

Warroad Watershed District
PO Box 77 • 121 Wabasha Ave NE, Suite C
Warroad, MN 56763
www.warroadwatershed.org • 218-386-4520

Annual Report

for period including July 1, 2024 through June 30, 2025
FY 2025

Mission Statement

The Warroad Watershed District is committed to taking a proactive role in managing resources by providing leadership for water management and working in partnership with local, state, and federal entities to focus on water flow management to address issues related to surface water runoff, educating the public, and modeling good stewardship of the environment.

Establishment and Location

The Warroad Watershed District (WWD) was established September 20, 1963.

The Warroad Watershed District consists of two distinct areas. One part lies north of the watershed of the Warroad River. This part includes approximately 24 square miles of Lake Township of Roseau County and extends from the Warroad River watershed boundary north to the Canadian border. It is approximately six miles north to south and four miles east to west, and lies west of the shoreline of Lake of the Woods. The other area, the major portion of the District, is land draining directly to the Warroad River. The area drained by the Warroad River and tributaries lies in the Lake of the Woods drainage basin, which is part of the Hudson Bay basin. The Warroad Watershed District is located in the extreme north central to northwestern portion of Minnesota, next to the international boundary with Manitoba, Canada, and is in eastern Roseau County and western Lake of the Woods County. The only population center within the district is the city of Warroad, although the cities of Roseau and Baudette are within a short driving distance.

The District encompasses an area of 312 square miles (199,680 acres) of which 190 square miles are in the Beltrami Island State Forest. It has a maximum length of 32 miles from north to south and a maximum width of 10 miles from east to west.

The District has several distinct areas relative to management and development. The southern half is largely undeveloped (approximately 70% wetlands) and is home to Beltrami Island State Forest, Red Lake Indian Reservation land, federal land, and small plots of private land. There are also lands designated as "consolidated conservation" lands managed by the Minnesota Department of Natural Resources (DNR) in this area. These are largely undeveloped and dedicated to forestry. North of this area from the State Forest to the International Border, encompassing about 100 square miles, is an area of agriculture, mixed commercial, and industrial use. About 70% of this area is utilized as agriculture.

The city of Warroad is home to Marvin, a large window and door manufacturer, and boasts year-round tourism from being the only American port on Lake of the Woods. On the outskirts of Warroad are two large housing developments with marinas connected directly to Lake of the Woods, the Warroad Estates and Springsteel Island. The city, housing developments, shoreland areas of Lake of the Woods, Beltrami Island State Forest, agricultural areas, and the Warroad River all present different challenges to water management.

An amended Overall Plan was adopted by the Board of Managers on January 24, 2007, and approved by the Board of Water & Soil Resources (BWSR) in May 2007. The Warroad Watershed District revised and adopted new rules in January 2025.

Organization

Board of Managers

A Board of Managers governs the Warroad Watershed District. The Board has five managers appointed by the Roseau County Board of Commissioners. Regular Board meetings are held on the fourth Thursday of the month.

Bill Thompson, President
wrtins@icloud.com
218-242-4183
Term expires September 18, 2026

Keith Landin, Treasurer
klandinwatershed@gmail.com
218-242-4284
Term expires September 18, 2026

Brian Schaible, Secretary
briansch@marvin.com
218-689-0157
Term expires September 18, 2027

Joe Olafson, Vice President
olafsonjoe1@gmail.com
218-242-3602
Term expires September 18, 2025

Jeff O'Donnell
odonnell@wiktel.com
218-689-1346
Term expires September 18, 2027



Above: Jeff O'Donnell, Keith Landin, Bill Thompson, Joe Olafson, and Brian Schaible

Bill Thompson represents Warroad Watershed District on the Lake of the Woods Joint Powers Board (JPB). Joe Olafson represents WWD on the JPB Implementation Committee.

Engineering Consultant

Houston Engineering, Inc.
208 4th St E
Thief River Falls, MN 56701
Contact: Tony Nordby
tnordby@houstoneng.com
218-681-2951

Insurance

Minnesota Counties Intergovernmental Trust (MCIT)

- Property and Liability
- Workers' Compensation

Citizen Advisory Committee Members

The Board of Managers appoints residents of the District to a Citizen Advisory Committee to meet at least once per year. The members are:

Jeff Hellquist, Chair
jhellquist@wiktel.com
218-689-9986

Loren Arveson
Scott Kezar
Marv Dahlberg
Brad Baumann

Art Krahm, Recorder

The Citizen Advisory Committee met December 30, 2024. The attendees were supportive of the WWD's work. The projects in 2023 were delayed and the 2024 projects were being designed. The members learned that WWD received a Conservation Corps grant for 750 hours of work, completed in August 2024. The committee was updated about administrative items of note over the past year including the development of a new Rules document and an accompanying guidance document.

