

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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RED LAKE WATERSHED DISTRICT
OFFICIAL DIRECTORY
DECEMBER 31, 2021

Board of Managers

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021, 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 Opinion

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. 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 Red Lake 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 opinions.

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.

Responsibilities of Management 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.

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 the District's ability to continue as a going concern for twelve months beyond the financial statements 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 opinions. 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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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 the 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 the 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.

Supplementary 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 budgetary comparison schedule, statement of receipts and disbursements and changes in fund balance, and the statement of direct expenditures by classification as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, statement of receipts and disbursements and changes in fund balance, and the statement of direct expenditures by classification are fairly stated in all material respects in relation to the basic financial statements as a whole as described in the basis of accounting described in Note 1.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the official directory and the management's discussion and analysis but does not include the basic financial statements and our auditor's report thereon. Our opinions 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 April 5, 2022 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 on 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.



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

April 5, 2022

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021, 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 15.

FINANCIAL HIGHLIGHTS

- The District's governmental funds total expenditures exceeded total revenues, on the modified cash basis of accounting, by \$56,694 for the year ended December 31, 2021.
- The general fund showed an increase on the modified cash basis fund balance in the amount of \$32,031.
- The District's General Fund ended the year with a fund balance of \$241,269.
- The District's combined fund balance at the close of the current year was \$2,162,806.

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 15 and 16 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 17) 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 35) 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 37) 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, 2021

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 15 and 16. 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, 2021

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 17 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 \$2,535,755 between fiscal years 2021 and 2020. 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 \$22,611,891 at December 31, 2021, which is an increase of \$2,535,755 over the year ended December 31, 2020; which is more than a 12.63% increase over the prior year.

A portion of Red Lake Watershed District's net position (\$20,449,085 or 90.44%) 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 (\$639,143) 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, 2021

	Governmental		Change 20-21
	Activities		
	2021	2020	
ASSETS			
Total Current Assets	\$ 2,162,806	\$ 2,219,500	\$ (56,694)
Net Capital Assets	<u>20,449,085</u>	<u>17,856,636</u>	<u>2,592,449</u>
Total Assets	<u>\$ 22,611,891</u>	<u>\$ 20,076,136</u>	<u>\$ 2,535,755</u>
Net Position	<u>\$ 22,611,891</u>	<u>\$ 20,076,136</u>	<u>\$ 2,535,755</u>

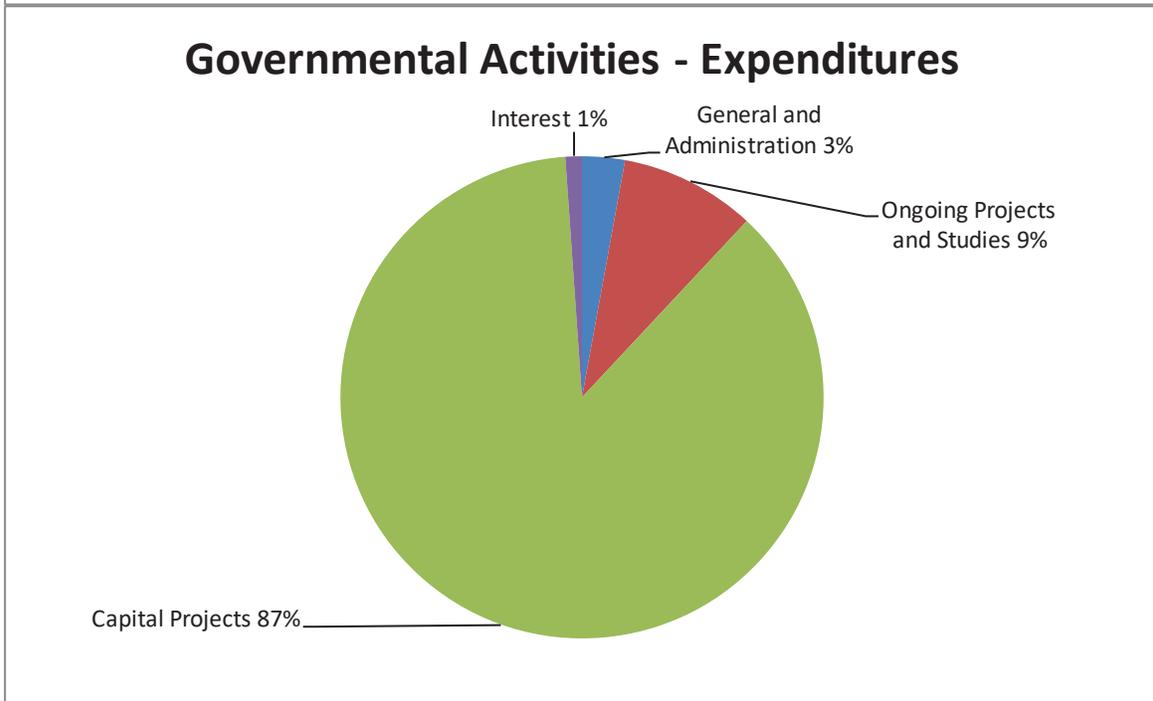
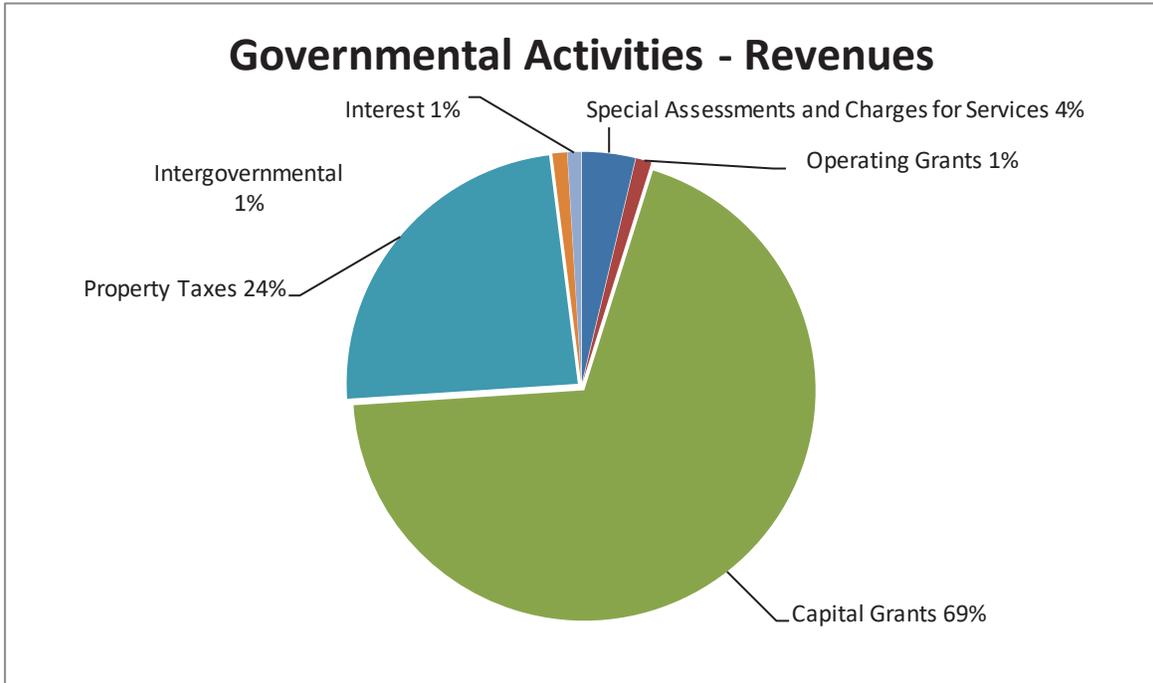
Changes in Net Cash Position

