

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

TABLE OF CONTENTS

	Page
OFFICIAL DIRECTORY	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	5
BASIC FINANCIAL STATEMENTS	
Statement of Net Cash Position	15
Statement of Activities Arising from Cash Transactions	16
Statement of Balances Arising From Cash Transactions - Governmental Funds	17
Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances - Governmental Funds	18
Reconciliation of Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement Of Assets and Liabilities – Fiduciary Funds	20
Statement of Changes in Net Cash Position – Fiduciary Funds	21
Notes to the Basic Financial Statements	22
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	35
Note to the Budgetary Comparison Schedule	36
SUPPLEMENTARY STATEMENTS	
Statement of Receipts and Disbursements and Changes in Fund Balance – All Funds	37
Statement of Direct Expenditures by Classification – Governmental Funds	40
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	41
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 <i>GOVERNMENT AUDITING STANDARDS</i>	42
Schedule of Findings and Responses	44
Corrective Action Plan	45

RED LAKE WATERSHED DISTRICT
OFFICIAL DIRECTORY
DECEMBER 31, 2020

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
Les Torgerson	Clearwater	Manager

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the remaining fund information of the Red Lake Watershed District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the remaining fund information of the Red Lake Watershed District, as of December 31, 2020, and the respective changes in modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red Lake Watershed District's basic financial statements. The official directory, management's discussion and analysis, budgetary comparison schedule, statement of receipts and disbursements and changes in fund balance, and statement of direct expenditures by classification as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule, statement of receipts and disbursements and changes in fund balance, and the statement of direct expenditures by classification are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and the supplementary statements are fairly stated in all material respects in relation to the financial statements as described in the basis of accounting described in Note 1.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2021 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**

March 4, 2021

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020, 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 \$5,180,153 for the year ended December 31, 2020.
- The general fund showed an increase on the modified cash basis fund balance in the amount of \$57,116.
- The District's General Fund ended the year with a fund balance of \$209,238.
- The District's combined fund balance at the close of the current year was \$2,219,500.

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, 2020

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, 2020

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 decreased by \$2,328,036 between fiscal years 2020 and 2019. As noted earlier, net position - modified cash basis may serve over time as a useful indicator of a government's financial position. In the case of Red Lake Watershed District, assets exceeded liabilities by \$20,076,136 at December 31, 2020, which is a decrease of \$2,328,036 over the year ended December 31, 2019; which is more than a 10.39% decrease over the prior year.

A portion of Red Lake Watershed District's net position (\$17,856,636 or 88.94%) 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 (\$655,399) 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, 2020

	Governmental		Change 19-20
	Activities		
	2020	2019	
ASSETS			
Total Current Assets	\$ 2,219,500	\$ 7,399,653	\$ (5,180,153)
Net Capital Assets	<u>17,856,636</u>	<u>15,004,519</u>	<u>2,852,117</u>
Total Assets	<u>\$ 20,076,136</u>	<u>\$ 22,404,172</u>	<u>\$ (2,328,036)</u>
Net Position	<u>\$ 20,076,136</u>	<u>\$ 22,404,172</u>	<u>\$ (2,328,036)</u>