Projects and Activities

Miscellaneous

The Warroad Watershed District received and approved a permit application (#24-01) from MN DOT regarding the bridge (#9059 on Highway 11) replacement project in Warroad.

A permit (#24-02) was issued to Jeff Thompson for a culvert on a crossing of County Road 136.

A permit (#25-01) was issued to the MN Department of Transportation (DOT) for proposed work on Hwy 11 in which all culverts would be replaced.

We have continued to work with and support the City of Warroad on the Safe Harbor Project.

Dan Trosen, City of Warroad Utilities Superintendent, reported to the Board about the Red River Basin Water Quality Offset Plan to reduce phosphorus levels. MPCA wants to impose a phosphorus limit. The City's lagoon goes to the Red River and Lake Winnipeg, whereas the City's storm water goes to Lake of the Woods. WWD was asked to notify the City about projects resulting in phosphorus reduction. The City is willing to share the costs associated with identifying phosphorus reduction. Reducing phosphorus results in credits for the City. Phosphorus reduction data for all projects is tracked by Roseau County SWCD which records it with BWSR. Records of past projects were provided to the City of Warroad. Trosen reported that a dam and retention wall with removable sections for flood mitigation will be installed by Taylor Road bridge.

Beaver Control and Beaver Dam Removal

The WWD receives and manages complaints regarding beaver. A total of four beavers were trapped. One dam was removed using a backhoe.



Above: Beaver dam in Clausner Creek that was removed.

Streambank Stabilization

Property owners approached the WWD about erosion mitigation projects.

Two sites were contracted for streambank stabilization in 2023 but were completed in July 2024 by Andrew J. Stoskopf Trucking, at the Scott Thompson and David Olson properties.



Above: Streambank stabilization project completed at the David Olson property utilizing toe wood (root ball) method of stabilization.



Above: Streambank stabilization project completed at the Scott Thompson property utilizing rip-rap method of stabilization.

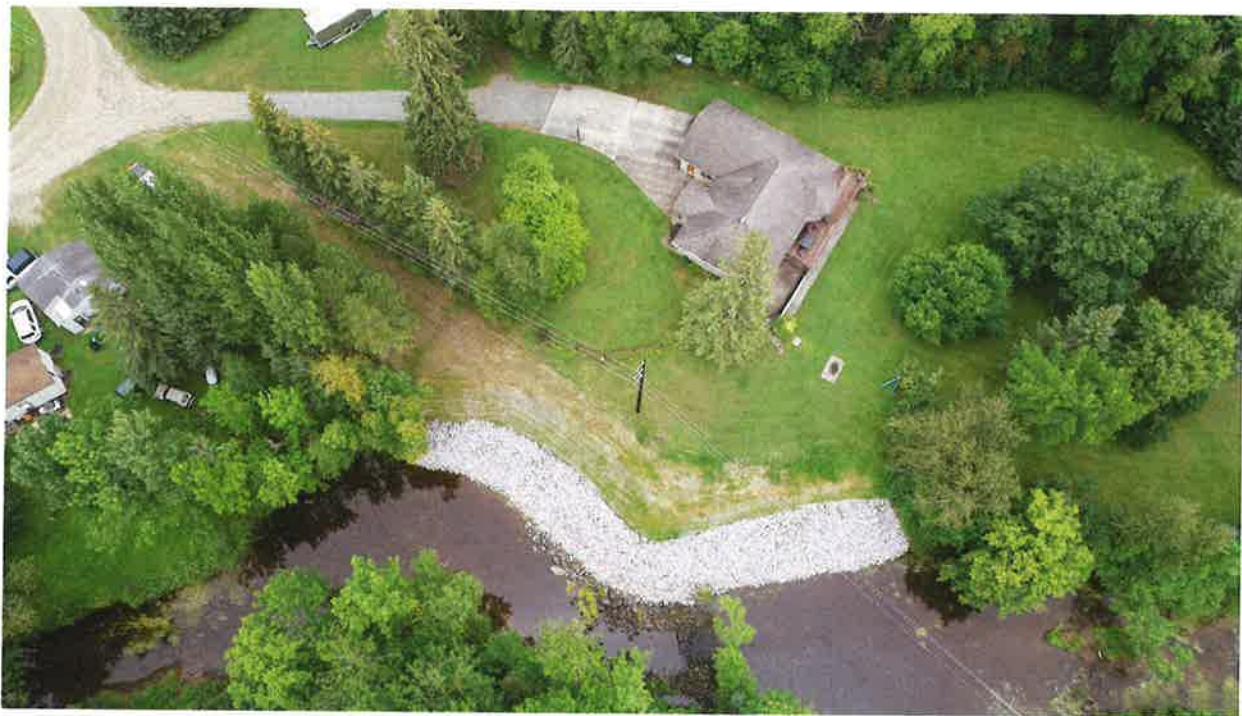
Additional sites for streambank stabilization were completed in the summer of 2024 by Anderson Construction, at the properties owned by Jason Eichenberger, Victor Lundemo, and Mike and Carla Roberts.