For the years ended December 31, 2021 and 2020, Net Position of the primary government (resulting from modified cash basis transaction) changed as follows:

	Governmental		Change 20-21
	Activities		
	2021	2020	
Revenues			
Program Revenues			
Special Assessments and Charges for Services	\$ 263,544	\$ 264,834	\$ (1,290)
Operating Grants	77,015	94,783	(17,768)
Capital Grants	4,899,243	5,755,540	(856,297)
General Revenues			
Property Taxes	1,704,004	1,647,099	56,905
Intergovernmental	72,401	70,467	1,934
Interest	<u>68,276</u>	<u>166,300</u>	<u>(98,024)</u>
Total Revenues	<u>7,084,483</u>	<u>7,999,023</u>	<u>(914,540)</u>
Expenses			
General and Administration	129,744	46,816	82,928
Ongoing Projects and Studies	413,773	1,881,236	(1,467,463)
Capital Projects	3,954,965	8,298,524	(4,343,559)
Allocated Interest	<u>50,246</u>	<u>100,483</u>	<u>(50,237)</u>
Total Expenses	<u>4,548,728</u>	<u>10,327,059</u>	<u>(5,778,331)</u>
Increase (Decrease) in Net Position	<u>2,535,755</u>	<u>(2,328,036)</u>	<u>4,863,791</u>
Net Position - January 1	<u>20,076,136</u>	<u>22,404,172</u>	<u>(2,328,036)</u>
Net Position - December 31	<u>\$ 22,611,891</u>	<u>\$ 20,076,136</u>	<u>\$ 2,535,755</u>

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2021:



RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

Governmental Activities

To aid in the understanding of the Statement of Activities Arising from Cash Transactions on page 16, 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, 2021, General Fund expenditures were \$18,659 under final budget. The budget was not amended during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At December 31, 2021, the District had approximately \$20,449,085 (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.

	2021		2020	
	Cost	Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation
Building and Improvements	\$ 774,287	\$ 385,521	\$ 388,766	\$ 411,272
Infrastructure Improvements	13,134,433	4,885,722	8,248,711	8,770,154
Engineering Equipment	407,625	324,631	82,994	50,076
Office Equipment	166,366	138,218	28,148	38,905
Land and Permanent Easements	4,314,450	-	4,314,450	4,125,776
Construction in Progress	7,386,016	-	7,386,016	4,460,453
	<u>\$ 26,183,177</u>	<u>\$ 5,734,092</u>	<u>\$ 20,449,085</u>	<u>\$ 17,856,636</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 and grants with other agencies.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

OTHER ITEMS OF INTEREST

Water Quality Projects

Thanks to the Clean Water Land and Legacy Act, the Minnesota Pollution Control Agency (MPCA) has been able to provide the District with funding for four watershed restoration and protection strategy (WRAPS) projects ([Thief River](#), [Red Lake River](#), [Grand Marais Creek](#), and [Clearwater River](#) watersheds). Another WRAPS project, for the Upper/Lower Red Lakes Watershed, was completed by the Red Lake Department of Natural Resources. The WRAPS process and stakeholder involvement informed the 1W1P process, which has provided much funding for water quality projects. Expenses over and above the grants are expended from the Capital Projects Fund.

