program costs.

**NOTE 8 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 2018 was \$668,642.

**NOTE 9 CONTINGENCIES**

**Grants**

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2018, 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 10 NEW PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were

**RED LAKE WATERSHED DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2018**

previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the District's financial statements.

#### **NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through February 16, 2019, 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, 2018**

	Original and Final Budget	Actual 2018	Variance
<b>REVENUES</b>			
Intergovernmental			
State	\$ -	\$ 1,805	\$ 1,805
Miscellaneous	7,000	7,938	938
Allocated Interest	-	8,848	8,848
	<u>7,000</u>	<u>18,591</u>	<u>11,591</u>
<b>Total Revenues</b>			
	<u>7,000</u>	<u>18,591</u>	<u>11,591</u>
<b>EXPENDITURES</b>			
General and Administrative	164,135	98,472	(65,663)
Interest	-	4,810	4,810
	<u>164,135</u>	<u>103,282</u>	<u>(60,853)</u>
<b>Total Expenditures</b>			
	<u>164,135</u>	<u>103,282</u>	<u>(60,853)</u>
<b>Expenditures Exceed Revenues</b>	(157,135)	(84,691)	72,444
<b>FUND BALANCE JANUARY 1</b>	<u>327,501</u>	<u>327,501</u>	
<b>FUND BALANCE DECEMBER 31</b>	<u>\$ 170,366</u>	<u>\$ 242,810</u>	

See Note to the Budgetary Comparison Schedule

**RED LAKE WATERSHED DISTRICT**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**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 revenue budget for the general fund, which is limited by state statute at \$250,000 and set by the Board for 2018 at \$7,000. All appropriations lapse at year-end.

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE – ALL FUNDS –**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Revenues					Expenses			Transfer	
	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)	Fund Balance (Deficit) December 31
GENERAL FUND	\$ 327,501	\$ 7,938	\$ 1,805	\$ 8,848	\$ -	\$ 767,115	\$ 4,809	\$ (668,642)	\$ -	\$ 242,810
SPECIAL REVENUE FUND JOBS:										
Red Lake River Project	54,046	3,814	-	733	-	-	-	719	-	57,874
Clearwater River Project	13,197	7,762	-	250	-	450	-	158	-	20,601
Lost River Project	4,850	2,228	-	80	-	-	-	325	-	6,833
RLWD Ditch #1	5,163	674	-	58	-	2,114	-	463	-	3,318
RLWD Ditch #3	5,425	491	-	58	-	2,448	-	413	-	3,113
State Ditch #83	(13,475)	35,834	16,060	94	-	17,286	-	2,036	-	19,191
RLWD Ditch #7	6,382	4,105	-	81	-	4,255	-	2,438	-	3,875
Pine Lake Maintenance	(2,373)	4,022	-	-	-	162	37	4,687	-	(3,237)
RLWD Ditch #8	2,789	230	-	37	-	-	-	28	-	3,028
RLWD Ditch #9	735	-	-	3	-	-	-	916	-	(178)
J.D. Ditch #72	(30,898)	3,847	-	-	-	1,784	481	4,565	-	(33,881)
Clearwater/Wild Rice River	697	8,933	-	55	-	-	-	2,816	-	6,869
Branch A & 1, J.D. #2	1,043	1,011	-	16	-	170	-	381	-	1,519
Main J.D. #2 and Branch B&C	1,353	2,672	-	32	-	-	-	193	-	3,864
Main J.D. 2C, Eck	(2,730)	4,748	-	-	-	-	11	370	-	1,637
Krostue Petition	(4,196)	194	-	-	-	1,873	71	1,341	-	(7,287)
Clearwater County Joint Ditch #4	1,421	500	-	20	-	-	-	138	-	1,803
Clearwater County Joint Ditch #5	(799)	983	-	-	-	5,006	37	3,757	-	(8,616)
Clearwater County Ditch #1	796	-	-	8	-	-	-	450	-	354
Clifford Arveson Ditch	5,783	529	-	79	-	-	-	135	-	6,256
Winsor/Hangaard/Clearwater County Petition	8,357	5,022	-	131	-	-	-	318	-	13,192
Equality RLWD Ditch #1, lat C	2,311	898	-	15	-	2,913	-	2,380	-	(2,069)
K. Johnson Petition	2,778	801	-	33	-	1,100	-	596	-	1,916
Polk County Ditch #'s 104, 61, 47, 94	(2,364)	6,009	-	-	-	3,760	38	2,900	-	(3,053)
TRF Drainage Ditch (Challenger Ditch)	1,128	91	-	10	-	88	-	589	-	552
Scott Baatz Petition	1,136	168	-	10	-	450	-	321	-	543
Polk County Ditch #63 Improvement	(62,404)	332	-	43	-	(64,864)	-	1,505	-	1,330
Polk County Ditch #33 Improvement	3,187	563	-	24	-	2,718	-	825	-	231
RLWD Ditch #10	20	7,618	-	32	-	2,890	-	1,481	-	3,299
RLWD Ditch #11	26,933	726	-	325	-	3,245	-	963	-	23,776
RLWD Ditch #12	5,029	11,619	-	39	-	10,330	-	2,258	-	4,099
RLWD Ditch #14	(3,371)	2,940	-	-	-	3,396	53	507	-	(4,387)
RLWD Ditch #15	84,162	1,513	-	1,012	-	11,009	-	2,141	-	73,537
Burnham Creek Channel	5,780	21,672	-	134	-	7,500	-	444	-	19,642
RLWD Ditch #13	1,891	412	-	29	-	-	-	165	-	2,167
Thief River Falls Flood Damage Reduction Project	(23,378)	31,011	-	-	-	1,590	248	2,379	-	3,416
RLWD Ditch #16	(1,280)	-	-	-	-	56,311	475	11,931	-	(69,997)
Improv to Polk Co. #39	(3,421)	-	-	-	-	21,640	190	581	-	(25,832)
TOTAL SPECIAL REVENUE	95,703	173,972	16,060	3,441	-	99,624	1,641	58,613	-	129,298

