

**RED RIVER WATERSHED MANAGEMENT BOARD
ADA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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RED RIVER WATERSHED MANAGEMENT BOARD
OFFICIAL DIRECTORY - UNAUDITED
DECEMBER 31, 2020

<u>Member</u>	<u>Watershed District Board</u>	<u>Position</u>
John Finney	Joe River	President
Greg Holmvik	Wild Rice	Vice President
LeRoy Ose	Red Lake	Secretary
Jason Braaten	Roseau River	Treasurer
Roger Anderson	Two Rivers	Manager
Roger Mischel	Middle-Snake-Tamarac Rivers	Manager
Linda Vavra	Bois de Sioux	Manager
Robert Sip		Executive Director
Nikki Swenson		Executive Assistant

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Red River Watershed Management Board
Ada, Minnesota

We have audited the accompanying cash basis financial statements of the governmental activities and general fund of the Red River Watershed Management Board of Ada, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Board'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 cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of 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. 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 principles 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 cash basis financial position of the governmental activities and general fund of the Red River Watershed Management Board, as of December 31, 2020, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the cash 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 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 this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red River Watershed Management Board's basic financial statements. The management's discussion and analysis on pages 4-8, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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 it.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

June 15, 2021

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

Our discussion and analysis of the Red River Watershed Management Board financial performance provides an overview of the Board's financial activities for the year ended December 31, 2020, within the limitations of the Board's cash basis of accounting. Please read it in conjunction with the Board's financial statements that begin on page 9.

FINANCIAL HIGHLIGHTS

- The Board's total revenues exceeded total expenditures, on the cash basis of accounting, by \$2,465,044 for the year.
- The Board's fund balance at the close of the current year was \$23,362,897.

Using this Annual Report

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 Board's cash basis of accounting.

Report Components

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Net Cash Position and the Statement of Activities Arising from Cash Transactions on pages 9 and 10 provide information about the activities of the Board government-wide (or "as a whole") and present a longer-term view of the Board's finances.

Fund Financial Statements: Fund financial statements (on pages 11 and 12) focus on the individual parts of the Board government. Fund financial statements also report the Board's operations in more detail than the government-wide statements by providing information about the Board'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 an expanded explanation and detail regarding the information reported in the statements.

Other Information: This Management's Discussion and Analysis section represents 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 "basic financial statements").

Basis of Accounting

The Board has elected to present its financial statements on a cash basis of accounting. This 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 Board's cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except from unexpended grant

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

funds. 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 cash basis of accounting.

Reporting the Board as a Whole

The Board's Reporting Entity Presentation

This annual report includes all activities for which the Red River Watershed Management Board of Managers is fiscally responsible. These activities, defined as the Board's reporting entity, are operated within separate legal entities that make up the primary government. The Board 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 Board as a whole begins on page 6. One of the most important questions about the Board's finances is, "Is the Board 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 Board as a whole and about its activities in a way that helps answer this question. These statements include all of the Board's assets and liabilities resulting from the use of the cash basis of accounting.

These two statements report the Board's Net Cash Position and changes in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the Board's Net Cash Position -the difference between assets and liabilities- as one way to measure the Board's financial health or financial position. Over time, increases or decreases in the Board's Net Cash Position are one indicator of whether its financial health is improving or deteriorating. Interest earnings on investments also tend to fluctuate year to year and month to month. You will need to consider other non-financial factors, however, such as changes in the Board's property tax base, the condition of the Board's infrastructure and the amount of funds being allocated back out to projects, to assess the overall health of the Board.

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

Governmental Activities – The Board's basic services are reported here, including the general administration and capital projects. Property taxes are the main source of income. State aids and state funds are secondary sources of funding for special projects, but are not relied on to operate and fund projects. State funds are passed through to other partners.

The Fund Financial Statements

The fund financial statements 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

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

or to show that it is meeting legal responsibilities for causing certain taxes, grants, and other money. The Board has only one governmental fund.

Governmental Fund – The Board’s basic services are reported in governmental funds, which focus on how money flows into and out of that fund and the balances left at period-end that are available for spending. This fund would report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to assets and debt balances. The governmental fund statements provide a detailed short-term view of the Board’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 Board’s programs.

A FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net Cash Position

The Board’s combined Net Cash Position, resulting from cash basis transactions, increased \$2,465,044 between fiscal years 2019 and 2020.