Pine Lake Watershed

After various hurdles were presented by the Minnesota Department of Natural Resources (DNR) concerning permitting, the proposed Pine Lake Watershed Project the District had been working on over the past two years, the Red Lake Watershed District Board of Managers made a request to the Natural Resource Conservation Service (NRCS) to move forward with a close-out agreement for this project thus canceling the agreement. In August of 2019, the RLWD filed all the paperwork with the NRCS to close out the account. On May 18, 2020, the RLWD received notification from the NRCS that all terms and conditions of the agreement had been met, and that they officially have closed out of the agreement.

As part of the work that was completed on the above-mentioned agreement, the District continued to work with the Minnesota DNR to find common ground in developing a project that would not only fit in the permitting guidelines of the DNR, but also accomplish some of the goals listed in the study which was completed. In 2021, the District's engineer completed the final plans and specifications for this project, solicited bids and started construction on a project which includes replacing the outlet structure of Pine Lake. Construction continued into late fall of 2021 and will be completed in 2022.

Another phase of this project will include investing the Lost River downstream of Pine Lake to assure channel is flowing free and all culverts allow safe passage of water as it moves downstream. The District hopes to complete this project in 2022 as well.

Red Lake River One Watershed One Plan (1W1P)

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. It should be noted at the request of the Policy Committee formed to oversee the implementation of the plan the Red Lake Watershed District was appointed as the fiscal agent for the implementation of the plan. Implementation of the funds dispersed in the 2018 workplan started in 2019, continued into 2020 with 50% of the funds being spent. The reconciliation for the 2018 grant in the amount of \$667,551 was completed, closed and funds were dispersed in December 2021. In 2020, the second grant in the amount of \$1,071,149 was approved by BWSR using the funds appropriated from the 2020-2021 Clean Water Funds. The District and their partners will continue to complete water quality projects in accordance with the approved 2020 work plan. The Policy Committee formed to oversee the implementation of the plan, appointed the Red Lake Watershed District as the fiscal agent for the implementation of the plan.

Thief River One Watershed One Plan (1W1P)

In June of 2016, the Red Lake Watershed District, Pennington, Marshall and Beltrami Soil Conservation Districts and their respective counties applied for and were approved to receive a grant from the BWSR through their 1W1P program, to develop a Ten-Year Comprehensive Plan for

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

the Thief River Watershed. On July 11, 2017, the grant was approved and executed by BWSR. The plan development continued into 2018 and 2019 with the draft plan being approved by the Policy Committee and partners in late 2019. In 2020, BWSR approved the Thief River Watershed plan and awarded a Watershed Base Grant in the amount \$529,892 for plan implementation. In 2021 the RLWD and partners started construction on various projects listed in the plan with the hope of completing projects in the plan by December 31, 2022 which is also the grant expiration date.

Black River Impoundment

On July 21, 2020, the RLWD presented the Red River Watershed Management Board (RRWMB) with a Step III submittal for funding of the Black River Impoundment Project with a revised estimated cost of \$8,883,000. Three funding alternatives were presented which included: (A) No outside cost-share from federal or state agencies; (B) Fifty percent funding cost-share from the State of Minnesota Flood Hazard Mitigation Program; and (C) \$3 million cost-share from a grant request through the USDA's NRCS fiscal year 2020 Regional Conservation Partnership Program (RCPP) Alternative Funding Arrangements.

At the July 21, 2020 RRWMB meeting, and due to no State Flood Hazard Mitigation funding available for the project, the RRWMB of Managers approved funding the Black River Impoundment Project in the amount of \$5,922,000. It was also agreed between the RLWD and the RRWMB to proceed with bids and specifications to start construction on this project as soon as possible. On September 24, 2020, the RLWD Board of Managers awarded the contract for construction to RJ Zavoral & Sons, Inc. in the amount of \$4,374,457.66 with notice to proceed being given on October 22, 2020. Construction started almost immediately and because of exceptional fall working conditions, nearly half the project was completed in the fall of 2020. Construction continued early summer of 2021 and was substantially completed in the fall. This project is project to be completed by mid-summer 2022.

Thief River Falls Westside Flood Damage Reduction Project

October 12, 2017 at their regular scheduled Board meeting, the RLWD Board of Managers received a petition from the City of Thief River Falls and Pennington County Commissioners requesting a project to divert waters, from Pennington County Ditch #70, as it enters from the north and west of the City of Thief River Falls.

In 2018, the RLWD, Minnesota Department of Transportation (MnDOT), City of Thief River Falls and Pennington County developed a partnership to move forward with this project in conjunction with a project MnDOT was designing near the west side of the city. The District retained HDR Engineering Inc. to develop a plan for the proposed project. On February 24, 2018, an application for a \$1,500,000 Flood Hazard Mitigation Grant was applied for through the Minnesota DNR. In May of 2018, the RLWD was informed that the grant application was approved and on September 7, 2018, the grant agreement in the amount of \$1,500,000 was executed. To assist in the 50% cost share match required by the State, on July 17, 2018, the RRWMB reaffirmed their Step I and II funding in the amount of \$1,000,000.

On March 20, 2020, bids were opened for this project with the low bid awarded to RJ Zavoral & Sons, Inc. in the amount of \$6,632,761.68. April 8, 2020, the Notice to Proceed was given with construction being substantially completed in 2020. The project was completed in summer of 2021 with Final Payment hearing held on November 24, 2021.