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE – ALL FUNDS –**  
**MODIFIED CASH BASIS – CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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)	
CAPITAL PROJECT FUND JOBS:									
Moose River Project	\$ -	\$ -	\$ -	\$ -	\$ 8,515	\$ 108	\$ 6,979	\$ 15,602	\$ -
Lost River Impoundment	-	-	-	-	-	-	96	96	-
Stream Gauging	-	-	-	-	-	176	20,630	20,806	-
Culvert Sizing	-	-	-	-	-	51	8,531	8,582	-
Schirrick Dam	-	-	-	-	440	4	611	1,055	-
Pine Lake PWT	(336,147)	178,082	-	-	180,594	4,810	8,410	-	(351,879)
Little Pine Lake WMA	-	-	-	-	151,479	690	5,796	157,965	-
Hydrologic Analysis	-	-	-	-	-	62	8,666	8,728	-
Emergency Maintenance	110,812	-	1,418	-	-	-	-	-	112,230
RRWMB - Technical Com	-	593	-	-	593	3	1,320	1,323	-
Water Quality	-	-	-	-	36,759	903	103,505	141,167	-
Maintenance Dams	-	-	-	-	-	4	837	841	-
Odney Flaot Dam	-	-	-	-	2,310	14	691	3,015	-
Latundresse Dam	-	-	-	-	288	3	284	575	-
Miller Dam	-	-	-	-	-	1	203	204	-
Seeger Dam	-	-	-	-	-	2	284	286	-
Blackduck Lake Structure	(50,000)	50,000	-	-	2,257	128	1,644	4,029	-
Elm Lake	-	-	-	-	-	4	628	632	-
Red Lake Res./Good Lake	-	-	-	-	2,899	34	2,247	5,180	-
Pamell Impoundment	-	6,818	-	-	5,754	85	12,049	11,070	-
Permits	-	-	-	-	3,357	568	89,768	93,693	-
Project Development	-	-	-	-	1,113	315	39,541	40,969	-
Louisville/Pamell Project	-	-	-	-	3,698	28	935	4,661	-
Ring Dike Program - General	-	-	-	-	-	2	211	213	-
G.I.S.	-	-	-	-	-	266	37,101	37,367	-
Wetland Banking	-	-	-	-	1,378	29	2,007	3,414	-
Ten Year Overall Plan	-	338,776	1,738	-	1,493	-	13,284	12,121	337,858
Thief River 1W1P	50,293	101,872	-	-	125,198	74	48,523	-	(19,630)
PTMAPP Grant	602	-	-	-	18,063	208	11,180	-	(28,849)
North Pamell Storage Site	-	-	-	-	-	-	83	83	-
Clearwater River - TMDL	-	-	-	-	91	26	2,651	2,768	-
Red River Corridor	-	-	-	-	-	-	70	70	-
Erosion Control Projects	-	18,510	-	-	109,697	1,141	28,278	120,606	-
WS Ditch System Inventory & Mapping	(9,567)	-	-	-	-	1	83	83	(9,568)
Drainage- Inv & Insp	-	15,480	-	-	4,696	96	22,201	-	(11,513)
FEMA D-Firm Grant	-	-	-	-	-	6	528	534	-
Black River Impoundment	(365,266)	28,529	35,645	-	361,638	7,489	15,793	-	(686,012)
Web Page Development	(1,438)	-	1,437	-	1,272	21	1,640	1,477	(1,457)
Administrative Construction	6,053,092	-	82,472	88,720	1,939,947	-	-	(751,117)	7,413,114
Burnham Creek - BR6	-	-	-	-	3,181	40	3,914	7,135	-
Burnham Creek - Fish Habitat	-	-	-	-	-	-	106	106	-
Euclid East Impoundment	-	5,585	-	-	8,618	81	6,649	9,763	-
Brandt Impoundment	-	102	-	-	284	27	2,807	3,016	-