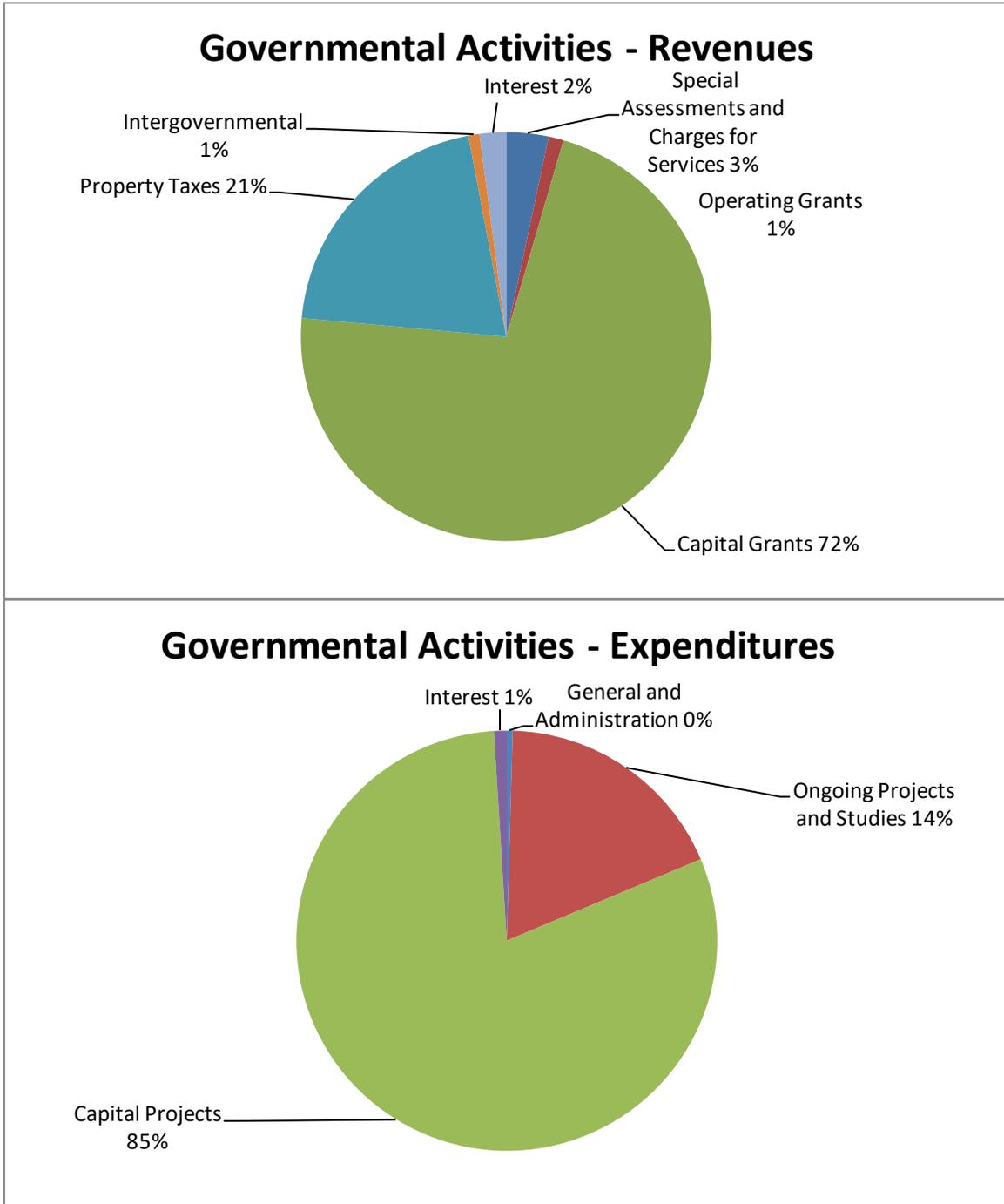
Changes in Net Cash Position

For the years ended December 31, 2020 and 2019, Net Position of the primary government (resulting from modified cash basis transaction) changed as follows:

	Governmental		Change 19-20
	Activities		
	2020	2019	
Revenues			
Program Revenues			
Special Assessments and Charges for Services	\$ 264,834	\$ 2,570,200	\$ (2,305,366)
Operating Grants	94,783	16,000	78,783
Capital Grants	5,755,540	468,487	5,287,053
General Revenues			
Property Taxes	1,647,099	2,005,618	(358,519)
Intergovernmental	70,467	94,095	(23,628)
Interest	<u>166,300</u>	<u>200,099</u>	<u>(33,799)</u>
Total Revenues	<u>7,999,023</u>	<u>5,354,499</u>	<u>2,644,524</u>
Expenses			
General and Administration	46,816	108,749	(61,933)
Ongoing Projects and Studies	1,881,236	436,769	1,444,467
Capital Projects	8,298,524	2,365,454	5,933,070
Allocated Interest	<u>100,483</u>	<u>85,365</u>	<u>15,118</u>
Total Expenses	<u>10,327,059</u>	<u>2,996,337</u>	<u>7,330,722</u>
Decrease in Net Position	<u>(2,328,036)</u>	<u>2,358,162</u>	<u>(4,686,198)</u>
Net Position - January 1	<u>22,404,172</u>	<u>20,046,010</u>	<u>2,358,162</u>
Net Position - December 31	<u>\$ 20,076,136</u>	<u>\$ 22,404,172</u>	<u>\$ (2,328,036)</u>

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures for the year ended December 31, 2020:



RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020, General Fund expenditures were \$94,803 under final budget. The budget was not amended during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At December 31, 2020, the District had approximately \$17,856,636 (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.

	2020		2019	
	Cost	Accumulated Depreciation	Cost - Less Accumulated Depreciation	Cost - Less Accumulated Depreciation
Building and Improvements	\$ 775,594	\$ 364,322	\$ 411,272	\$ 433,778
Infrastructure Improvements	13,134,433	4,364,279	8,770,154	8,739,823
Engineering Equipment	413,594	363,518	50,076	59,078
Office Equipment	165,696	126,791	38,905	39,300
Land and Permanent Easements	4,125,776	-	4,125,776	3,726,959
Construction in Progress	4,460,453	-	4,460,453	2,005,581
	<u>\$ 23,075,546</u>	<u>\$ 5,218,910</u>	<u>\$ 17,856,636</u>	<u>\$ 15,004,519</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, 2020

OTHER ITEMS OF INTEREST

Water Quality Projects

Water Quality grants from the State of Minnesota and Minnesota Pollution Control Agency for Surface Water Assessment Grants, Watershed Assessment Projects (watershed based TMDL), are ongoing for Clearwater River, Red Lake River, Thief River, and Grand Marais Creek. Expenses over and above the grants are expended from the Capital Projects Fund.

Pine Lake Watershed

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

After various hurdles were presented by the Minnesota Department of Natural Resources 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 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 Department of Natural Resources 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 hopes to complete final plans and specifications for this project, solicit bids and start construction on a project which includes replacing the outlet structure of Pine Lake.

Red Lake River One Watershed One Plan (1W1P)

Red Lake Watershed District and local partners entered into a grant agreement with the Board of Water and Soil Resources (BWSR) to complete a Pilot Project referred to the public as "*Red Lake River One Watershed One Plan*" (RLR1W1P). The grant, administered by Pennington Soil and Water Conservation District in the amount of \$127,266, was for the development of a comprehensive ten-year plan for the Red Lake River Watershed. The planning and writing of the grant were completed in 2016 with final approval by the BWSR Board in July of 2017. In 2018, funding through the BWSR Clean Water Fund in the amount of \$677,551 was awarded to this planning region to complete various projects identified in the workplan approved by the BWSR. It should be noted at the request of the Policy Committee formed to oversee the implementation of the plan, 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 and continued into 2020 with 50% of the funds being spent. In December 2020, Reconciliation of the of the grant was initiated by the Board and Water Resources due to the expenditures of over 50% of

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

the grant proceeds. The reconciliation for this portion of the 2018 grant is expected to be completed in early 2021. In 2020, another workplan was developed for the RLR 1W1P planning region which resulted in an additional \$1,0771,149 being appropriated to the RLR1W1P through the Board of Water and Soil Resources Watershed Based Funding. It should also be noted at the request of the Policy Committee formed to oversee the implementation of the 2020 plan, Red Lake Watershed District was appointed as the fiscal agent for the implementation of the plan. All projects identified in the 2018 work plan must be completed by December 31, 2021 and all funding identified in the 2020 work plan must be completed by December 31, 2022.

Thief River One Watershed One Plan (1W1P)

Red Lake Watershed District and local partners entered into a grant agreement with the Board of Water and Soil Resources (BWSR) to complete a Comprehensive Watershed Management Plan for the Thief River Watershed referred to the public as "*Thief River One Watershed One Plan*" (*TR1W1P*). The memorandum of agreement was signed by all partners in March of 2017 with planning process starting in late 2017. The draft plan was completed late 2019 with final approval by the Board of Water and Soil Resources in early 2020. The Red Lake Watershed District acted as the fiscal agent for the grant approved by BWSR in the amount of \$254,680 which was used for the development of the plan. In June of 2020, the Thief River 1W1P Policy Committee entered into a \$529,892 grant agreement with the Board of Water and Soil Resource to complete water quality projects in this planning region. The Red Lake Watershed District is acting as the fiscal agent for the implementation phase grant as well. All projects identified in the work plan must be completed by the expiration date of the grant which is December 31, 2022.

Black River Impoundment

Red Lake Watershed District approved by motion to proceed with the investigation of developing a flood damage reduction project referred to as the Black River Impoundment. In late 2016, the RLWD entered into agreements with three landowners and preliminary engineering was ordered. In June of 2017, options with landowners were exercised with land purchases and easements completed. In 2018, final engineering was completed and permitting was started along with an investigation of creating Wetland Banking credits within the template of the proposed project. In early 2018, the District was informed that no State funding was earmarked for this project. The Board of Managers decided that even though no funding was obtained, the RLWD would proceed with exercising the step submittals to the Red River Watershed Management Board to secure their funding for the project. The Board also elected to proceed with a public hearing which was held August 8, 2018. In 2019 the District, with the assistance of a Houston Engineering Wetland Specialist, continued with the permitting application process with Wetland Conservation Act staff as well as United States Army Corps of Engineers to review wetland impacts to the project. After nearly two years of meetings and review, the District completed an application for permitting wetland impacts for the project.

In 2020 all permits were received, and a funding package was approved between the Red River Watershed Management Board and the RLWD. Bids were let with RJ Zavoral & Sons being awarded the low bid in the amount of \$4,374,457.66. Construction started on the project in October of 2020 and will continue into 2021.

Thief River Falls Westside Flood Damage Reduction Project

Late 2017, the Red Lake Watershed District was petitioned by the City of Thief River Falls and Pennington County to investigate the drainage issues along the westside of the City. HDR Engineering, Inc. was hired to complete an analysis for the "Thief River Falls Westside Flood Damage Reduction Project". In 2018, the District held various landowner meetings as well as coordination with the City of Thief River Falls, Pennington County and Minnesota Department of Transportation to complete a preliminary design for the proposed project. The District officially

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

labeled this project "Thief River Falls Westside Flood Damage Reduction Project No. 178." On September 8, 2018, the District signed a grant agreement with the State of Minnesota in the amount of \$1,500,000 to assist with 50% of the cost for this project. Other various state and local funding partners are assisting in the financing of this project.

On May 23, 2019, the public hearing was held for this project. Upon completion of the hearing, the Board of Managers for the Red Lake Watershed District approved moving forward with the project but refrained assessing Water Management charges for the project until additional information could be gathered. On June 13, 2019, the District held a continuation hearing to establish charges for the Water Management District. As a result of the hearing and the fact an appraiser's report for damages had not been completed by the consultant hired by the District, final determination for damages could not be had. On July 11, 2019, a continuation hearing was once again held and final damages and fees were discussed. On September 26, 2019, the final order determining and awarding damages for the establishment of The Thief River Falls Westside Flood Damage Project, RLWD Project #178 was approved by the RLWD Board of Managers.

Advertisement for bids was completed with low bid being awarded to RJ Zavoral & Sons in the amount of \$6,384,732.48. Construction was substantially completed in the summer and fall of 2020 with minor construction still to be completed in 2021.

Agassiz National Wildlife Refuge Partnership Grant

In March of 2018, the Red Lake Watershed District and Agassiz National Wildlife Refuge applied for and received a \$242,000 Minnesota Department of Natural Resources (MnDNR) Conservation Partnership Grant. This grant will assist Agassiz National Wildlife Refuge in completing a three-phase project, designed to establish and enhance native wildlife habitat and increase biodiversity in portions of the refuge. Phase I of the grant, which included cattail spraying to approximately 1,700 acres of wetland complex, was completed in August of 2018. Phase II which included the rehabilitation of the Thief Bay Water Control Structure was completed in September of 2018. Phase III of the project involved replacement of the Arches Water Control Structure/Culverts along one of the ditch branches responsible for significant water movement through the refuge. Due to abnormally large rainfall events in late 2019, the completion of the granted projects had to be extended to fall of 2020. Project was substantially completed in the Fall 2020 with final inspection of the project to occur in the spring/summer of 2021 along with the finalization of the grant.

Agassiz National Wildlife Refuge Partnership Grant

On February 26, 2019, a Conservation Legacy Grant in the amount of \$50,000 was executed on the behalf of Agassiz National Wildlife Refuge, for the removal of sediment in the outlet channel of Agassiz Pool which is commonly known as Judicial Ditch #11 Main Branch. This project was intended to be completed late fall of 2019 but due to abnormal rainfall events, this project was extended to late fall of 2020. Project was completed in 2020 and the grant has been closed.

Legal Drainage Petitions

It should also be noted that in 2017 the District received two legal drainage petitions in Polk County. One petition was for the establishment of a public drainage system referred to as Red Lake Watershed District Ditch #16, Project No. 177 and the other petition was for the improvement to Polk County Ditch #39, Project No. 179. In 2018, a preliminary hearing was held on Project No. 177 at which time viewers were appointed. On April 4, 2019, the final hearing for this project was held. On April 11, 2019, the Detailed Findings of Facts and Order was approved by the Board of Managers. On June 20, 2019 Notice to Proceed was issued to Burski Excavating, Inc. for their bid in the amount of \$1,454,118.40. Prior to awarding the contract it was brought to the District's attention that there was an error in the advertising of bids which lead the District and Burski Excavating to reach a settlement agreement in the amount of \$118,078.30, thus changing the

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

awarded bid to \$1,572,196.70. Due to permitting delays and large rainfall events in late September of 2019, start of construction on this project was moved out to late spring 2020 with completion listed date listed in the contract also being extended. Construction started in the spring of 2020 and was substantially completed very late fall of 2020. It is the expectation of the District that the project will be completed late spring to early summer 2021.

April 11, 2019 a Preliminary Hearing for the Improvement of Polk County Ditch #39, RLWD Ditch No. 17, 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 COVID pandemic, final hearing was delayed until July 24, 2020. Upon hearing testimony, 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 being reviewed for legal legitimacy and the District is waiting for the results prior to proceeding with construction. It is the hope of the District that a ruling will be forthcoming by summer of 2021.

Burnham Creek Wildlife Habitat Project

During the summer of 2019, the District was contacted by the Minnesota Department of Natural Resource 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 had 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 in 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. It is anticipated that the project will be completed in late spring or early summer of 2021.

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 to apply for a Clean Water Fund (CWF) Grant which would assist them in restoring existing oxbow located within the city of Thief River Falls. Restoration of the oxbow would improve water quality and 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. It is the hope of the District and the City of Thief River Falls that this project will be bid and constructed in the summer/fall of 2021.

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, 2020

	Total
Assets	
Current Assets:	
Petty Cash	\$ 100
Pooled Cash and Investments	2,219,400
Total Current Assets	2,219,500
Capital Assets:	
Property and Equipment	23,075,546
Less: Accumulated Depreciation	(5,218,910)
Net Capital Assets	17,856,636
Total Assets	20,076,136
Net Position	
Investment in Capital Assets	17,856,636
Restricted for Ditch Maintenance	655,399
Unrestricted	1,564,101
Total Net Position	\$ 20,076,136

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Expenses			Program Receipts and Sources			Net Cash Sources (Uses) and Changes in Net Cash Position	
	Direct	Allocated Salaries and Overhead	Total	Special Assessments and Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental Activities:								
General and Administrative	\$ (818,598)	\$ 771,782	\$ (46,816)	\$ 1,340	\$ -	\$ -	\$ (45,476)	
Ongoing Projects and Studies	(1,776,410)	(104,826)	(1,881,236)	178,722	94,783	-	(1,607,731)	
Capital Projects	(7,631,568)	(666,956)	(8,298,524)	84,772	-	5,755,540	(2,458,212)	
Allocated Interest	(100,483)	-	(100,483)	-	-	-	(100,483)	
Total Governmental Activities	\$ (10,327,059)	\$ -	\$ (10,327,059)	\$ 264,834	\$ 94,783	\$ 5,755,540	\$ (4,211,902)	
General Receipts:								
Tax Levies							\$ 1,647,099	
Intergovernmental (not restricted to specific programs)							70,467	
State MV and Disparity Reduction Credits							166,300	
Allocated Interest							1,883,866	
Total General Receipts							1,883,866	
Change in Net Position							(2,328,036)	
Net Position - Beginning							22,404,172	
Net Position - Ending							\$ 20,076,136	

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS
DECEMBER 31, 2020

<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	209,138	655,399	1,354,863	2,219,400
Total Assets	<u>\$ 209,238</u>	<u>\$ 655,399</u>	<u>\$ 1,354,863</u>	<u>\$ 2,219,500</u>
Fund Balances:				
Restricted for Ditch Maintenance	\$ -	\$ 655,399	\$ -	\$ 655,399
Committed for Capital Projects	-	-	1,354,863	1,354,863
Unassigned	209,238	-	-	209,238
Total Fund Balances	<u>\$ 209,238</u>	<u>\$ 655,399</u>	<u>\$ 1,354,863</u>	<u>\$ 2,219,500</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	\$ 2,219,500
---	--------------

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	23,075,546
	Accumulated Depreciation	<u>(5,218,910)</u>
Total Net Position		<u>\$ 20,076,136</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, 2020

<u>RECEIPTS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Property Taxes	\$ 100,000	\$ -	\$ 1,547,099	\$ 1,647,099
Special Assessments	-	178,722	-	178,722
Intergovernmental:				
Federal	-	63,760	-	63,760
State	-	31,023	2,322,707	2,353,730
Local	-	-	3,503,300	3,503,300
Other:				
Miscellaneous	1,340	-	84,772	86,112
Allocated Interest	7,013	23,138	136,149	166,300
	<u>108,353</u>	<u>296,643</u>	<u>7,594,027</u>	<u>7,999,023</u>
<u>DISBURSEMENTS</u>				
General and Administrative	46,816	-	-	46,816
Ongoing Projects and Studies	-	1,881,236	-	1,881,236
Capital Projects	-	-	11,150,641	11,150,641
Allocated Interest	4,421	2,080	93,982	100,483
	<u>51,237</u>	<u>1,883,316</u>	<u>11,244,623</u>	<u>13,179,176</u>
Total Disbursements	<u>51,237</u>	<u>1,883,316</u>	<u>11,244,623</u>	<u>13,179,176</u>
Net Change in Fund Balances	57,116	(1,586,673)	(3,650,596)	(5,180,153)
FUND BALANCE JANUARY 1	<u>152,122</u>	<u>2,242,072</u>	<u>5,005,459</u>	<u>7,399,653</u>
FUND BALANCE DECEMBER 31	<u>\$ 209,238</u>	<u>\$ 655,399</u>	<u>\$ 1,354,863</u>	<u>\$ 2,219,500</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, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ (5,180,153)
Governmental funds report capital outlay as expenditures, while governmental activities report depreciation expense allocating those expenditures over the life of the asset:	
Capital Additions Less Net Book Value of Assets Disposed	3,410,827
Depreciation Expense	<u>(558,710)</u>
Change in Net Position - Governmental Activities	<u>\$ (2,328,036)</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
DECEMBER 31, 2020

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

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF CHANGES IN NET CASH POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Custodial Fund</u>
<u>ADDITIONS</u>	
<u>Property Taxes</u>	
Beltrami County	\$ 99,654
Clearwater County	225,119
Itasca County	845
Koochiching County	11,235
Mahnomen County	2,085
Marshall County	63,731
Pennington County	290,517
Polk County	717,102
Red Lake County	136,675
Roseau County	137
State - MV	<u>65,911</u>
 TOTAL ADDITIONS	 <u>1,613,011</u>
<u>DEDUCTIONS</u>	
Red River Watershed Management Board	<u>1,613,011</u>
 TOTAL DEDUCTIONS	 1,613,011
 CHANGE IN NET POSITION	 -
 NET POSITION - BEGINNING	 <u>-</u>
 NET POSITION - ENDING	 <u>\$ -</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

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, 2020

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 CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of one year or less. Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by Minnesota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund. Funds with deficit averages are charged with the investment earnings lost in financing the deficits.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

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, 2020

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, 2020

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, 2020

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

INTERFUND BALANCES

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

H. NET POSITION

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. There are no instances of noncompliance that are considered material to the financial statements.

NOTE 3 DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

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

Interest Rate Risk

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

Credit Risk

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

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or any of its municipalities.
- 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, 2020

- 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, 2020, the carrying amount of the District's deposits was \$2,219,500 and the bank balance was \$3,545,449. 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, 2020.

Related-Party Investments

As of December 31, 2020, 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, 2020

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, 2020

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. The Red Lake Watershed District makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in 2020. In 2020, the Red Lake Watershed District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.5 percent for Coordinated Plan members. The Red Lake Watershed District's contributions to the General Employees Fund for the year ended December 31, 2020 was \$35,138.

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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

NOTE 7 CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the year ended December 31, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Building and Improvements	\$ 775,594	\$ -	\$ -	\$ 775,594
Infrastructure Improvements	12,601,966	532,467	-	13,134,433
Engineering Equipment	438,363	12,435	37,204	413,594
Office Equipment	173,843	12,236	20,383	165,696
Land and Permanent Easements	3,726,959	398,817	-	4,125,776
Construction in Progress	2,005,581	2,454,872	-	4,460,453
Total	<u>\$ 19,722,306</u>	<u>\$ 3,410,827</u>	<u>\$ 57,587</u>	<u>\$ 23,075,546</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Accumulated Depreciation</u>				
Building and Improvements	\$ 341,816	\$ 22,506	\$ -	\$ 364,322
Infrastructure Improvements	3,862,143	502,136	-	4,364,279
Engineering Equipment	379,285	21,437	37,204	363,518
Office Equipment	134,543	12,631	20,383	126,791
Total	<u>4,717,787</u>	<u>558,710</u>	<u>57,587</u>	<u>5,218,910</u>
	<u>\$ 15,004,519</u>	<u>\$ 2,852,117</u>	<u>\$ -</u>	<u>\$ 17,856,636</u>

Depreciation expense of \$558,710 for the year ended December 31, 2020 is included in general and administrative program costs.

NOTE 8 OVERHEAD COST ALLOCATION

Overhead costs are allocated to all projects at 150% of direct salaries to projects. Overhead costs represent those costs incurred by the District for administration, employee benefits, engineering, and related operating expenditures, which are not charged directly to the project. The total overhead costs charged to projects in 2020 was \$771,782.

NOTE 9 CONTINGENCIES

Grants

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2020, 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, 2020

NOTE 10 CONSTRUCTION COMMITMENTS

The District had approximately \$2.7 million in construction commitments for capital projects as of December 31, 2020.

NOTE 11 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. 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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

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.

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

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through March 4, 2021, 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, 2020

REVENUES	Original and Final Budget	Actual 2020	Variance
Tax Levies	\$ 100,000	\$ 100,000	\$ -
Miscellaneous	7,000	1,340	(5,660)
Allocated Interest	<u>-</u>	<u>7,013</u>	<u>7,013</u>
 Total Revenues	 <u>107,000</u>	 <u>108,353</u>	 <u>1,353</u>
 EXPENDITURES			
General and Administrative	146,040	46,816	(99,224)
Interest	<u>-</u>	<u>4,421</u>	<u>4,421</u>
 Total Expenditures	 <u>146,040</u>	 <u>51,237</u>	 <u>(94,803)</u>
 Expenditures Exceed Revenues	 (39,040)	 57,116	 <u>96,156</u>
 FUND BALANCE JANUARY 1	 <u>152,122</u>	 <u>152,122</u>	
 FUND BALANCE DECEMBER 31	 <u>\$ 113,082</u>	 <u>\$ 209,238</u>	

See Note to the Budgetary Comparison Schedule

RED LAKE WATERSHED DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2020

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 2020 at \$107,000. All appropriations lapse at year-end.

RED LAKE WATERSHED DISTRICT
STATEMENT OF RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE – ALL FUNDS –
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	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	\$ 152,122	\$ 1,340	\$ -	\$ 7,013	\$ 100,000	\$ 818,598	\$ 4,421	\$ (771,782)	\$ -	\$ 209,238
SPECIAL REVENUE FUND JOBS:										
Red Lake River Project	63,993	4,382	-	863	-	-	-	166	-	69,072
Clearwater River Project	32,526	7,720	-	467	-	-	-	-	-	40,713
Lost River Project	10,519	2,683	-	151	-	-	-	-	-	13,353
RLWD Ditch #1	(530)	3,531	-	-	-	4,173	20	2,828	-	(4,020)
RLWD Ditch #3	(586)	5,867	-	12	-	33	-	2,018	-	3,242
State Ditch #83	60,316	28,521	450	919	-	5,061	-	3,383	-	81,762
RLWD Ditch #7	2,938	8,336	-	58	-	1,686	-	2,858	-	6,788
Pine Lake Maintenance	(4,516)	6,748	-	-	-	325	95	8,455	-	(6,643)
RLWD Ditch #8	2,978	551	-	37	-	700	-	1,709	-	1,157
RLWD Ditch #9	(661)	908	-	-	-	721	6	383	-	(863)
J.D. Ditch #72	3,351	6,922	-	58	-	3,458	-	862	-	6,011
Clearwater/Wild Rice River	6,629	2,028	-	91	-	-	-	2,990	-	5,758
Branch A & 1, J.D. #2	4,269	2,321	-	22	-	555	-	8,844	-	(2,787)
Main J.D. #2 and Branch B&C	743	3,314	-	15	-	1,325	-	1,002	-	1,745
Main J.D. 2C. Eck	3,177	478	-	43	-	-	-	236	-	3,462
Krostue Petition	(6,891)	3,618	-	-	-	1,920	80	914	-	(6,187)
Clearwater County Joint Ditch #4	3,995	1,291	-	55	-	-	-	1,496	-	3,845
Clearwater County Joint Ditch #5	(11,188)	2,826	-	-	-	2,853	156	892	-	(12,263)
Clearwater County Ditch #1	1,794	1,317	-	29	-	-	-	298	-	2,842
Clifford Arveson Ditch	2,253	2,801	-	27	-	28	-	855	-	4,198
Winsor/Hangaard/Clearwater County Petition	11,306	8,249	-	183	-	131	-	3,388	-	16,219
Equality RLWD Ditch #1, lat C	(3,063)	4,764	-	-	-	2,853	44	1,149	-	(2,345)
K. Johnson Petition	2,062	2,338	-	17	-	1,440	-	2,210	-	767
Polk County Ditch #'s 104, 61, 47, 94	(6,611)	9,347	-	-	-	11,926	94	4,272	-	(13,556)
TRF Drainage Ditch (Challenger Ditch)	(1,366)	1,004	-	-	-	-	20	442	-	(824)
Scott Baatz Petition	672	1,131	-	1	-	250	-	1,838	-	(284)
Polk County Ditch #63 Improvement	17,000	3,388	-	228	-	1,680	-	1,778	-	17,158
Polk County Ditch #33 Improvement	3,406	5,873	-	33	-	4,618	-	2,387	-	2,307
RLWD Ditch #10	3,747	3,356	82,303	402	-	3,129	-	2,013	-	84,666
RLWD Ditch #11	15,367	569	-	177	-	2,877	-	1,915	-	11,321
RLWD Ditch #12	(6,705)	15,927	-	-	-	14,426	130	5,633	-	(10,967)
RLWD Ditch #14	(5,266)	5,883	-	-	-	5,333	108	1,873	-	(6,697)
RLWD Ditch #15	62,115	3,574	-	745	-	14,306	-	4,537	-	47,591
Burnham Creek Channel	7,432	15,500	-	49	-	18,439	-	8,124	-	(3,582)
RLWD Ditch #13	(553)	1,281	-	-	-	676	18	1,646	-	(1,612)
Thief River Falls Flood Damage Reduction Project	1,150	375	-	10	-	940	-	178	-	417
RLWD Ditch #16	2,029,425	-	12,030	18,446	-	1,620,453	-	9,588	-	429,860
Improv to Polk Co. #39	(63,155)	-	-	-	-	50,095	1,309	11,666	-	(126,225)
TOTAL SPECIAL REVENUE	2,242,072	178,722	94,783	23,138	-	1,776,410	2,080	104,826	-	655,399