Legal Drainage Petitions

RLWD Ditch 16, RLWD Project 177 was a petitioned project requesting the establishment of a new public drainage system north of East Grand Forks. After completing all statutory requirements and

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

delays due to weather, construction of this 9.25-mile project started in 2020 and continued into 2021. On August 12, 2021, Final Payment Hearing for Burski Excavating was held with a total construction cost of \$1,723,031.10.

April 11, 2019, a Preliminary Hearing for the Improvement of Polk County Ditch #39, RLWD, Project 179, was held. Upon completion of the hearing, the Board of Managers by motion, approved moving forward with the appointment of viewers and instructed the engineer to proceed with the final detailed survey report. Due to the COVID19 pandemic, final hearing was delayed until July 24, 2020. Upon hearing testimony at the hearing held in July of 2020, the Board of Manager passed a resolution to move forward with construction of the project. On August 21, 2020, a Notice of Appeal of Order was presented to Michelle Cote, Polk County Taxpayer Service Center. To date the appeal is still pending with the hopes it is resolved in early summer 2022.

Burnham Creek Wildlife Habitat Project

During the summer of 2019, the RLWD was contacted by the Minnesota DNR Wildlife staff concerning the outlet structure for the Burnham Creek Wildlife Habitat project which was part of a multi-purpose flood control project completed in 1988 known as Burnham Creek BR6 Impoundment, Project 43A. It was brought to the Districts attention that the outlet structure was in need of repair. Per the agreement on file, it was stated that RLWD and the MnDNR are jointly responsible for maintenance and repair of the structure. In August of 2019, the RLWD and the MnDNR applied for a grant for the replacement of the outlet structure, through the MnDNR Division of Fish and Wildlife Conservation Partners Legacy Grant. On December 17, 2019, the District was informed that a grant in the amount of \$168,420 was awarded to this project. In 2020, bids were let, and the contract was awarded to Swingen Construction Company in the amount of \$148,400. Construction started late fall of 2020 with completion date of November 5, 2020. Due to extremely cold conditions and problems with delivery of steel for the structure, it was determined that the best alternative was to suspend construction until spring of 2021. Final payment hearing for the project was held August 12, 2021, with a total construction cost remaining at the original bid price of \$148,400.

Thief River Falls Oxbow Restoration and Stormwater Treatment Project

At their meeting held June 11, 2020, the City of Thief River Falls requested to the RLWD Board of Managers to partner with them in applying for a Clean Water Fund (CWF) Grant that could assist them with the cost of restoring the existing oxbow located within the city of Thief River Falls. Restoration of the oxbow would improve water quality, phosphorus, and chloride reduction with the installation of a sediment pond. At their meeting held October 18, 2020, the RLWD Board of Managers authorized President Nelson, the authority to sign the RRWMB Water Quality Program Grant Agreement for the Thief River Falls Oxbow Project, RLWD Project No. 46Q. In late December 2020, the RLWD was informed that they were approved for a grant in the amount of \$250,000 through a competitive grant from the 2021 Clean Water Funds. In the summer of 2021, low bid in the amount of \$597,272 was awarded to Spruce Valley Corporation Inc. Construction was substantially completed in the fall of 2021 and will be completed early 2022.

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
DECEMBER 31, 2021

	Total
Assets	
Current Assets:	
Petty Cash	\$ 100
Pooled Cash and Investments	2,162,706
Total Current Assets	2,162,806
Capital Assets:	
Property and Equipment	26,183,177
Less: Accumulated Depreciation	(5,734,092)
Net Capital Assets	20,449,085
Total Assets	22,611,891
Net Position	
Investment in Capital Assets	20,449,085
Restricted for Ditch Maintenance	639,143
Unrestricted	1,523,663
Total Net Position	\$ 22,611,891

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Functions/Programs</u>	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
Governmental Activities:							
General and Administrative	\$ (863,871)	\$ 734,127	\$ (129,744)	\$ 10,907	\$ -	\$ -	\$ (118,837)
Ongoing Projects and Studies	(350,057)	(63,716)	(413,773)	198,829	77,015	-	(137,929)
Capital Projects	(3,284,554)	(670,411)	(3,954,965)	53,808	-	4,899,243	998,086
Allocated Interest	(50,246)	-	(50,246)	-	-	-	(50,246)
Total Governmental Activities	\$ (4,548,728)	\$ -	\$ (4,548,728)	\$ 263,544	\$ 77,015	\$ 4,899,243	\$ 691,074
 <u>General Receipts:</u>							
Tax Levies							\$ 1,704,004
Intergovernmental (not restricted to specific programs)							72,401
State MV and Disparity Reduction Credits							68,276
Allocated Interest							1,844,681
Total General Receipts							1,844,681
Change in Net Position							2,535,755
Net Position - Beginning							20,076,136
Net Position - Ending							\$ 22,611,891

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS
DECEMBER 31, 2021

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Petty Cash	\$ 100	\$ -	\$ -	\$ 100
Pooled Cash and Investments	241,169	639,143	1,282,394	2,162,706
Total Assets	<u>\$ 241,269</u>	<u>\$ 639,143</u>	<u>\$ 1,282,394</u>	<u>\$ 2,162,806</u>
Fund Balances:				
Restricted for Ditch Maintenance	\$ -	\$ 639,143	\$ -	\$ 639,143
Committed for Capital Projects	-	-	1,282,394	1,282,394
Unassigned	241,269	-	-	241,269
Total Fund Balances	<u>\$ 241,269</u>	<u>\$ 639,143</u>	<u>\$ 1,282,394</u>	<u>\$ 2,162,806</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	\$ 2,162,806
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When capital assets (land, building, equipment and infrastructure) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net cash position includes those capital assets among the assets of the District as a whole.