**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE – ALL FUNDS–**  
**MODIFIED CASH BASIS – CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,875	\$ 25	\$ 392	\$ 3,292	\$ -
Grand Marais - Restoration	-	-	-	-	-	720	46	5,302	6,068	-
Grand Marais Cut Channel Stabilization	-	-	-	-	-	-	-	83	83	-
Clearwater Public Education (River Watch)	-	-	-	-	-	3,329	173	20,820	24,322	-
Red River Basin Long Term Flood Control	(1,113,620)	-	-	-	-	670,205	22,839	3,750	-	(1,810,414)
Four Legged Lake PWT	(146,316)	-	72,924	-	-	82,286	2,196	8,043	-	(165,917)
BWSR Flood Storage Pilot Project	-	-	-	-	-	20	2	515	537	-
Glacial Ridge	-	-	-	-	-	-	3	330	333	-
Thief River TMDL	-	-	6,405	50	-	-	-	2,690	(3,765)	-
Red Lake River Watershed Assessment	(330)	-	863	-	-	-	12	6,577	-	(6,056)
Grand Marais WRAP	-	-	3,196	-	-	-	9	4,232	-	(1,045)
Clearwater River WRAP	(193)	-	18,820	-	-	-	65	25,602	-	(7,040)
TRF Westside FDR	(3,050)	-	-	-	-	347,720	1,928	17,611	-	(370,309)
State/Local/Federal Grants	-	-	-	-	-	-	8	1,004	1,012	-
Agassiz NWR Wetland	-	-	100,802	-	-	122,115	143	4,314	-	(25,770)
Total Capital Projects	4,188,872	41,034	1,025,877	91,926	1,939,947	2,264,935	44,949	610,029	-	4,367,743
Total All Funds	\$ 4,612,076	\$ 222,944	\$ 1,043,742	\$ 104,215	\$ 1,939,947	\$ 3,131,674	\$ 51,399	\$ -	\$ -	\$ 4,739,851



**RED LAKE WATERSHED DISTRICT**  
**STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION –**  
**GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>DIRECT EXPENDITURES:</u>	<u>2018</u>
Salaries -	
Inspection	\$ 12,710
Survey - Preliminary	422
Survey - Construction	1,227
Drafting	12,785
Engineering	51,607
Project Administration	260,442
Field Work - Water Programs	36,853
Other	55,498
Compensated Absences	46,508
Payroll Taxes and Benefits	100,530
Manager's Expense	27,167
Travel, Mileage, Meetings and Per Diems	8,723
Audit	9,000
Legal	32,266
Appraisal and Viewers	2,885
Other Professional Fees	106,574
Office Supplies	20,236
Office Equipment	9,681
Dues and Subscriptions	10,727
Insurance and Bonds	22,286
Repairs and Maintenance	12,832
Utilities	9,604
Telephone	9,907
Advertising and Publications	7,649
Truck Expense	11,161
Land Acquisition and Easements	663,485
Construction	407,233
Engineering Costs and Fees	15,170
Engineering Fees	1,164,051
Engineering Equipment	2,455
	<hr/>
Total Expenditures	\$ 3,131,674

**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, 2018**

RECEIPTS

Property Taxes

Beltrami County	\$ 123,730
Clearwater County	261,534
Itasca County	1,099
Koochiching County	2,017
Mahnomen County	2,473
Marshall County	73,082
Pennington County	376,667
Polk County	918,499
Red Lake County	180,656
Roseau County	190
State - MV	<u>82,472</u>

TOTAL RECEIPTS	<u>2,022,419</u>
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DISBURSEMENTS

Red River Watershed Management Board	<u>2,022,419</u>
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EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	-
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AMOUNT DUE TO OTHER GOVERNMENTAL UNITS, JANUARY 1	<u>-</u>
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AMOUNT DUE TO OTHER GOVERNMENTAL UNITS, DECEMBER 31	<u><u>\$ -</u></u>
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## 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 modified cash basis 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, 2018 and the related notes to the financial statements, and have issued our report thereon dated February 16, 2019.

### Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor Pursuant to Minn. § Stat. 6.65 contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, 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 Other 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 16, 2019

**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 modified cash basis 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, 2018, 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 16, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 2018-001 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 District'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 16, 2019

**RED LAKE WATERSHED DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**2018-001 Finding – Significant Deficiency**

**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, 2018. 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.

**Views of Responsible Officials and Planned Corrective Actions**

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**  
**DECEMBER 31, 2018**

**2018-001 Finding**

Contact Person – Myron Jesme, Administrator

Corrective Action Plan – Will obtain internal expertise to handle all aspects of external financial when it becomes economically feasible.

Completion Date – Ongoing