	Governmental Activities		Change
	2019	2020	19-20
Cash	\$ 20,897,853	\$ 23,362,897	\$ 2,465,044
Total cash assets	20,897,853	23,362,897	2,465,044
Net cash position			
Unrestricted	20,897,853	23,362,897	2,465,044
Total net cash position	\$ 20,897,853	\$ 23,362,897	\$ 2,465,044

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

Changes in Net Position – Cash Basis

For the year ended December 31, 2020, changes in Net Cash Position of the Board (resulting from cash basis transactions) changed as follows:

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2019</u>	<u>2020</u>	<u>19-20</u>
REVENUES			
Program revenues			
Charges for services and reimbursements	\$ 65,869	\$ 102,782	\$ 36,913
Operating grants and contributions	278,525	508,913	230,388
General revenues			
Property taxes	4,575,260	4,190,304	(384,956)
Intergovernmental	137,677	167,995	30,318
Investment income	<u>311,439</u>	<u>240,393</u>	<u>(71,046)</u>
Total revenues	<u>5,368,770</u>	<u>5,210,387</u>	<u>(158,383)</u>
EXPENSES			
General government-flood control	<u>2,562,978</u>	<u>2,745,343</u>	<u>182,365</u>
Total expenses	<u>2,562,978</u>	<u>2,745,343</u>	<u>182,365</u>
Increase (decrease) in net cash position	2,805,792	2,465,044	(340,748)
Net cash position - January 1	<u>18,092,061</u>	<u>20,897,853</u>	<u>2,805,792</u>
Net cash position - December 31	<u>\$20,897,853</u>	<u>\$23,362,897</u>	<u>\$ 2,465,044</u>

The \$158,383 decrease in total revenues is due to decrease in property taxes in the amount of \$384,956, which primarily occurred due to the timing of receipts from its Members, as well as operating grants and contributions increase due to increase in Mediation and Ring Dikes project funding. The \$182,365 increase in expenses is mainly due to a \$129,629 project expense for Farmstead Ring Dikes.

Governmental Activities

To aid in the understanding of the Statement of Activities Arising from Cash Transactions on page 10, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first section, with revenues for that particular program reported next. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the Board'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.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Board commitments of funding projects and programs in the future are \$19,720,492.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This report is designed to provide our taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Sip at the Board's office at 11 5th Ave E, Ada, Minnesota or by telephone at (218) 784-9500.

RED RIVER WATERSHED MANAGEMENT BOARD
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2020

	<u>CASH ASSETS</u>	Total
Cash		<u>\$ 23,362,897</u>
Total assets		<u>\$ 23,362,897</u>
	<u>NET CASH POSITION</u>	
Unrestricted		<u>\$ 23,362,897</u>
Total net cash position		<u>\$ 23,362,897</u>

See Notes to the Basic Financial Statements

RED RIVER WATERSHED MANAGEMENT BOARD
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020

<u>FUNCTION /PROGRAM</u>	<u>Total</u>
Public safety - flood control:	
Administrative	\$ 582,221
Mediation	307,598
Coordinated services	43,000
Program funding	774,823
Project funding	<u>1,037,701</u>
Total program services	<u>2,745,343</u>
Program receipts and sources:	
Charges for services and reimbursements	102,782
Operating grants and contributions	<u>508,913</u>
Total program receipts and sources	<u>611,695</u>
Net program expenses	<u>2,133,648</u>
General revenues:	
Property taxes	4,190,304
Intergovernmental (not restricted to specific programs)	167,995
Investment earnings	<u>240,393</u>
Total general revenues	<u>4,598,692</u>
Increase in net cash position	<u>2,465,044</u>
Net cash position - January 1	<u>20,897,853</u>
Net cash position - December 31	<u>\$ 23,362,897</u>

See Notes to the Basic Financial Statements

RED RIVER WATERSHED MANAGEMENT BOARD
STATEMENT OF FUND BALANCE ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2020

	<u>CASH ASSETS</u>	Total
Cash		<u>\$ 23,362,897</u>
Total assets		<u>\$ 23,362,897</u>
	<u>FUND BALANCES</u>	
Committed for projects		\$ 19,720,492
Unassigned		<u>3,642,405</u>
Total fund balance		<u>\$ 23,362,897</u>

See Notes to the Basic Financial Statements

RED RIVER WATERSHED MANAGEMENT BOARD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2020

RECEIPTS

Property taxes	\$	4,190,304
Intergovernmental:		
State of Minnesota:		
MV-credit		167,995
Project funding:		
River Watch Program		145,692
Mediation		264,000
Ring Dikes		99,221
Other income:		
Investment income		240,393
Refunds and reimbursements:		
Stream Gauge		91,519
Miscellaneous		11,263
		11,263
 Total receipts		 5,210,387