	Cost of Capital Assets	26,183,177
	Accumulated Depreciation	<u>(5,734,092)</u>
Total Net Position		<u>\$ 22,611,891</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, 2021

<u>RECEIPTS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Property Taxes	\$ 149,615	\$ -	\$ 1,554,389	\$ 1,704,004
Special Assessments	-	187,401	-	187,401
Intergovernmental:				
Federal	-	80	56,211	56,291
State	-	32,000	1,217,828	1,249,828
Local	-	44,935	3,697,605	3,742,540
Other:				
Miscellaneous	10,907	11,428	53,808	76,143
Allocated Interest	3,187	4,675	60,414	68,276
Total Receipts	<u>163,709</u>	<u>280,519</u>	<u>6,640,255</u>	<u>7,084,483</u>
<u>DISBURSEMENTS</u>				
General and Administrative	129,744	-	-	129,744
Ongoing Projects and Studies	-	413,773	-	413,773
Capital Projects	-	-	6,547,414	6,547,414
Allocated Interest	1,934	1,080	47,232	50,246
Total Disbursements	<u>131,678</u>	<u>414,853</u>	<u>6,594,646</u>	<u>7,141,177</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	32,031	(134,334)	45,609	(56,694)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	118,078	-	118,078
Transfers Out	-	-	(118,078)	(118,078)
Net Other Sources (Uses)	<u>-</u>	<u>118,078</u>	<u>(118,078)</u>	<u>-</u>
Net Change in Fund Balances	32,031	(16,256)	(72,469)	(56,694)
FUND BALANCE JANUARY 1	<u>209,238</u>	<u>655,399</u>	<u>1,354,863</u>	<u>2,219,500</u>
FUND BALANCE DECEMBER 31	<u>\$ 241,269</u>	<u>\$ 639,143</u>	<u>\$ 1,282,394</u>	<u>\$ 2,162,806</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ (56,694)
<p>Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:</p>	
Capital Additions Less Net Book Value of Assets Disposed	3,168,507
Depreciation Expense	<u>(576,058)</u>
Change in Net Position - Governmental Activities	<u>\$ 2,535,755</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
DECEMBER 31, 2021

<u>ASSETS</u>	<u>Custodial Fund</u>
Cash	\$ 1,351
Total Assets	<u>1,351</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
Due To Red River Watershed Management Board	<u>1,351</u>
Total Liabilities	<u>\$ 1,351</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF CHANGES IN NET CASH POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Custodial Fund
<u>ADDITIONS</u>	
<u>Property Taxes</u>	
Beltrami County	\$ 100,138
Clearwater County	215,252
Itasca County	770
Koochiching County	8,611
Mahnomen County	2,139
Marshall County	65,850
Pennington County	292,082
Polk County	740,596
Red Lake County	128,798
Roseau County	154
State - MV	68,089
TOTAL ADDITIONS	1,622,479
<u>DEDUCTIONS</u>	
Red River Watershed Management Board	1,621,128
TOTAL DEDUCTIONS	1,621,128
CHANGE IN NET POSITION	1,351
NET POSITION - BEGINNING	-
NET POSITION - ENDING	\$ 1,351

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Red Lake Watershed District, (the "District"), was established under the Minnesota Watershed Act as an agency of the State of Minnesota. The purpose of the District is to carry out conservation of the natural resources of the State of Minnesota through land utilization, flood control, and other needs, upon sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. The District serves an area in Northwestern Minnesota and includes all of Red Lake County and parts of the following counties: Beltrami, Clearwater, Itasca, Koochiching, Mahnomon, Marshall, Pennington, Polk, and Roseau. The District is governed by the Board of Managers, which is composed of seven members appointed by the county boards in accordance with Minnesota Statutes.

As discussed further in Note 1C, these financial statements are presented on a modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. FINANCIAL REPORTING ENTITY

The financial statements of the District include all organizations, funds and account groups over which the District's Board exercises significant influence over and, or is financially accountable for organizations for which the nature and significance of their relationship with the District is such that exclusion would cause the Red Lake Watershed District's financial statements to be misleading. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 61 which are included in the District's reporting entity.

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are typically organized into three major categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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

Custodial Fund

The reporting entity includes one custodial fund and does not involve the measurement of results of operations. The custodial fund is as follows:

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

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 and the custodial fund 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 modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. ASSETS, LIABILITIES, AND EQUITY

CASH AND INVESTMENTS

For the purpose of financial reporting, “cash and investments” 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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 acquisition 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 \$10,000 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.

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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.”
- 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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

EQUITY CLASSIFICATION

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. REVENUES, EXPENDITURES AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities Arising from Cash Transactions, modified cash basis revenues that are derived directly from each activity or from parties outside the District's taxpayers are reported as program revenues. The District has the following program revenues: direct project cost reimbursements and project special assessments, rental income and operating and capital grants specific to projects. All other governmental revenues are reported as general revenue. All taxes are classified as general revenue even if restricted for a specific purpose.

F. USE OF ESTIMATES

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

G. FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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

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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 and consist of Certificated of Deposits.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or any of its municipalities.
- d. Bankers Acceptance of United States banks eligible for purchases by the Federal Reserve System.
- e. Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

- 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, 2021, the carrying amount of the District's deposits was \$2,164,157 and the bank balance was \$3,001,948. 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, 2021.