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, 2020

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,828	\$ 214	\$ 6,208	\$ 32,250	\$ -
County Ditch 20/State Ditch 83	-	-	-	-	-	-	2	222	224	-
Baird Beyer Dam	-	-	-	-	-	-	-	-	-	-
Lost River Impoundment	-	-	-	-	-	-	-	-	-	-
Stream Gauging	-	-	-	-	-	23,568	367	20,650	44,585	-
Culvert Sizing	-	-	-	-	-	-	33	6,170	6,203	-
Schirrick Dam	-	-	-	-	-	6,908	114	5,167	12,189	-
Pine Lake PWT	(390,855)	-	14,398	-	-	76,964	5,714	8,021	-	(467,156)
Little Pine Lake WMA	-	-	-	-	-	-	7	756	763	-
Pine Lake FDR	-	-	-	-	-	75,507	84	575	-	(76,166)
Hydrologic Analysis	-	-	-	-	-	836	141	24,044	25,021	-
Emergency Maintenance	114,280	-	-	1,522	-	-	-	-	-	115,802
RRWMB - Technical Com	-	-	-	-	-	95	105	12,762	12,962	-
Water Quality	-	-	-	-	-	40,769	1,078	126,927	168,774	-
Maintenance Dams	-	-	-	-	-	-	17	1,897	1,914	-
Odney Flaot Dam	-	-	-	-	-	-	2	300	302	-
Latundresse Dam	-	-	-	-	-	-	-	-	-	-
Miller Dam	-	-	-	-	-	-	1	127	128	-
Seeger Dam	-	-	-	-	-	-	4	670	674	-
Blackduck Lake Structure	-	-	-	-	-	-	-	-	-	-
Elm Lake	-	-	-	-	-	-	-	56	56	-
Klongerbo Lake Project	-	-	-	-	-	-	-	-	-	-
Red Lake Res./Good Lake	-	-	-	-	-	-	-	-	-	-
Penn Co Road #7	-	-	-	-	-	-	1	166	167	-
Parnell Impoundment	-	4,243	-	-	-	20,250	154	5,353	21,514	-
Permits	-	-	-	-	-	6,448	914	149,461	156,823	-
Project Development	-	-	-	-	-	728	473	43,957	45,158	-
Louisville/Parnell Project	-	6,540	-	-	-	1,803	-	75	(4,662)	-
Challenger Ditch Realign	-	-	-	-	-	-	2	418	420	-
Ring Dike Program - General	(2,881)	-	3,174	-	-	-	6	1,810	-	(1,523)
Ring Dike Program - Shaumburg	(4,081)	-	3,892	-	-	2,173	27	818	-	(3,207)
Ring Dike Program - Threat	(6,861)	8,175	7,864	-	-	18,353	119	4,896	-	(14,190)
Ring Dike Program - Ste Marie	-	-	-	-	-	-	1	667	-	(668)
Ring Dike Program - P Nelson	-	-	-	-	-	-	1	524	-	(525)
G.I.S.	-	-	-	-	-	10,000	241	32,802	43,043	-
Wetland Banking	-	41,720	1,112	125	-	576	-	1,387	(40,994)	-
Ten Year Overall Plan	249,822	-	535,575	5,760	-	478,901	-	12,638	-	299,618
Thief River 1W1P	(79,886)	-	290,414	1,040	-	6,837	-	19,854	-	184,877
PTMAPP Grant	(49,957)	-	24,224	-	-	2,597	429	6,867	35,626	-
Clearwater River 1W1P	-	-	-	-	-	-	-	3,688	-	(3,688)
North Parnell Storage Site	-	-	-	-	-	750	5	302	1,057	-
Clearwater River - TMDL	-	-	-	-	-	-	21	2,043	2,064	-

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, 2020

	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)	
Red River Corridor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 695	\$ 700	\$ -
Erosion Control Projects	-	-	-	-	-	108,193	465	3,893	112,551	-
Drainage- Inv & Insp	-	-	-	-	-	4,000	45	604	4,649	-
FEMA D-Firm Grant	-	-	-	-	-	-	7	943	950	-
Black River Impoundment	(820,784)	19,812	22,365	-	-	4,219,434	16,994	44,346	-	(5,059,381)
Web Page Development	(1,502)	-	1,500	-	-	144	18	1,983	1,081	(1,066)
Administrative Construction	8,843,822	-	65,911	127,702	1,547,099	-	-	-	(917,320)	9,667,214
Burnham Creek - BR6	-	-	-	-	-	136,280	392	7,804	-	(144,476)
Euclid East Impoundment	-	4,180	-	-	-	7,218	109	10,973	14,120	-
Brandt Impoundment	-	102	-	-	-	54,013	290	14,733	68,934	-
Brandt Channel Restoration	-	-	-	-	-	1,022	9	-	1,031	-
Grand Marais - Restoration	-	-	-	-	-	5,817	49	1,529	7,395	-
Grand Marais Cut Channel Stabilization	-	-	-	-	-	500	7	530	1,037	-
Clearwater Public Education (River Watch)	-	-	-	-	-	310	162	17,418	17,890	-
Red River Basin Long Term Flood Control	(1,846,594)	-	-	-	-	(1,786,652)	22,642	2,536	85,120	-
Four Legged Lake PWT	-	-	-	-	-	203	3	111	317	-
BWSR Flood Storage Pilot Project	-	-	-	-	-	313	2	132	447	-
Thief River TMDL	-	-	-	-	-	-	3	341	344	-
Clearwater River WRAP	(22,236)	-	6,960	-	-	-	344	15,838	31,458	-
TRF Westside FDR	(971,748)	-	4,703,678	-	-	6,788,649	41,923	36,413	-	(3,135,055)
State/Local/Federal Grants	-	-	-	-	-	-	1	66	67	-
Agassiz NWR Wetland	(3,691)	-	96,183	-	-	95,600	106	2,334	-	(5,548)
Agassiz Grant SILT	(1,389)	-	48,757	-	-	48,750	129	1,456	2,968	1
Total Capital Projects	5,005,459	84,772	5,826,007	136,149	1,547,099	10,483,685	93,982	666,956	-	1,354,863
Total All Funds	\$ 7,399,653	\$ 264,834	\$ 5,920,790	\$ 166,300	\$ 1,647,099	\$ 13,078,693	\$ 100,483	\$ -	\$ -	\$ 2,219,500

RED LAKE WATERSHED DISTRICT
STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION –
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

<u>DIRECT EXPENDITURES:</u>	<u>2020</u>
Salaries -	
Inspection	\$ 38,585
Survey - Preliminary	7,819
Survey - Construction	389
Drafting	17,716
Engineering	37,478
Project Administration	304,374
Field Work - Water Programs	38,401
Other	45,497
Compensated Absences	38,912
Payroll Taxes and Benefits	115,455
Manager's Expense	14,531
Travel, Mileage, Meetings and Per Diems	2,156
Audit	9,450
Legal	48,020
Appraisal and Viewers	13,333
Other Professional Fees	330,931
Office Supplies	13,390
Office Equipment	12,236
Dues and Subscriptions	9,993
Insurance and Bonds	29,239
Repairs and Maintenance	14,226
Utilities	9,126
Telephone	8,784
Advertising and Publications	12,273
Truck Expense	10,685
Miscellaneous	37,025
Land Acquisition and Easements	273,236
Construction	10,557,835
Engineering Costs and Fees	4,746
Engineering Fees	1,010,418
Engineering Equipment	<u>12,434</u>
Total Expenditures	<u>\$ 13,078,693</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, 2020 and the related notes to the financial statements, and have issued our report thereon dated March 4, 2021.

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

March 4, 2021

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, 2020, and the related notes to the financial statements, which collectively comprise the Red Lake Watershed District's basic financial statements and have issued our report thereon dated March 4, 2021.

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 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Lake Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

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

Purpose of this Report

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



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

March 4, 2021

RED LAKE WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020

2020-001 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 have the auditors assist with the preparation of the financial statements for efficiency.

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 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, 2020

2020-001 Finding

Contact Person – Myron Jesme, Administrator

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

Completion Date – Ongoing