Above: Aerial view of streambank stabilization project completed at the Victor Lundemo and Jason Eichenberger properties utilizing a combination of toe wood (root ball) and rip-rap methods of stabilization.



Above: Streambank stabilization project completed at the Victor Lundemo and Jason Eichenberger properties utilizing a combination of toe wood (root ball) and rip-rap methods of stabilization.



Above: Aerial view of streambank stabilization project completed at the Mike and Carla Roberts properties utilizing rip-rap method of stabilization.



Above: Streambank stabilization project completed at the Mike and Carla Roberts property utilizing rip-rap method of stabilization.

Houston Engineering surveyed sites and completed design for streambank stabilization projects to be completed in the summer of 2026 at the properties owned by Jim and Carol Hallan and Chuck and Bridget Lindner.

The Roseau County Soil and Water Conservation District (SWCD) managed the design and construction oversight for the streambank stabilization project at the Jared and Christy Olafson property along the Warroad River which was completed in June 2025. SWCD also managed the design of the Joe Peterson property project to be completed in 2026. WWD is a funding partner and will cover 10% of the design costs and 5% of the construction costs for these projects.

On the West Branch of the Warroad River, there is an area where the river is washing away the Ehlers property and undercutting an adjacent township road. The township has shown interest in paying a share of the streambank stabilization. This site may be contributing to the culverts that are filling in downstream. WWD will pursue work on this project and Houston Engineering will provide a high-level estimate to share with the landowner and the township.

Water Storage Opportunities

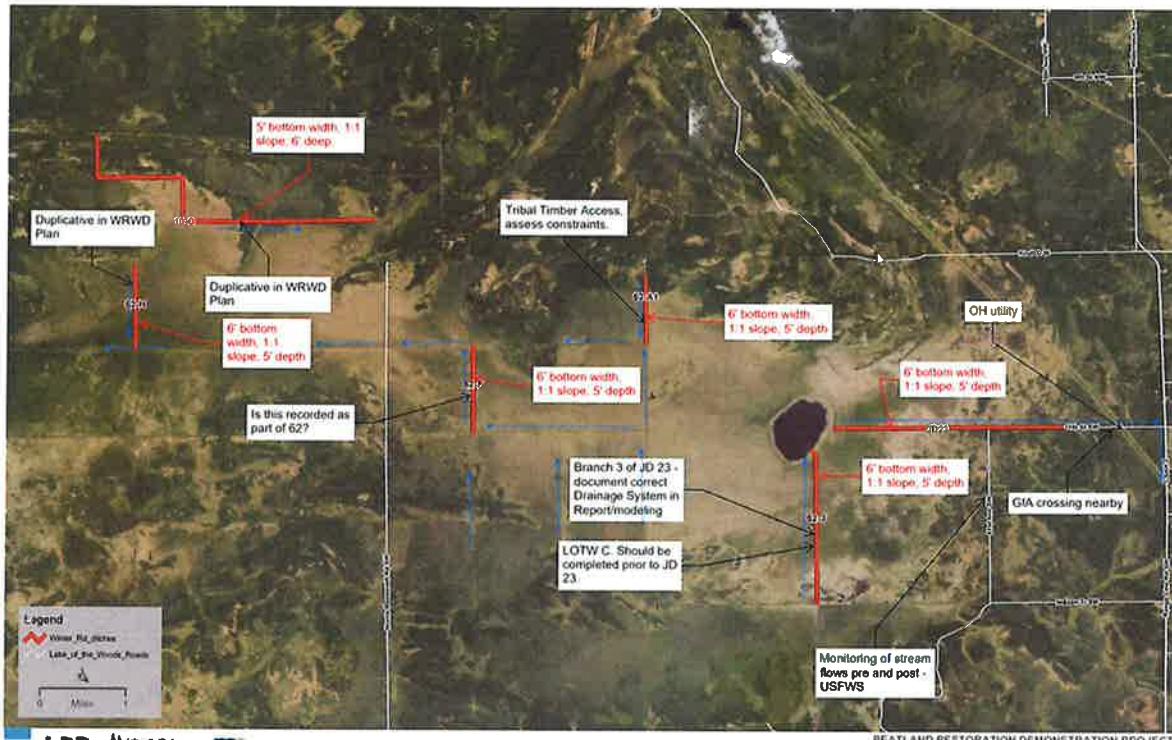
The headwaters of the Warroad River Planning Region are located in the peatlands of Beltrami Island State Forest and are connected to the state forest's substantial drainage network. The southwest area of the planning region also contains high value forest sites of biodiversity significance. Moving downstream, the land use transitions to agricultural where the east and west branches of the Warroad River join. The Warroad River passes through the city of Warroad and outlets to Lake of the Woods. The shoreline within the planning region is vulnerable to erosion and flooding because the overall stability of the streams and ditches were greatly affected by the 500-year storm event in 2002. Altered hydrology within this planning region creates water quantity issues. Additionally, the Warroad River has issues with log jams that exacerbate bank stability and promote channel instability. The river provides habitat for a northern pike run in the spring, as well as habitat for many other species. The Warroad harbor is a safe harbor and there is a continual need for maintenance dredging at the outlet.

Funding was awarded to the DNR for peatland restoration. Previous efforts by the WWD were suspended due to DNR resistance to the proposals and Lake of the Woods County's decision to pursue wetland credits. DNR plans to build a new retention pond by the Bemis trout stream that will make it easier for trout to get upstream and that will reduce flash flooding for landowners.

Representatives of the WWD met with DNR's Charlie Tucker who informed them that the DNR is working on a project to reestablish peatland flooding in Beltrami, which will slow gas emissions from the peat. They are working on getting abandonment of ditches. They have taken WWD's previous work from Houston Engineering and used it to develop a plan which aligns with WWD's goal of holding back water. The DNR has funding sources for the project. The plan involves keeping water on the landscape and will result in a pre-settlement state (pre-ditching).

WWD voted to provide support of a joint powers agreement for a Peatland Restoration Demonstration Project provided WWD incurs no monetary obligation.

The Lake of the Woods SWCD and Minnesota DNR have partnered to assess the restoration potential of drained peatlands. WWD was one of the organizations that was invited to participate as a steering committee partner due to land management or jurisdictional authority within the project area. Locations of sites likely for plugs were identified. The managers reviewed and discussed the map of Winter Road Peatland Restoration sites within the Warroad Watershed District.



Above: Site map of ditch plug areas under consideration for peatland restoration.

Clean-up in the Warroad River

Warroad Watershed District was approved to receive a Conservation Corps grant for 750 hours of work which was completed in August 2024. A crew of 5-6 individuals worked on the project the first week and a group of 12-13 worked the second week. The crews found the water to be deeper than expected and there were many log jams. A total of approximately 1 mile was completed. The board requested that the trees cleaned from the river be dragged up onto the shore so they don't flow to another part of the river and create damage elsewhere. Communication from WWD was sent before and after the project to landowners who have riverfront property. Landowners provided positive comments allowing access to the crews. Tim Paquin burned piles of wood debris that had been removed from the Warroad River during the winter.

The Conservation Corps crew will be working on the West Branch of Warroad River in August 2025. There are a few log jams plugging the river. Houston Engineering submitted an application on behalf of WWD for work in 2026.

Since only one mile was completed by the Conservation Corps, WWD decided to have a contractor clean out some log jams and remove downed trees during the winter. Since no grant funding was available for

this project, WWD funds were used to hire contractor Anderson Excavating to snag and clear 1.5 river miles starting on the West Branch where the Conservation Corps left off.

Sediment reduction was the primary goal of the project. Downed trees and branches cause the river to wash around the log jams, resulting in erosion of the streambank and sediment washing downstream. Although the project was coordinated with DNR personnel, no permit was required for the project since the logs were cut off and the roots of the trees weren't disturbed.

Landowners were apprised of the project plans. The project went very well and a lot of material was removed. Initial observations indicated it was well worth the expenditure, but time will tell what the benefit will be in the long term. Multiple sources indicate that clearing and snagging is an acceptable method to lessen streambank erosion so blockages don't force some of the water to the bank to wash it away. Increased water velocity after clearing and snagging is anticipated to be negligible. Success is not measurable since it is a prevention measure.

Projects and Initiatives for 2025-2026

1. Sediment/erosion reduction in the Warroad River. Study potential storage projects to reduce peak flow and sedimentation. This has yet to be raised to a research project level.
2. In-channel restoration and/or bank stabilization for multiple sites have been identified. In-channel restoration projects are identified in the 1W1P as an action item.
3. Conservation Corps – river log jam clean-up.
4. Offer advisory support for the DNR's peatland restoration projects in the upper regions of the Warroad Watershed District.

Grants from Watershed Based Implementation Funding

Clean Water funds (Watershed Based Implementation Funding or WBIF grants) are reimbursement grants received from the State of Minnesota. The Joint Powers Board receives 50% up front. The first 50% must be spent out prior to the next 40% installment. Then, in order to get the final 10% of the grant, they must have bills that show that the remaining 10% of the grant funds have been spent. Therefore, there is a period of time that partners like WWD are expected to have enough money in their own bank accounts to float their costs until the grant funding comes through. Currently, the 10% amount is around \$60,000 for all JPB partners. When WWD receives an invoice from a contractor, WWD invoices the JPB for the grant-funded portion of the expense (usually 10%). Then, the JPB (via LOW SWCD) pays WWD the WBIF portion (usually 90%), and then WWD pays the entire bill in full to the contractor.

Lake of the Woods County SWCD tracks WWD grants and has a running total of the grant monies available upon request.

The Joint Powers Board approved \$190,000 in funding from MN clean water fund for WWD through December 31, 2026 and a new agreement was signed with the Joint Powers Board.

Administration

The Board compiled a data inventory and incorporated it into the previously adopted data practices policy.

Board representatives received training from MCIT and BWSR in nutrient reduction, rules and regulations, grant possibilities, and resources for interagency cooperation.

A new Rules document as well as a guidance document to provide interpretation were drafted and reviewed. The Rules are in keeping with current practices and include additional provisions for improved efficiencies and watershed management. Rinke Noonan Law Firm reviewed the updated rules before a public hearing was held. The Board accepted the Rules in January 2025. Public notifications were made and the rules were posted on the website.

Olafson and Landin attended the Summer Tour of the Minnesota Watersheds organization which was held in Roseau June 24-25. A highlight was a tour of the Roseau River Watershed District's projects which focused primarily on flood mitigation.

WWD would like to find an individual to do river maintenance project work such as monitoring beaver dams, on-site preparation for projects, and other work requiring physical capability.

Financial

The 2025 budget and levy were approved in August 2024. The total budget for the year was \$74,500.00 and is detailed below.

Administration	\$ 34,000.00
Office Rent	\$ 3,000.00
Dues	\$ 1,300.00
Accounting, Supplies, Postal	\$ 3,500.00
Audit	\$ 4,500.00
Watershed Maintenance, Office equipment	\$ 2,000.00
Travel	\$ 1,700.00
Meetings Registrations	\$ 2,000.00
Utilities	\$ 2,500.00
General Project Engineering /Administration	\$ 20,000.00
Total	\$ 74,500.00

Whereas the proposed budget was an increase over budgets from previous years, the Watershed board is significantly more active in terms of engaging in projects and work completed, which results in increased costs.

An audit was conducted by Peterson Company LTD for the fiscal year July 1, 2024 to June 30, 2025. Peterson Company sent a copy of the final audit report to BWSR and the State of Minnesota Department of Revenue, as well as a financial reporting form to the Office of the State Auditor. The complete audit report appears below.

WARROAD WATERSHED DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2025

**WARROAD WATERSHED DISTRICT
WARROAD, MINNESOTA
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JUNE 30, 2025**

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**WARROAD WATERSHED DISTRICT
WARROAD, MINNESOTA
ORGANIZATION
JUNE 30, 2025**

Board of Managers:

	<u>Term Expires</u>
William Thompson (President)	9/18/2026
Joe Olafson (Vice-President)	9/18/2025
Keith Landin (Treasurer)	9/18/2026
Brian Schaible (Secretary)	9/18/2027
Jeff O'Donnell (Manager)	9/18/2027

PETERSON COMPANY LTD

CERTIFIED PUBLIC ACCOUNTANTS

570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Warroad Watershed District
Warroad, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and the General Fund of Warroad Watershed District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Warroad Watershed District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Warroad Watershed District, as of June 30, 2025, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Warroad Watershed District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Warroad Watershed District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Warroad Watershed District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Warroad Watershed District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 16 and the note to the required supplementary information on page 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information. The other information comprises the district's organizational information under the introductory section but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2025, on our consideration of Warroad 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Warroad Watershed District's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 28, 2025

WARROAD WATERSHED DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2025

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 108,040
Due from other governments	44,006
Capital assets	
Right-of-use asset, net	2,818
	<hr/>
Total assets	<hr/> \$ 154,864
Liabilities	
Current liabilities:	
Accounts payable	\$ 48,895
Lease liability	697
Long-term liabilities:	
Lease liability	2,159
	<hr/>
Total liabilities	<hr/> 51,751
Net Position	
Net investment in capital assets	2,818
Unrestricted	100,295
Total net position	<hr/> 103,113
	<hr/>
Total liabilities and net position	<hr/> \$ 154,864

See accompanying notes to the financial statements and Independent Auditor's Report

WARROAD WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

Functions/Programs	Expenses	Net (Expenses) Revenues and Changes in Net Position
	Governmental Activities	
Governmental activities:		
General government	\$ 41,786	\$ (41,786)
Projects	318,985	(318,985)
Total governmental activities	\$ 360,771	(360,771)
General revenues:		
Property taxes		65,469
Intergovernmental		261,053
Investment earnings		419
Other general revenues		914
Total general revenues		327,855
Change in net position		(32,916)
Net position - July 1 - as originally stated		168,772
Adjustment to beginning net position		(32,743)
Net position - July 1 - restated		136,029
Net position - June 30	\$ 103,113	

See accompanying notes to the financial statements and Independent Auditor's Report

WARROAD WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2025

	General Fund
Assets	
Cash and cash equivalents	\$ 108,040
Due from other governments	<u>44,006</u>
Total assets	<u>\$ 152,046</u>
Liabilities	
Accounts payable	\$ 48,895
Fund Balance	
Unassigned	<u>103,151</u>
Total liabilities and fund balance	<u>\$ 152,046</u>
Total fund balance	\$ 103,151
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Right-of-use assets used in governmental funds are not financial resources and therefore are not reported in funds. Those assets consists of:	
Office equipment	3,597
Less accumulated amortization	(779)
Lease liability for right-of-use assets is not a financial resource and therefore is not reported in funds:	<u>(2,856)</u>
Net position of governmental activities	<u>\$ 103,113</u>

See accompanying notes to the financial statements and Independent Auditor's Report

WARROAD WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2025

	General Fund
Revenues	
Property taxes	\$ 65,469
Intergovernmental	261,053
Investment income	419
Other	914
Total revenues	<u>327,855</u>
Expenditures	
Current	
General government	41,743
Projects	<u>318,985</u>
Total expenditures	<u>360,728</u>
Net change in fund balance	<u>(32,873)</u>
Fund balance - July 1 - as originally stated	168,767
Adjustment to beginning fund position	<u>(32,743)</u>
Fund balance - July 1 - restated	<u>136,024</u>
Fund balance - June 30	<u>\$ 103,151</u>
Net change in fund balance - governmental fund	<u>\$ (32,873)</u>
Amounts reported for governmental activities in the Statement of Activities are different due to:	
Principal payments on lease liability	676
Right-of-use asset amortization	<u>(719)</u>
Change in net position of governmental activities	<u>\$ (32,916)</u>

See accompanying notes to the financial statements and Independent Auditor's Report

WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Warroad Watershed District was established by a Joint Powers Agreement in 1963 between the counties of Roseau and Lake of the Woods. The District was formed to meet the requirements of Minnesota Statutes 103D.

The purpose of the District is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitats and water recreational facilities.
- Secure the other benefits associated with the proper management of surface and groundwater.

The District encompasses an area of 312 square miles (199,680 acres) with one major city within the district, the city of Warroad.

The District is governed by a five-member Board of Managers. All of the board members reside in the Warroad Watershed District. They are appointed to a three-year term by the County Commissioners. One or two managers' terms end each year in September. The County board posts the open positions and requires a written request form from any candidate wishing to serve on the Watershed Board. This form includes a profile and reason for wanting to be on the Watershed Board. No term limits exist for managers or watershed boards.

The financial statements present the District and its component units. The District includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or if there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

Blended Component Units - Reported as if they were part of the District.

Joint Ventures and Jointly Governed Organizations - The relationship of the District with the entity is disclosed.

Related Organization - The relationship of the District with the entity is disclosed.

As a result of applying the component unit definition criteria above, we have not identified any organizations that are considered to be component units of the District.

Government-Wide Fund Financial Statements

The government-wide fund financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

**WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Fund Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues to be available if they are collected within 60 days of the end of the current period. Reimbursement grants are considered available if they are collected within one year of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenues, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports one major governmental fund. The General Fund is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenditures and programs of the District.

Assets, Liabilities, and Net Position or Fund Balance

Cash and Cash Equivalents

Cash is stated at fair value, except for non-negotiable Certificates of Deposit, which are on a cost basis and short-term money market investments, which are stated at amortized cost.

Due from Other Governments

Due from other governments are recorded for county grant amounts that were received after year-end and all eligibility requirements were met.

Capital Assets

Capital assets consist of a right-of-use asset for office equipment that is being amortized over five years.

**WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Fund Balance (Continued)

Leases

The District determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the District's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the District will exercise that option.

The District has recognized payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position.

The District accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the District treats the components as a single lease unit.

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:

Non-spendable – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

Committed – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision-making authority, which is the Board of Managers, and that remain binding unless removed by subsequent formal action of the board of Managers.

Assigned – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the Administrative Fund, that are not classified as non-spendable, restricted, or committed. Assignments are made by the District's Administrator based on the Board of Manager's discretion.

Unassigned – These are residual amounts in the Administrative Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of non-spendable, restricted, and committed fund balances exceed the total net resources of that fund.

**WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Fund Balance (Continued)

Fund Balance Classifications (Continued)

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.

Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investments in capital assets, consists of a right-of-use asset, net of accumulated amortization. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Explanation of Adjustments Column in Statements

Capital Assets: In the Statement of Net Position, an adjustment is made if the District has capital assets. This adjustment equals the net book balance of the right-of-use asset as of the report date and reconciles to the amount reported in Note 3 on Capital Assets.

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Lease Liability the District has as of the report date. See Note 4 on Long-Term Liabilities.

Amortization for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the amortization for the year reported.

Property Tax Revenue Recognition

The Board of Managers annually adopts a tax levy and certifies it to the County in September (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. The District has no ability to enforce payments of property taxes by property owners. The County possesses this authority.

Government-wide Financial Statements: The District recognizes property tax revenue in the period for which taxes were levied.

**WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Fund Balance (Continued)

Property Tax Revenue Recognition (Continued)

Governmental Fund Financial Statements: The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December, and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by unavailable revenue because they are not available to finance current expenditures.

Change in Accounting Principle

Effective July 1, 2024, the District adopted GASB 101, *Compensated Absences*. The new standard aligns the recognition and measurement under a unified model and by amending certain previously required disclosures. The District does not have any employees; therefore, this has no affect on them.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. As of June 30, 2025, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

The District has no additional deposit policies addressing custodial credit risk. At June 30, 2025, cash and investments were comprised of a checking account and a Certificate of Deposit.

Total deposits at June 30, 2025, were as follows:

Checking	\$ 98,040
Certificate of deposit	10,000
Total deposits	<u>\$ 108,040</u>

Deposits are presented in the June 30, 2025 financial statements as follows:

Statement of Net Position	<u>\$ 108,040</u>
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WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2025, was as follows:

	Beginning	Addition	Deletion	Ending
Right-to-use Leased Asset	\$ 3,597	\$ -	\$ -	\$ 3,597
Less: Accumulated Amortization	60	719	-	779
Net Capital Assets	\$ 3,537			\$ 2,818

Current year amortization is \$719.

NOTE 4 – LONG-TERM LIABILITIES

Lease Liability

The District entered into a lease agreement for office equipment. The lease agreement has an effective period of June 1, 2024, and will terminate on May 31, 2029. Payments on the lease agreement are due monthly with an interest rate of 3.093%. This interest rate was based on the historical yield rate for municipal bonds.

The following is a summary of future minimum lease payments for the lease liability:

Year ending June 30,

	Principal	Interest	Total
2026	\$ 697	\$ 79	\$ 776
2027	719	57	776
2028	741	34	775
2029	699	11	710
Total	\$ 2,856	\$ 181	\$ 3,037

Changes in Long-Term Debt

The following is a summary of changes in the District's long-term liabilities for the year ended June 30, 2025:

	July 1, 2024	Increases	Decreases	June 30, 2025
Lease Liability	<u>\$ 2,856</u>	<u>\$ -</u>	<u>\$ 697</u>	<u>\$ 2,159</u>

The current portion of the lease liability as of June 30, 2025, was \$697.

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss for which the District carries a commercial insurance policy.

There were no reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**WARROAD WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

It was determined that fiscal year ended June 30, 2024, incorrectly reported a Due from other government and therefore, Property tax revenues were overstated by \$32,743. This error correction resulted in restatements of beginning fund balance and net position, as follows:

	Reporting Units Affected by Restatements of Beginning Balances	
	General Fund	Government Activities
6/30/2024, as previously reported	\$ 168,767	\$ 168,772
Error correction	(32,743)	(32,743)
6/30/2025, as restated	<u>\$ 136,024</u>	<u>\$ 136,029</u>

NOTE 8 – SUBSEQUENT EVENTS

The District has evaluated events and transactions for potential recognition or disclosure through November 28, 2025, the date the financial statements were available to be issued.