Related-Party Investments

As of December 31, 2021, 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
DECEMBER 31, 2021

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. 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
DECEMBER 31, 2021

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/about/financial/.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state Legislature. In 2021, Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary.

The Red Lake Watershed District's contributions to the General Employees Fund for the years ended December 31, 2021, 2020, and 2019 were \$36,147, \$35,138, and \$36,113 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 INTERFUND TRANSFERS

The composition of interfund balances as of December 31, 2021, is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects Fund	\$ -	\$ 118,078
Special Revenue Fund	118,078	-
Total	\$ 118,078	\$ 118,078

The transfer made between funds is to recognize board actions to allocate funds to specific projects.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 8 CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2021 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Building and Improvements	\$ 775,594	\$ -	\$ 1,307	\$ 774,287
Infrastructure Improvements	13,134,433	-	-	13,134,433
Engineering Equipment	413,594	53,094	59,063	407,625
Office Equipment	165,696	2,597	1,927	166,366
Land and Permanent Easements	4,125,776	188,674	-	4,314,450
Construction in Progress	4,460,453	2,925,563	-	7,386,016
Total	<u>\$ 23,075,546</u>	<u>\$ 3,169,928</u>	<u>\$ 62,297</u>	<u>\$ 26,183,177</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Accumulated Depreciation</u>				
Building and Improvements	\$ 364,322	\$ 22,506	\$ 1,307	\$ 385,521
Infrastructure Improvements	4,364,279	521,443	-	4,885,722
Engineering Equipment	363,518	19,455	58,342	324,631
Office Equipment	126,791	12,654	1,227	138,218
Total	<u>5,218,910</u>	<u>576,058</u>	<u>60,876</u>	<u>5,734,092</u>
	<u>\$ 17,856,636</u>	<u>\$ 2,593,870</u>	<u>\$ 1,421</u>	<u>\$ 20,449,085</u>

Depreciation expense of \$576,058 for the year ended December 31, 2021 is included in general and administrative program costs.

NOTE 9 OVERHEAD COST ALLOCATION

Overhead costs are allocated to all projects at 150% of direct salaries to projects. Overhead costs represent those costs incurred by the District for administration, employee benefits, engineering, and related operating expenditures, which are not charged directly to the project. The total overhead costs charged to projects in 2021 was \$734,127.

NOTE 10 CONTINGENCIES

Grants

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; 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, 2021, 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 that are deemed to be material to the financial statements.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 11 CONSTRUCTION COMMITMENTS

The District had approximately \$525,000 in construction commitments for capital projects as of December 31, 2021.

NOTE 12 NEW PRONOUNCEMENTS

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 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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically perform from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through April 5, 2022, 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, 2021

REVENUES	Original and Final Budget	Actual 2021	Variance
Tax Levies	\$ 150,337	\$ 149,615	\$ (722)
Miscellaneous	7,000	10,907	3,907
Allocated Interest	<u>-</u>	<u>3,187</u>	<u>3,187</u>
 Total Revenues	 <u>157,337</u>	 <u>163,709</u>	 <u>6,372</u>
 EXPENDITURES			
General and Administrative	150,337	129,744	(20,593)
Interest	<u>-</u>	<u>1,934</u>	<u>1,934</u>
 Total Expenditures	 <u>150,337</u>	 <u>131,678</u>	 <u>(18,659)</u>
 Expenditures Exceed Revenues	 7,000	 32,031	 <u>25,031</u>
 FUND BALANCE JANUARY 1	 <u>209,238</u>	 <u>209,238</u>	
 FUND BALANCE DECEMBER 31	 <u>\$ 216,238</u>	 <u>\$ 241,269</u>	

See Note to the Budgetary Comparison Schedule

RED LAKE WATERSHED DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2021

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 2021 at \$150,337. 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, 2021