DISBURSEMENTS

Administrative:		
Red River Coordinator fees		30,000
Manager expense		46,590
Technical		26,489
Contracted services		124,375
Office operations		292,820
Public relations		5,996
Professional		55,951
Mediation funding:		
Project teams		307,598
Coordinating services:		
Red River Retention Authority		43,000
Program funding:		
Stream Gauging		114,131
RRBC		165,000
Water Quality		200,000
River Watch		295,692
Project funding:		
City of Halstad		9,000
Farmstead Ring Dikes		129,629
Thief River Westside FDR		870,306
Other		28,766
		28,766
 Total disbursements		 2,745,343
 Excess of receipts over disbursements		 2,465,044
 Fund balance January 1		 20,897,853
 Fund balance December 31	\$	 23,362,897

See Notes to the Basic Financial Statements

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Red River Watershed Management Board was created by an Act of the Minnesota legislature in 1976 to provide an organization with a basin wide perspective concerning flooding. Originally named The Lower Red River Watershed Management Board, it was later renamed Red River Watershed Management Board. The Minnesota legislature action allowed existing Watershed Districts to join together in a common effort under a Joint Powers Agreement to form the Board. Members of the Board during 2020 were the Joe River Watershed, Two Rivers Watershed, Roseau River Watershed, Middle Snake Tamarac Rivers Watershed, Red Lake Watershed, Wild Rice Watershed and Bois de Sioux Watershed Districts. The Board can levy up to .04836 percent of taxable market value of all property within the Boards to fund, develop, construct and maintain projects and programs of benefit to the Red River Basin. When the Members collect the tax levies, half of the amount is kept by the Members and the other half is forwarded to the Board.

A. FINANCIAL REPORTING ENTITY

The Red River Watershed Management Board of Managers ("Board") is the basic level of government which has financial accountability and control over the activities related to water management in the Minnesota portion of the Red River Basin. The Board receives funding primarily from local sources and occasionally from state and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are appointed by their respective County Commissioners and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 61 which are included in the Board'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 Board has only governmental activities which are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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 Board currently has only one governmental fund.

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Board. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within 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 the Statement of Activities Arising from Cash Transactions, governmental activities are presented using the economic resources measurement focus, within the limitations of the 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 cash basis of accounting, is used to appropriate.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available financial resources at the end of the period. These funds use fund balance as their measure of available 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 cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 these financial statements.

If the Board utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

D. ASSETS AND NET POSITION

CASH

For the purposes of financial reporting, “cash” includes all demand and savings accounts, certificates of deposit and money market accounts or short-term investments with an original maturity of one year or less.

CAPITAL ASSETS

Capital assets arising from cash transactions are not accounted for in the Statement of Net Cash Position or Statement of Fund Balance Arising from Cash Transactions because the financial statements are reported on the cash basis.

E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities Arising from Cash Transactions, cash basis revenues that are derived directly from each activity or from parties outside the Board’s taxpayers are reported as program revenues. The Board has the following program revenues in each activity:

General Government	Reimbursements and Project Funding
--------------------	------------------------------------

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

F. 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 a specific purpose for which it is the Board’s intended use. These constraints are established by the Board of Managers and/or management.

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

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

When both restricted and unrestricted resources are available for use, it is the Board's policy to first use restricted resources, and then use unrestricted resources as they are needed.

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

Red River Watershed Management Board has adopted a policy that sets the minimum fund balance at \$350,000.

G. 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 Board's financial statements. 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 the restricted component of net position.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Board is subject to various federal, state, and local laws and contractual regulations.

NOTE 3 DETAIL NOTES - TRANSACTION CLASSES / ACCOUNTS

The following notes present detailed information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

A. CASH AND INVESTMENTS

Deposit of Public Funds

In accordance with Minnesota Statutes, the Red River Watershed Management Board deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System.

The Board maintains a cash account at its depository bank. Investments are carried at fair value. The Board considers Certificates of Deposit and Money Market accounts to be cash.

Interest Rate Risk

The Board has adopted a formal investment policy that limits eligible investments and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Board's investment policy on eligible investments and maturity is as follows:

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Eligible Investments:

1. Deposits in any federally insured bank, savings and loan association or credit union. All amounts over \$250,000 must be secured with pledged securities or covered by a public depository bond. (Minnesota Statutes 118A.03, Subd. 1)
2. Money market accounts in a treasury fund which invest only in treasury notes and treasury bills.
3. Certificates of deposit in federally insured financial institutions as determined by the Board of Managers.
4. Eligible debenture notes when guaranteed by a governmental unit with adequate bonding authority.

Maturity:

1. The investment committee is restricted to investments that mature in three years or less.

In addition, Minnesota Statutes authorize the Board to invest idle funds, 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.
- 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.

Concentration of Credit Risk

The Board limits the amounts of Certificates of Deposit in federally insured financial institutions to no more than the FDIC insurance limit. The Board places no limit on the amount the Board may invest in any one issuer of eligible debenture notes.

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

Custodial Credit Risk - Deposits

In accordance with Minnesota Statutes, the Board maintains deposits at those depository banks authorized by the RRWMB's Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all Board deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Red River Watershed Management Board maintains cash on deposit at one financial institution. The amount on deposit was insured by the FDIC up to \$250,000. At December 31, 2020, the carrying amount of the Board's deposits was \$23,362,897 and the bank balance was \$23,556,545. The bank balance at December 31, 2020 was covered by pledged collateral held by the agent in the Board's name with a market value of \$26,015,457 at December 31, 2020.

NOTE 4 PROPERTY TAXES

Property is assessed and property taxes are attached as an enforceable lien as of January 2, of a given year by each member watershed. The tax then becomes due on the first Monday in January following the year of assessment. Taxes are paid to the County Treasurer and, when more than \$10, can be paid in two equal installments. The first half is due by May 15, and the second half is due by October 15 of the year. Taxes are deemed delinquent on the first Monday following the year they should have been paid.

Taxes are collected by each member watershed and are remitted to the Board after receipt from the county treasurer.

Property tax revenues are recognized when cash payments are received.

NOTE 5 DEFINED BENEFIT PENSION PLANS

The Board prepares its financial statements on the cash basis of accounting as described in Note 1 and has not adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* or GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The following footnote is for informational purposes only.

A. PLAN DESCRIPTION

All full-time employees of the Red River Watershed Management Board are covered by defined benefit pension 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 cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code. The Red River Watershed Management Board has no part-time employees.

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.

RED RIVER WATERSHED MANAGEMENT BOARD
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DECEMBER 31, 2020

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for members of the General Employees Plan vest after five years of credited service.

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

For all General Employee 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.

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/.

B. 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 Board 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% and 6.5% respectively, of their annual covered salary in 2020. In 2020, the Red River Watershed Management Board was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.5% for Coordinated Plan members. The Board's contribution to the Public Employees Retirement Fund for the year ended December 31, 2020 was \$12,973.

RED RIVER WATERSHED MANAGEMENT BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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NOTE 6 RISK MANAGEMENT

The Board 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 Board manages these various risks of loss with the purchase of commercial insurance.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Board. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 7 COMMITMENTS

The Board for 2020 has commitments for Watershed Board projects totaling \$19,720,492.

In 2018, the Board entered into an office space lease agreement with the Wild Rice Watershed District. The term of the lease is for 15 years. The Watershed relocated to the office space in July 2019.

NOTE 8 LOANS TO WATERSHED DISTRICTS

The Board may from time to time offer loans to Watershed Districts to assist in acquiring land for various projects. If the project develops, the loan is agreed to become part of the funding commitment between the Board and the Districts. If the project does not develop, the receiving Board will repay the loan according to the loan agreement. The total amount of the funding advances/loans available are \$135,000 for the Roseau River Lake Bottom Project and \$135,000 for the Whitney Lake Site A to the Roseau River Watershed District, \$150,000 for the City of Newfolden Project to the Middle Snake Tamarac Rivers Watershed District, \$5,000,000 for the Klondike Clean Water Retention Project to the Two Rivers Watershed District, and \$5,667,000 for the Red Path Project to the Bois de Sioux Watershed District. At December 31, 2020, there were amounts outstanding totaling \$11,087,000 and were not charged interest.

NOTE 9 RELATED PARTY

The Board is related to various entities. During the normal course of business, the Board engaged in various transactions in 2020 with these related entities. The Board committed \$85,000 to the Red River Basin Commission and \$43,000 to the Red River Retention Authority. The amounts arising from these transactions are material to the financial statements when taken as a whole.

NOTE 10 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Red River Watershed Management Board's year end. Subsequent events have been evaluated through June 15, 2021, which is the date these financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Red River Watershed Management Board
Ada, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the cash basis financial statements of the Red River Watershed Management Board of Ada, Minnesota as of and for the year ended December 31, 2020, and the related notes to the financial statements which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 15, 2021.

Legal Compliance

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

Restricted Use of the Report

This report is intended solely for the information and use of those charged with governance and management of the Board and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 15, 2021