WARROAD WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2025

	Original/ Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Property taxes	\$ 74,500	\$ 65,469	\$ (9,031)
Intergovernmental	-	261,053	261,053
Investment income	-	419	419
Other	-	914	914
Total revenues	74,500	327,855	253,355
Expenditures			
General government			
Administration	34,000	25,599	8,401
Insurance	-	1,446	(1,446)
Dues	1,300	1,479	(179)
Professional fees	8,000	6,496	1,504
Rent	3,000	2,465	535
Supplies	2,000	2,377	(377)
Miscellaneous	6,200	1,881	4,319
Projects			
Engineering expenses	20,000	69,725	(49,725)
Contractor expenses	-	249,260	(249,260)
Total expenditures	74,500	360,728	(286,228)
Net change in fund balance	<u>\$ -</u>	<u>(32,873)</u>	<u>\$ (32,873)</u>
Fund balance - July 1 - as originally stated		168,767	
Adjustment to beginning fund balance		<u>(32,743)</u>	
Fund balance - July 1 - restated		<u>136,024</u>	
Fund balance - June 30	<u><u>\$ 103,151</u></u>		

See accompanying Note to the Required Supplementary Information.

WARROAD WATERSHED DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2025

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Managers adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$360,728; Budget \$74,500; Excess \$286,228.

PETERSON COMPANY LTD

CERTIFIED PUBLIC ACCOUNTANTS

570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Managers
Warroad Watershed District
Warroad, Minnesota

We have audited, 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, the financial statements of the governmental activities and the General Fund of Warroad Watershed District as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Warroad Watershed District's basic financial statements, and have issued our report thereon dated November 28, 2025.

In connection with our audit, nothing came to our attention that caused us to believe that the Warroad Watershed District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, insofar as they relate to accounting matters. 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 Warroad Watershed District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 28, 2025

PETERSON COMPANY LTD

CERTIFIED PUBLIC ACCOUNTANTS

570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

**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**

To the Board of Managers
Warroad Watershed District
Warroad, Minnesota

We have audited, 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, the financial statements of the governmental activities and the General Fund of Warroad Watershed District as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Warroad Watershed District's basic financial statements, and have issued our report thereon dated November 28, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Warroad Watershed District's internal control over financial reporting as a basis for designing 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 the Warroad Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Warroad Watershed District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2025-001, 2025-002, and 2025-003, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Warroad 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 financial statements. 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*.

Warroad Watershed District's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the internal control findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Warroad Watershed District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 28, 2025

**WARROAD WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2025**

2025-001: Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, has physical access to the related assets, and has responsibility or authority to record the transaction.

Condition and Context: Substantially all accounting procedures are performed by one person.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective matter.

Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud, including misappropriation of assets, could occur and not be detected within a timely basis.

Prior Year Finding: Yes, 2024-001.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board.

**WARROAD WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2025**

2025-002: Financial Statement Presentation

Criteria: The District's management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition and Context: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management has accepted responsibility for the financial statements and reviewed them.

Cause: The District has a limited number of personnel with financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the District to report its financial data consistently with the assertions of the management in the financial statements.

Prior Year Finding: Yes, 2024-002.

Recommendation: We recommend that the District be aware of the requirements for fair presentation of the financial statements in accordance with the generally accepted accounting principles. Should the District elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us; complete the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

Management Response: The District understands that this is required communications for the preparation of the financial statements.

**WARROAD WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2025**

2025-003: Audit Adjustments

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions, including account coding, reporting of accruals, and net position.

Condition and Context: As part of the audit, we proposed material adjustments and reclassified transactions to the proper accounts for preparing note disclosures. Management has reviewed and approved the audit adjustments.

Cause: The District has a limited number of personnel with financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the District to provide accurate accrual basis financial information.

Prior Year Finding: Yes, 2024-003.

Recommendation: We recommend that District management be constantly aware of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

Management Response: The District will continue to work at eliminating the need for audit adjustments.

Prepared and submitted by,



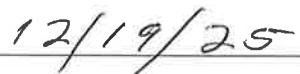
Watershed President, Bill Thompson



Date



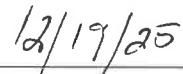
Watershed Vice-President, Joe Olafson



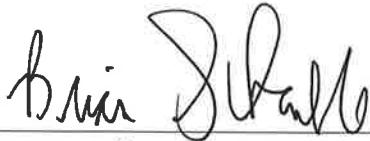
Date



Watershed Treasurer, Keith Landin



Date



Watershed Secretary, Brian Schaible



Date