	Revenues				Expenses			Transfer	Fund Balance (Deficit) December 31	
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead		In (Out)
GENERAL FUND	\$ 209,238	\$ 10,907	\$ -	\$ 3,187	\$ 149,615	\$ 863,871	\$ 1,934	\$ (734,127)	\$ -	\$ 241,269
SPECIAL REVENUE FUND JOBS:										
Red Lake River Project	69,072	7,706	1,776	417	-	-	-	-	-	78,971
Clearwater River Project	40,713	4,241	-	244	-	-	-	591	-	44,607
Lost River Project	13,353	4,256	-	72	-	2,870	-	1,766	-	13,045
RLWD Ditch #1	(4,020)	8,551	-	-	-	-	1	423	-	4,107
RLWD Ditch #3	3,242	4,117	-	28	-	1,500	-	652	-	5,235
State Ditch #83	81,762	5,449	32,080	550	-	25,374	-	5,571	-	88,896
RLWD Ditch #7	6,788	7,044	-	36	-	8,171	-	2,592	-	3,105
Pine Lake Maintenance	(6,643)	7,175	-	-	-	632	42	5,852	-	(5,994)
RLWD Ditch #8	1,157	1,109	-	7	-	-	-	405	-	1,868
RLWD Ditch #9	(863)	1,645	-	-	-	350	1	208	-	223
J.D. Ditch #72	6,011	9,164	-	16	-	2,373	-	9,472	-	3,346
J.D. Ditch #100	-	2,232	-	-	-	-	-	1,537	-	695
J.D. Ditch #101	-	2,232	-	-	-	-	-	1,678	-	554
Burnam Creek Channel	(3,582)	-	21,159	-	-	11,719	9	1,868	-	3,981
Clearwater/Wild Rice River	5,758	-	-	19	-	-	-	5,688	-	89
Branch A & 1, J.D. #2	(2,787)	1,919	-	-	-	300	14	1,588	-	(2,770)
Main J.D. #2 and Branch B&C	1,745	2,980	-	15	-	170	-	311	-	4,259
Main J.D. 2C. Eck	3,462	285	-	18	-	-	-	417	-	3,348
Krostue Petition	(6,187)	3,710	-	-	-	4,210	36	521	-	(7,244)
Clearwater County Joint Ditch #4	3,845	933	-	23	-	-	-	-	-	4,801
Clearwater County Joint Ditch #5	(12,263)	2,641	-	-	-	-	62	260	-	(9,944)
Clearwater County Ditch #1	2,842	952	-	17	-	-	-	-	-	3,811
Clifford Arveson Ditch	4,198	3,454	-	27	-	255	-	208	-	7,216
Winsor/Hangaard/Clearwater County Petition	16,219	2,501	-	71	-	3,835	-	4,830	-	10,126
Equality RLWD Ditch #1, lat C	(2,345)	5,445	-	-	-	1,512	5	1,984	-	(401)
K. Johnson Petition	767	2,286	-	5	-	940	-	1,084	-	1,034
Polk County Ditch #s 104, 61, 47, 94	(13,556)	12,312	-	-	-	460	53	2,239	-	(3,996)
TRF Drainage Ditch (Challenger Ditch)	(824)	1,916	-	-	-	-	3	-	-	1,089
Scott Baatz Petition	(284)	1,150	-	-	-	250	-	360	-	256
Polk County Ditch #63 Improvement	17,158	470	-	96	-	-	-	270	-	17,454
Polk County Ditch #33 Improvement	2,307	4,854	-	21	-	1,460	-	247	-	5,475
RLWD Ditch #10	84,666	3,180	-	451	-	4,565	-	1,077	-	82,655
RLWD Ditch #11	11,321	650	-	61	-	1,063	-	587	-	10,382
RLWD Ditch #12	(10,967)	22,997	-	-	-	9,683	39	2,969	-	(661)
RLWD Ditch #14	(6,697)	8,729	-	-	-	5,375	40	208	-	(3,591)
RLWD Ditch #15	47,591	2,667	-	249	-	6,891	-	1,469	-	42,147
RLWD Ditch #13	(1,612)	2,739	-	-	-	-	6	525	-	596
Thief River Falls Flood Damage Reduction Project	417	753	-	3	-	870	-	169	-	134
RLWD Ditch #16	429,860	44,385	22,000	2,229	-	233,893	-	3,498	118,078	379,161
Improv to Polk Co. #39	(126,225)	-	-	-	-	21,336	769	592	-	(148,922)
TOTAL SPECIAL REVENUE	655,399	198,829	77,015	4,675	-	350,057	1,080	63,716	118,078	639,143

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, 2021

	Revenues					Expenses			Transfer	Fund Balance (Deficit) December 31
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	
CAPITAL PROJECT FUND JOBS:										
Moose River Project	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,146	\$ 42	\$ 4,398	\$ 15,586	\$ -
Baird Beyer Dam	-	-	-	-	-	-	-	250	250	-
Stream Gauging	-	-	-	-	-	11,675	24	6,912	18,611	-
Culvert Sizing	-	-	-	-	-	-	11	3,215	3,226	-
Schirrick Dam	-	-	-	-	-	10,509	18	4,627	15,154	-
Pine Lake PWT	(467,156)	-	28,125	-	-	-	2,451	2,452	443,934	-
Little Pine Lake WMA	-	-	-	-	-	-	-	335	335	-
Pine Lake FDR	(76,166)	-	-	-	-	436,331	1,370	17,392	-	(531,259)
Hydrologic Analysis	-	-	-	-	-	240	203	51,526	51,969	-
Emergency Maintenance	115,802	-	-	638	-	-	-	-	-	116,440
RRWMB - Technical Com	-	-	-	-	-	-	29	8,229	8,258	-
Burnham Creek - BR6	(144,476)	-	163,097	-	-	36,946	134	4,316	-	(22,775)
Water Quality	-	-	-	-	-	44,484	362	93,039	137,885	-
TRF Oxbow Restore	-	-	125,000	-	-	680,181	-	5,985	-	(561,166)
Water Quality- RL River 319 Grant	-	-	56,211	-	-	114,438	166	1,318	59,711	-
Maintenance Dams	-	-	-	-	-	19	2	1,214	1,235	-
Odney Flaot Dam	-	-	-	-	-	-	-	200	200	-
Latundresse Dam	-	-	-	-	-	-	-	225	225	-
Miller Dam	-	-	-	-	-	-	1	350	351	-
Seeger Dam	-	-	-	-	-	-	-	150	150	-
Knutson Dam	-	-	-	-	-	-	-	332	332	-
Thibert Dam	-	-	-	-	-	-	1	462	463	-
Parnell Impoundment	-	4,244	-	-	-	5,827	16	2,383	3,982	-
Permits	-	-	-	-	-	4,089	316	109,385	113,790	-
Project Development	-	-	-	-	-	2,089	269	43,849	46,207	-
Louisville/Parnell Project	-	6,232	-	-	-	1,747	3	453	(4,029)	-
Challenger Ditch Realign	-	-	-	-	-	-	-	31	31	-
Ring Dike Program - General	(1,523)	-	-	-	-	-	16	2,695	4,234	-
Ring Dike Program - Shaumburg	(3,207)	-	-	-	-	-	18	-	-	(3,225)
Ring Dike Program - Threat	(14,190)	10,575	-	-	-	133,986	383	5,651	-	(143,635)
Ring Dike Program - Ste Marie	(668)	-	-	-	-	-	5	564	(1,237)	-
Ring Dike Program - P Nelson	(525)	-	10,165	-	-	22,743	20	4,748	-	(17,871)
Ring Dike Program - Larson	-	6,740	-	-	-	34,882	39	4,322	-	(32,503)
Ring Dike Program - Sorum	-	-	-	-	-	-	4	1,437	-	(1,441)
G.I.S.	-	-	-	-	-	600	130	56,861	57,591	-
Wetland Banking	-	-	-	-	-	259	4	1,917	2,180	-
Ten Year Overall Plan	299,618	-	271,020	1,582	-	604,979	-	41,934	-	(74,693)
Thief River 1W1P	184,877	-	-	447	-	195,382	-	33,672	-	(43,730)
PTMAPP Grant	-	-	6,056	29	-	-	-	899	(5,186)	-
Clearwater River 1W1P	(3,688)	-	2,340	-	-	918	57	15,353	-	(17,676)
North Parnell Storage Site	-	-	-	-	-	3,499	11	670	4,180	-
Clearwater River - TMDL	-	-	-	-	-	-	2	146	148	-

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, 2021

	Revenues					Expenses			Transfer	Fund Balance (Deficit) December 31
	Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	
Erosion Control Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,867	\$ 148	\$ 3,285	\$ 61,300	\$ -
Drainage- Inv & Insp	-	-	-	-	-	4,000	18	309	4,327	-
Black River Impoundment	(5,059,381)	22,456	3,423,972	-	-	2,514,403	22,278	55,115	-	(4,204,749)
Web Page Development	(1,066)	-	2,564	-	-	2,744	20	6,040	7,306	-
Administrative Construction	9,667,214	-	68,089	57,718	1,554,389	-	-	-	(1,292,243)	10,055,167
Euclid East Impoundment	-	3,561	-	-	-	65,762	176	10,531	72,908	-
Brandt Impoundment	-	-	-	-	-	2,426	9	1,474	3,909	-
Brandt Channel Restoration	-	-	-	-	-	1,054	5	169	1,228	-
Grand Marais - Restoration	-	-	-	-	-	-	6	2,134	2,140	-
Grand Marais Cut Channel Stabilization	-	-	-	-	-	75	1	228	304	-
Clearwater Public Education (River Watch)	-	-	-	-	-	1,063	66	27,399	28,528	-
Red River Basin Long Term Flood Control	-	-	-	-	-	-	15	4,905	4,920	-
BWSR Flood Storage Pilot Project	-	-	-	-	-	313	-	-	313	-
TRF Westside FDR	(3,135,055)	-	809,651	-	-	859,988	18,335	20,039	-	(3,223,766)
Agassiz NWR Wetland	(5,548)	-	5,354	-	-	4,680	37	972	5,883	-
Agassiz Grant SILT	1	-	-	-	-	-	1	96	96	-
Mud River Project Work Team	-	-	-	-	-	5,659	10	3,818	-	(9,487)
Total Capital Projects	1,354,863	53,808	4,971,644	60,414	1,554,389	5,877,003	47,232	670,411	(118,078)	1,282,394
Total All Funds	\$ 2,219,500	\$ 263,544	\$ 5,048,659	\$ 68,276	\$ 1,704,004	\$ 7,090,931	\$ 50,246	\$ -	\$ -	\$ 2,162,806

RED LAKE WATERSHED DISTRICT
STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION –
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>DIRECT EXPENDITURES:</u>	<u>2021</u>
Salaries -	
Inspection	\$ 51,247
Survey - Preliminary	17,032
Survey - Construction	1,149
Drafting	5,032
Engineering	22,970
Project Administration	289,219
Field Work - Water Programs	32,742
Other	55,785
Compensated Absences	62,081
Payroll Taxes and Benefits	109,536
Manager's Expense	13,882
Travel, Mileage, Meetings and Per Diems	7,518
Audit	9,450
Legal	38,446
Other Professional Fees	267,957
Office Supplies	14,916
Office Equipment	2,674
Dues and Subscriptions	13,088
Insurance and Bonds	42,270
Repairs and Maintenance	10,029
Utilities	8,688
Telephone	9,758
Advertising and Publications	19,817
Truck Expense	16,630
Land Acquisition and Easements	188,604
Construction	5,075,947
Engineering Costs and Fees	18,005
Engineering Fees	633,815
Engineering Equipment	52,644
	<hr/>
Total Expenditures	<u>\$ 7,090,931</u>

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, 2021 and the related notes to the financial statements, and have issued our report thereon dated April 5, 2022.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 District's noncompliance with the above referenced provisions insofar as they relate to accounting matters.

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

April 5, 2022

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, 2021, 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 April 5, 2022.

Report on 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) 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 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 2021-001 that we consider to be a significant deficiency.

Report on 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 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*.

Red Lake Watershed District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the finding identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

April 5, 2022

RED LAKE WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001 Finding – Significant Deficiency

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with the modified cash basis of accounting.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by the modified cash basis of accounting. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review the financial statements disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

RED LAKE WATERSHED DISTRICT
CORRECTIVE ACTION PLAN
DECEMBER 31, 2021

2021-001 Finding

Contact Person – Myron Jesme, Administrator

Corrective Action Plan – Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing