

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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RED LAKE WATERSHED DISTRICT
OFFICIAL DIRECTORY
DECEMBER 31, 2022

Board of Managers

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2022, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Opinion

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

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted a change of accounting from modified cash basis to cash basis in the current year. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 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 Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red Lake Watershed District's basic financial statements. The budgetary comparison schedule, statement of fund balances by project, and the statement of direct expenditures by classification as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule, statement of fund balances by project, and the statement of direct expenditures by classification are fairly stated in all material respects in relation to the basic financial statements as a whole as described in the basis of accounting described in Note 1.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the official directory and the management's discussion and analysis but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2023 on our consideration of the Red Lake Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Red Lake Watershed District's internal control over financial reporting and compliance.



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

April 4, 2023

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022, within the limitations of the District's cash basis of accounting. Please read it in conjunction with the District's financial statements following this section.

FINANCIAL HIGHLIGHTS

- The District's governmental funds total revenues exceeded total expenditures, on the cash basis of accounting, by \$3,353,020 for the year ended December 31, 2022.
- The general fund showed an increase of cash basis fund balance in the amount of \$29,406.
- The District's General Fund ended the year with a fund balance of \$270,675.
- The District's combined fund balance at the close of the current year was \$5,515,826.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Red Lake Watershed District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basis of Accounting. The District has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than generally accepted accounting principles. 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 cash basis of accounting, revenues and expenses are recognized when the cash transactions occur.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts and taxes receivable and related revenue not collected yet) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not paid yet) are not recorded in these 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.

Government-Wide Financial Statements. The government-wide financial statements are designed to display information about the Red Lake Watershed District taken as a whole.

Over time, increases or decreases in net position – cash basis may serve as a useful indicator of whether the financial cash position of the Red Lake Watershed District is improving or deteriorating.

The government-wide financial statements can be found on pages 12 and 13 of this report.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

Fund Financial Statements. The fund financial statements focus on the individual parts of the District. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Red Lake Watershed District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of Red Lake Watershed District are governmental funds.

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

Red Lake Watershed District maintains three major governmental funds. Information is presented separately in the governmental fund statement of balances arising from cash transactions and in the governmental fund statement of cash receipts, disbursements and changes in cash fund balance for the General Fund, Special Projects Fund, and Capital Projects Fund.

The basic government fund financial statements can be found on pages 14 through 15 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 27 of this report.

RED LAKE WATERSHED DISTRICT'S NET CASH POSITION

	2022	2021	Change 21-22
ASSETS			
Cash and Investments	\$ 5,515,826	\$ 2,162,806	\$ 3,353,020
NET CASH POSITION			
Restricted for Ditch Maintenance	\$ 589,247	\$ 639,143	\$ (49,896)
Unrestricted	4,926,579	1,523,663	3,402,916
	<u>\$ 5,515,826</u>	<u>\$ 2,162,806</u>	<u>\$ 3,353,020</u>

At the end of 2022 and 2021, the Red Lake Watershed District is able to report positive balances in net cash assets.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

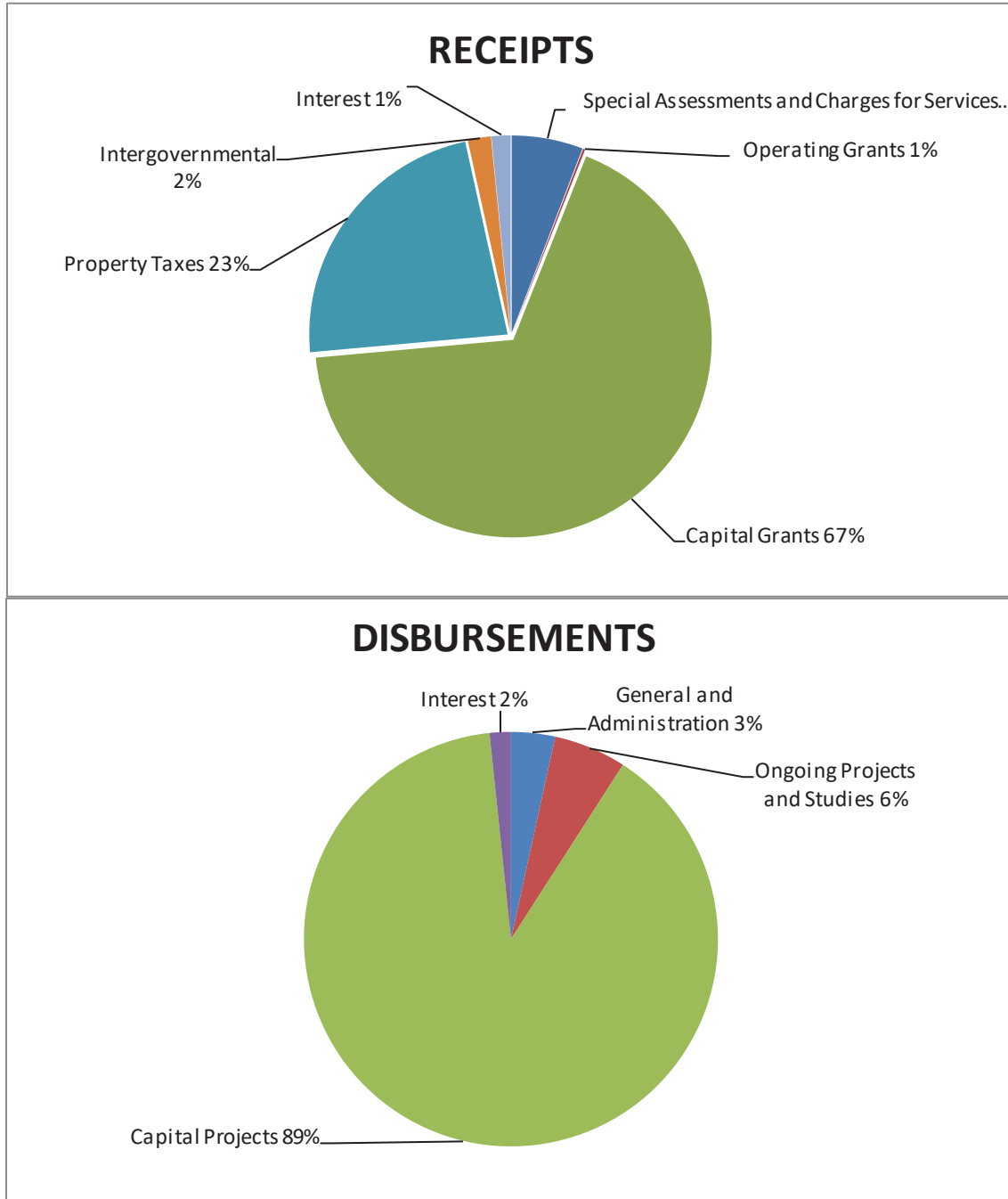
RED LAKE WATERSHED DISTRICT'S CHANGE IN NET CASH ASSETS

Governmental activities resulted in an increase of \$3,353,020 of Red Lake Watershed District's net cash position from the fiscal year 2021 to the current fiscal year. The details of the changes are as follows:

	2022	2021	Change 21-22
Receipts			
Program Revenues			
Special Assessments and Charges for Services	\$ 432,491	\$ 263,544	\$ 168,947
Operating Grants	13,171	77,015	(63,844)
Capital Grants	5,024,774	4,899,243	125,531
General Revenues			
Property Taxes	1,710,045	1,704,004	6,041
Intergovernmental	140,101	72,401	67,700
Interest	115,904	68,276	47,628
Total Receipts	<u>7,436,486</u>	<u>7,084,483</u>	<u>352,003</u>
Disbursements			
General and Administration	140,188	129,744	10,444
Ongoing Projects and Studies	231,632	413,773	(182,141)
Capital Projects	3,643,960	3,954,965	(311,005)
Allocated Interest	67,686	50,246	17,440
Total Disbursements	<u>4,083,466</u>	<u>4,548,728</u>	<u>(465,262)</u>
Increase (Decrease) in Net Position	<u>3,353,020</u>	<u>2,535,755</u>	<u>817,265</u>
Net Position - January 1	<u>22,611,891</u>	<u>20,076,136</u>	<u>2,535,755</u>
Net Position - December 31	<u><u>\$ 25,964,911</u></u>	<u><u>\$ 22,611,891</u></u>	<u><u>\$ 3,353,020</u></u>

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

Below are specific graphs which provide comparisons of the receipts and disbursements for the year ended December 31, 2022:



RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

Governmental Activities

To aid in the understanding of the Statement of Activities Arising from Cash Transactions on page 14, 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, 2022, General Fund expenditures were \$20,050 under final budget. The budget was not amended during the year.

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.

OTHER ITEMS OF INTEREST

Water Quality Projects

Thanks to the Clean Water Land and Legacy Act (CWLLA), the Minnesota Pollution Control Agency (MPCA) has been able to provide the District with funding for four watershed restoration and protection strategy (WRAPS) projects (Thief River, Red Lake River, Grand Marais Creek, and Clearwater River watersheds). Another WRAPS project, for the Upper/Lower Red Lakes Watershed, was completed by the Red Lake Department of Natural Resources. The WRAPS process and stakeholder involvement informed the 1W1P process, which has provided much of the funding for the implementation of on-the-ground projects that protect and improve water quality. Surface Water Assessment Grants (SWAG) from the MPCA (also funded by the CWLLA) help fund intensive monitoring of targeted watersheds. The targeting and prioritization work completed during the WRAPS and 1W1P processes have aided the acquisition of additional grant funding. The United States Environmental Protection Agency awarded a Small Watersheds Focus 319 Grant to the Red Lake River that has been used to install structural agricultural best management practices and streambank stabilization projects. Because of the Red Lake River 1W1P partners' accomplishments and active development of shovel ready projects, the MPCA awarded additional 319 Grant funding (funding that was unspent in another area of the state) to the District in 2022 to help fund the construction of a bank stabilization project.

Pine Lake Outlet Structure

In 2021, the District's engineer completed the final plans and specifications for this project, solicited bids and started construction on a project which includes replacing the outlet structure of Pine Lake. Construction continued into the late fall of 2021 and was completed in August 2022 at a cost of \$347,162.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

Phase II of this project will include replacement of the existing arch pipe and replace it with a box culvert in the Lost River, downstream of the Pine Lake Outlet Structure. This structure is being designed by District engineering staff as well MnDNR staff to allow more flow capacity during flood events at the same time allowing proper fish passage on the Lost River. The District will advertise for bids in 2023 but due to the lack of construction materials, we expect the project to be completed in 2024.

Red Lake River One Watershed One Plan (1W1P)

In 2018, funding through the BWSR Clean Water Fund in the amount of \$677,551 was awarded to this planning region to complete various projects identified in the workplan approved by the BWSR. It should be noted at the request of the Policy Committee formed to oversee the implementation of the plan the Red Lake Watershed District was appointed as the fiscal agent for the implementation of the plan. Implementation of the funds dispersed in the 2018 workplan started in 2019, continued into 2020 with 50% of the funds being spent. The reconciliation for the 2018 grant in the amount of \$667,551 was completed, closed and the remaining 10% of the grant in the amount of \$67,755 was dispersed in February 2022.

In 2020, funding through the BWSR Watershed Base Implementation Funding (WBIF) in the amount of \$1,071,149 was awarded by BWSR for the implementation of various projects identified in the workplan. The Policy Committee appointed the Red Lake Watershed District as the fiscal agent for the implementation of the plan. Implementation of the funds dispersed in the 2020 workplan started in 2020, continued into 2021 with 50% of the funds being spent. In October 2022, BWSR dispersed 40% of the grant, in the amount of \$428,460. The reconciliation for the 2020 grant in the amount of \$1,071,149 was completed in December 2022, and the remaining funds will be dispersed in early 2023.

In 2022, another round of WBIF was awarded in the amount of \$1,071,149. The District and their partners continued to complete water quality projects in accordance with the approved 2022 work plan. The Policy Committee formed to oversee the implementation of the plan appointed the Red Lake Watershed District as the fiscal agent for the implementation of the plan. BWSR dispersed 50% of the grant, in the amount of \$535,575, in March 2022.

Thief River One Watershed One Plan (1W1P)

In 2020, funding through the BWSR Clean Water Fund in the amount of \$529,892 was awarded to this planning region to complete various projects identified in the workplan approved by the BWSR. It should be noted at the request of the Policy Committee formed to oversee the implementation of the plan the Red Lake Watershed District was appointed as the fiscal agent for the implementation of the plan. Implementation of the funds dispersed in the 2020 workplan started in 2021, continued into 2022 with 50% of the funds dispersed in July 2022.

Clearwater River One Watershed One Plan (1W1P)

In 2022, BWSR approved the Clearwater River 1W1P Comprehensive Plan, along with the Implementation workplan approved by BWSR. At the request of the Policy Committee, the Red Lake Watershed District was appointed as the fiscal agent for the implementation of projects identified the workplan, with funds to be dispersed in 2023.

RED LAKE WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

Black River Impoundment

Construction of the Black River Impoundment was completed in August 2022, with the final payment made to the contractor in November 2022. Final construction costs were \$4,535,157.00. The project was funded in part by the Red River Watershed Management Board (RRWMB), Minnesota Pollution Control Agency (MPCA) 319 Grant, One Watershed One Plan Watershed Based Funding, and the Red Lake Watershed District. Total project expenditures were \$7,822,934.12. During the 2022 spring flood event, extensive damage was done to the Black River Impoundment in the amount of \$222,445.11. The Red Lake Watershed District applied for and was awarded funding for repairs to the project from the Federal Emergency Management Agency (FEMA). Funds will be dispersed in 2023.

Thief River Falls Westside Flood Damage Reduction Project

Construction of the Thief River Falls Westside Flood Damage Reduction Project was completed in 2021 at a total project cost of \$9,363,381.74. Project partners included the Red Lake Watershed District, Minnesota Department of Transportation (MnDOT), City of Thief River Falls and Pennington County, with the final funding received from the partners in 2022.

Legal Drainage Petitions

During the 2022 spring flood event, extensive damage was done to Ditch 15, RLWD Project 161 and Ditch 16, RLWD Project 177. The Red Lake Watershed District applied for and was awarded funding for repairs to the project from the Federal Emergency Management Agency (FEMA). Repairs and funds will be completed and dispersed in 2023.

In 2022, the Red Lake Watershed District and petitioners, appealed a District Court decision for the Improvement of Polk County Ditch #39, RLWD, Project 179. The decision on the Appeal is expected in early 2023.

Thief River Falls Oxbow Restoration and Stormwater Treatment Project

Construction of the Thief River Falls Oxbow Restoration and Stormwater Treatment project was completed in 2022. The project included restoration of an existing oxbow located within the City of Thief River Falls with a construction cost of \$599,072, and a total project cost of \$767,804.52. The project was funded in cooperation with the Red Lake Watershed District, City of Thief River Falls, Red River Watershed Management Board (RRWMB) and Board of Water Soil Resources (BWSR). Funding for the project from the various partners was received in 2022.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Red Lake Watershed District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Red Lake Watershed District, 1000 Pennington Avenue South, Thief River Falls, Minnesota 56701.

BASIC FINANCIAL STATEMENTS

RED LAKE WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2022

	<u>Total</u>
Assets	
Petty Cash	\$ 100
Pooled Cash and Investments	5,515,726
Total Assets	<u>\$ 5,515,826</u>
Net Cash Position	
Restricted for Ditch Maintenance	\$ 589,247
Unrestricted	<u>4,926,579</u>
Total Net Cash Position	<u>\$ 5,515,826</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Disbursements			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	\$ (974,380)	\$ 834,192	\$ (140,188)	\$ 21,724	\$ -	\$ -	\$ (118,464)
Ongoing Projects and Studies	(182,030)	(49,602)	(231,632)	162,985	13,171	-	(55,476)
Capital Projects	(2,859,370)	(784,590)	(3,643,960)	247,782	-	5,024,774	1,628,596
Allocated Interest	(67,686)	-	(67,686)	-	-	-	(67,686)
Total Governmental Activities	<u>\$ (4,083,466)</u>	<u>\$ -</u>	<u>\$ (4,083,466)</u>	<u>\$ 432,491</u>	<u>\$ 13,171</u>	<u>\$ 5,024,774</u>	<u>\$ 1,386,970</u>
General Receipts:							
Tax Levies							\$ 1,710,045
Intergovernmental (not restricted to specific programs)							140,101
State MV and Disparity Reduction Credits							115,904
Allocated Interest							<u>1,966,050</u>
Total General Receipts							<u>1,966,050</u>
Change in Net Cash Position							3,353,020
Net Cash Position - Beginning							22,611,891
Restatement - See Note 2							<u>(20,449,085)</u>
Net Cash Position - Beginning as Restated							<u>2,162,806</u>
Net Cash Position - Ending							<u>\$ 5,515,826</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS
DECEMBER 31, 2022

<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	270,575	589,247	4,655,904	5,515,726
Total Assets	<u>\$ 270,675</u>	<u>\$ 589,247</u>	<u>\$ 4,655,904</u>	<u>\$ 5,515,826</u>
<u>CASH FUND BALANCE</u>				
Restricted for Ditch Maintenance	\$ -	\$ 589,247	\$ -	\$ 589,247
Committed for Capital Projects	-	-	4,655,904	4,655,904
Unassigned	270,675	-	-	270,675
Total Cash Fund Balance	<u>\$ 270,675</u>	<u>\$ 589,247</u>	<u>\$ 4,655,904</u>	<u>\$ 5,515,826</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, 2022

<u>RECEIPTS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Property Taxes	\$ 145,986	\$ -	\$ 1,564,059	\$ 1,710,045
Special Assessments	-	162,578	1,075	163,653
Intergovernmental:				
Federal	-	80	129,774	129,854
State	-	-	1,904,916	1,904,916
Local	-	13,091	3,130,185	3,143,276
Other:				
Miscellaneous	21,724	407	246,707	268,838
Allocated Interest	4,672	7,540	103,692	115,904
	<u>172,382</u>	<u>183,696</u>	<u>7,080,408</u>	<u>7,436,486</u>
Total Receipts				
	<u>172,382</u>	<u>183,696</u>	<u>7,080,408</u>	<u>7,436,486</u>
<u>DISBURSEMENTS</u>				
General and Administrative	140,188	-	-	140,188
Ongoing Projects and Studies	-	231,632	-	231,632
Capital Projects	-	-	3,643,960	3,643,960
Allocated Interest	2,788	1,960	62,938	67,686
	<u>142,976</u>	<u>233,592</u>	<u>3,706,898</u>	<u>4,083,466</u>
Total Disbursements				
	<u>142,976</u>	<u>233,592</u>	<u>3,706,898</u>	<u>4,083,466</u>
Net Change in Cash Fund Balance	29,406	(49,896)	3,373,510	3,353,020
CASH FUND BALANCE JANUARY 1	<u>241,269</u>	<u>639,143</u>	<u>1,282,394</u>	<u>2,162,806</u>
CASH FUND BALANCE DECEMBER 31	<u>\$ 270,675</u>	<u>\$ 589,247</u>	<u>\$ 4,655,904</u>	<u>\$ 5,515,826</u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
STATEMENT OF CHANGES IN NET CASH POSITION – FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Custodial Fund</u>
<u>ADDITIONS</u>	
<u>Property Taxes</u>	
Beltrami County	\$ 106,795
Clearwater County	216,250
Itasca County	778
Koochiching County	8,781
Mahnomen County	2,561
Marshall County	58,545
Pennington County	288,631
Polk County	762,366
Red Lake County	136,003
Roseau County	113
State - MV	<u>70,047</u>
 TOTAL ADDITIONS	 <u>1,650,870</u>
 <u>DEDUCTIONS</u>	
Red River Watershed Management Board	<u>1,652,221</u>
 TOTAL DEDUCTIONS	 1,652,221
 CHANGE IN NET CASH POSITION	 (1,351)
 NET CASH POSITION - BEGINNING	 <u>1,351</u>
 NET CASH POSITION - ENDING	 <u><u>\$ -</u></u>

See Notes to the Basic Financial Statements

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 or 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. Currently, the District does not have any component units.

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 taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements would distinguish between governmental and business-type activities (if any). The District displays all operations as governmental activities because governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues.

Fund Financial Statements

Fund financial statements of the District 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 constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three major categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

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 of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND
- b. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures 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 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 as appropriate:

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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

Basis of Accounting

In the government-wide Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions, governmental activities are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues and expenditures 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 the cash basis of accounting, certain assets and their related revenues (such as accounts receivable, property and related accumulated depreciation, and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payables, unpaid goods or services received in the current year and accrued expenses) are not recorded in these financial statements.

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

Budgets

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 budget for the levy in the administrative fund, which is limited by state statute at \$250,000 and set by the Board for 2022 at \$163,026.

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 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 and general tax levies are classified as general revenue.

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 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, 2022

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

In the government-wide financial statements, equity is classified as "net position" and displayed in two components:

1. Restricted Net Cash Position – Consists of net assets 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.
2. Unrestricted Net Cash Position – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

Cash Fund Balance

In the governmental fund financial statements, cash fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority which is the Board of Managers through an ordinance or resolution.

Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

Interfund Balances

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

Estimates

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

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

In 2022, the District elected to change from a modified cash basis of accounting to a cash basis of accounting. These financial statements are presented on a cash basis of accounting with beginning balances restated to reflect this change. 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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

This change to the cash basis of accounting resulted in the elimination of capital assets and accumulated depreciation of \$20,449,085 as of January 1, 2022. Results for periods prior to December 31, 2021 continue to be reported in accordance with the District's historical accounting treatment.

NOTE 3 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 4 CASH

The District maintains cash accounts at its depository banks. Investments are carried at fair value and consist of Certificates of Deposit.

Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC (140% if collateralized with notes secured by first mortgages).

At December 31, 2022, all deposits were covered by FDIC and pledged collateral as required by Minnesota Statute.

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 is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of Minnesota Housing Finance Agency rated "A" or better; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, 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. The District has no investment policy that would further limit its investment choices.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Custodial Risk

The District does not have a formal policy which would limit the amount held by any one financial institution or investment type.

Related-Party Investments

As of December 31, 2022, the District held no related-party investments.

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

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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/.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state Legislature. In 2022, Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary.

The Red Lake Watershed District's contributions to the General Employees Fund for the years ended December 31, 2022, 2021, and 2020 were \$38,336, \$36,147, and \$35,138 respectively.

NOTE 6 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these various risks of loss with the purchase of insurance through commercial insurance providers. The District carries commercial insurance coverage on its commercial property and for liability, personal and advertising injury, non-owned auto and a miscellaneous floater.

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

NOTE 7 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 2022 was \$834,192.

NOTE 8 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, 2022, 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.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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.

NOTE 9 NEW PRONOUNCEMENTS

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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

RED LAKE WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, 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 10 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through April 4, 2023, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

RED LAKE WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – CASH BASIS – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	Original and Final Budget	Actual 2022	Variance
REVENUES			
Tax Levies	\$ 145,986	\$ 145,986	\$ -
Miscellaneous	5,000	21,724	16,724
Allocated Interest	-	4,672	4,672
Total Revenues	<u>150,986</u>	<u>172,382</u>	<u>21,396</u>
EXPENDITURES			
General and Administrative	163,026	140,188	(22,838)
Interest	-	2,788	2,788
Total Expenditures	<u>163,026</u>	<u>142,976</u>	<u>(20,050)</u>
Expenditures Exceed Revenues	(12,040)	29,406	<u>41,446</u>
FUND BALANCE JANUARY 1	<u>241,269</u>	<u>241,269</u>	
FUND BALANCE DECEMBER 31	<u>\$ 229,229</u>	<u>\$ 270,675</u>	

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 2022 at \$163,026. All appropriations lapse at year-end.

RED LAKE WATERSHED DISTRICT
SCHEDULE OF BALANCES BY PROJECT – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

		Revenues				Expenses			Transfer	Fund Balance (Deficit)	
		Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	Fund Balance (Deficit) December 31
GENERAL FUND		\$ 241,269	\$ 21,724	\$ -	\$ 4,672	\$ 145,986	\$ 974,380	\$ 2,788	\$ (834,192)	\$ -	\$ 270,675
Project	SPECIAL REVENUE FUND JOBS:										
002	Red Lake River Project	78,971	3,894	-	734	-	-	-	482	-	83,117
003	Clearwater River Project	44,607	6,705	-	449	-	-	-	-	-	51,761
004	Lost River Project	13,045	3,272	-	142	-	-	-	57	-	16,402
005	RLWD Ditch #1	4,107	4,688	-	64	-	-	-	59	-	8,800
007	RLWD Ditch #3	5,235	993	-	51	-	1,760	-	-	-	4,519
014	State Ditch #83	88,896	28,588	80	879	-	12,379	-	4,443	-	101,621
014D	County Ditch #20/State Ditch #83	-	-	-	-	-	-	1	416	-	(417)
020	RLWD Ditch #7	3,105	8,293	-	68	-	180	-	1,056	-	10,230
035	Pine Lake Maintenance	(5,994)	7,043	-	-	-	28	81	12,348	-	(11,408)
036	RLWD Ditch #8	1,868	1,891	-	22	-	-	-	59	-	3,722
039	RLWD Ditch #9	223	763	-	-	-	375	-	-	-	611
041	J.D. Ditch #72	3,346	-	-	31	-	-	-	-	-	3,377
041A	J.D. Ditch #100	695	1,079	-	-	-	9,394	48	882	-	(8,550)
041AA	J.D. Ditch #100 Maint.	-	858	-	2	-	150	-	58	-	652
041B	J.D. Ditch #101	554	2,890	-	-	-	8,410	22	1,799	-	(6,787)
041BB	J.D. Ditch #101 Maint.	-	1,632	-	4	-	-	-	135	-	1,501
043B	Burnam Creek Channel	3,981	-	13,091	-	-	37,112	99	586	-	(20,725)
045	Clearwater/Wild Rice River	89	965	-	-	-	-	-	2,403	-	(1,349)
048	Branch A & 1, J.D. #2	(2,770)	5,911	-	-	-	-	4	313	-	2,824
049	Main J.D. #2 and Branch B&C	4,259	984	-	35	-	1,485	-	762	-	3,031
051	Main J.D. 2C. Eck	3,348	282	-	27	-	-	-	1,222	-	2,435
053	Krostue Petition	(7,244)	15,181	-	4	-	1,560	-	210	-	6,171
101	Clearwater County Joint Ditch #4	4,801	924	-	47	-	-	-	-	-	5,772
102	Clearwater County Joint Ditch #5	(9,944)	2,578	-	-	-	-	81	118	-	(7,565)
103	Clearwater County Ditch #1	3,811	943	-	4	-	973	-	3,929	-	(144)
109	Clifford Arveson Ditch	7,216	2,934	-	69	-	170	-	118	-	9,931
113	Winsor/Hangaard/Clearwater County Petition	10,126	2,384	-	98	-	-	-	503	-	12,105
115	Equality RLWD Ditch #1, lat C	(401)	2,186	-	3	-	-	-	243	-	1,545
117	K. Johnson Petition	1,034	2,286	-	11	-	936	-	281	-	2,114
119	Polk County Ditch #'s 104, 61, 47, 94	(3,996)	15,654	-	24	-	-	-	300	-	11,382
122	TRF Drainage Ditch (Challenger Ditch)	1,089	1,544	-	11	-	9	-	88	-	2,547
123	Scott Baatz Petition	256	1,157	-	6	-	213	-	176	-	1,030
134	Polk County Ditch #63 Improvement	17,454	311	-	155	-	1,800	-	108	-	16,012
135	Polk County Ditch #33 Improvement	5,475	9,051	-	56	-	1,440	-	227	-	12,915
161	RLWD Ditch #10	82,655	2,084	-	746	-	2,996	-	3,435	-	79,054
166	RLWD Ditch #11	10,382	679	-	85	-	3,983	-	353	-	6,810
169	RLWD Ditch #12	(661)	11,940	-	17	-	5,076	-	1,273	-	4,947
170A	RLWD Ditch #13	596	1,861	-	7	-	-	-	118	-	2,346
171	RLWD Ditch #14	(3,591)	5,987	-	-	-	6,589	55	3,055	-	(7,303)
171A	TRF Damage Reduction Project	134	4,094	-	-	-	2,420	13	1,626	-	169

RED LAKE WATERSHED DISTRICT
SCHEDULE OF BALANCES BY PROJECT – CASH BASIS– CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

		Revenues					Expenses			Transfer	
		Fund Balance (Deficit) January 1	Assessments and Other Charges for Services	Operating/ Capital Grants and Contribution	Allocated Interest Earned	Taxes	Direct	Allocated Interest Charged	Allocated Salary and Overhead	In (Out)	Fund Balance (Deficit) December 31
SPECIAL REVENUE FUND JOBS (Continued):											
175	RLWD Ditch #15	\$ 42,147	\$ (1,524)	\$ -	\$ 361	\$ -	\$ 11,297	\$ -	\$ 2,979	\$ -	\$ 26,708
176A	Black River Diversion Ditches	-	-	-	-	-	-	7	1,368	-	(1,375)
177	RLWD Ditch #16	379,161	-	-	3,328	-	25,401	-	467	-	356,621
178A	TRF Westside	-	-	-	-	-	11,011	39	767	-	(11,817)
179	Improv to Polk Co. #39	(148,922)	-	-	-	-	34,883	1,510	780	-	(186,095)
		639,143	162,985	13,171	7,540	-	182,030	1,960	49,602	-	589,247
CAPITAL PROJECT FUND JOBS:											
009/015	Administrative Construction	10,055,167	-	71,540	99,483	1,564,059	3,053	-	-	(7,287,569)	4,499,627
001E	Web Page Development	-	-	-	-	-	182	22	3,512	4,916	1,200
013	Moose River Project	-	-	-	-	-	55,138	180	14,218	69,536	-
016	Baird Beyer Dam	-	-	-	-	-	-	3	655	658	-
021	Stream Gauging	-	-	-	-	-	966	88	16,932	17,986	-
024	Culvert Sizing	-	-	-	-	-	-	14	2,495	2,509	-
025	Schirrick Dam	-	-	34,027	-	-	91,759	328	16,147	74,207	-
026	Pine Lake PWT	-	-	-	-	-	5,809	25	2,408	8,242	-
026A	Little Pine Lake WMA	-	-	-	-	-	90	12	2,044	2,146	-
026B	Pine Lake FDR	(531,259)	-	-	-	-	151,440	5,624	3,397	691,720	-
031	Hydrologic Analysis	-	-	-	-	-	971	138	19,003	20,112	-
032	Flood Control Study	-	-	-	-	-	2,363	160	48,164	50,687	-
037	Emergency Maintenance	116,440	-	-	1,072	-	-	-	-	(117,512)	-
040	RRWMB - Technical Com	-	-	-	-	-	144	31	7,062	7,237	-
043A	Burnham Creek - BR6	(22,775)	-	-	-	-	3,043	231	3,258	29,307	-
043D	Burnham Creek - Fish Habitat	-	-	-	-	-	-	1	206	207	-
046	Water Quality	-	-	-	-	-	168,792	1,294	92,747	262,833	-
046Q	TRF Oxbow Restore	(561,166)	-	425,000	-	-	46,364	-	2,516	185,046	-
046R	Water Quality- RL River 319 Grant	-	-	129,774	-	-	175,446	213	3,505	49,390	-
050	Maintenance Dams	-	-	-	-	-	7,318	42	1,549	8,909	-
050A	Odney Flaot Dam	-	-	-	-	-	-	2	337	339	-
050B	Latundresse Dam	-	-	-	-	-	-	3	700	703	-
050C	Miller Dam	-	-	-	-	-	12,920	27	2,109	15,056	-
050D	Seeger Dam	-	-	-	-	-	-	3	373	376	-
050E	Blackduck Lake Structure	-	-	-	-	-	47	1	133	181	-
050F	Knutson Dam	-	-	105,625	-	-	222,388	536	5,355	122,654	-
050G	Thibert Dam	-	-	-	-	-	-	3	772	775	-
052	Elm Lake	-	-	-	-	-	7,928	49	4,414	12,391	-
060B	Grand Marais Creek Subwatershed	-	-	-	-	-	-	1	156	157	-
060C	Euclid East Impoundment	-	3,011	-	-	-	13,456	67	1,722	12,234	-
060D	Brandt Impoundment	-	-	-	-	-	7,025	43	3,430	10,608	110
060E	Brandt Channel Restoration	-	1,080	-	-	-	1,054	13	2,142	2,129	-
060F	Grand Marais - Restoration	-	-	-	-	-	1,426	14	4,000	5,440	-
060FF	Grand Marais Cut Channel Stabilization	-	-	-	-	-	508	2	117	627	-
067	Red Lake Res/Good Lake	-	-	-	-	-	211	2	575	788	-
081	Parnell Impoundment	-	4,244	-	-	-	15,654	67	5,113	18,240	1,650
082F	Clearwater Public Education (River Watch)	-	466	-	-	-	1,208	154	32,717	33,613	-
082G	Greenwood 27 Bank Stabilization	-	-	-	-	-	-	-	184	184	-

RED LAKE WATERSHED DISTRICT
SCHEDULE OF BALANCES BY PROJECT – CASH BASIS– CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022

		Revenues					Expenses			Transfer	Fund
		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)		Balance (Deficit) December 31
Fund Balance (Deficit) January 1											
CAPITAL PROJECT FUND JOBS (continued):											
090	Permits	\$ -	\$ -	\$ -	\$ -	\$ 826	\$ 659	\$ 148,953	\$ 150,438	\$ -	
092	Project Development	-	-	-	-	7,239	247	78,110	85,596	-	
092A	Red River Basin Long Term Flood Control	-	-	-	-	-	7	1,985	1,992	-	
121	Louisville/Parnell Project	-	6,232	-	7	336	-	59	(5,844)	-	
122A	Challenger Ditch Realign	-	1,075	-	-	1,075	1	296	297	-	
129	Ring Dike Program - General	-	-	-	-	-	33	9,016	9,049	-	
129AR	Ring Dike Program - Shaumburg	(3,225)	-	1,458	-	-	17	-	1,784	-	
129AS	Ring Dike Program - Threat	(143,635)	-	80,778	-	-	641	-	63,498	-	
129AT	Ring Dike Program - Ste Marie	(1,237)	-	-	-	-	11	-	1,248	-	
129AU	Ring Dike Program - P Nelson	(17,871)	-	22,245	-	20,391	67	688	16,772	-	
129AV	Ring Dike Program - Larson	(32,503)	-	24,036	-	8,737	158	862	18,224	-	
129AW	Ring Dike Program - Sorum	(1,441)	17,767	67,467	-	127,615	210	6,314	50,346	-	
145	G.I.S.	-	-	-	-	-	472	70,185	70,657	-	
147	Wetland Banking	94,193	-	675	-	2,244	-	1,548	-	91,076	
149	Ten Year Overall Plan	(74,693)	-	1,031,790	2,092	817,983	-	54,283	-	86,923	
149A	Thief River 1W1P	(43,730)	-	264,946	363	226,403	-	20,074	-	(24,898)	
149B	Clearwater River 1W1P	(17,676)	-	7,432	-	3,529	214	18,438	32,425	-	
149C	Upper/Lower RL1W1P	-	-	-	-	68	-	1,368	1,652	216	
157C	Red Lake River Watershed Assessment	-	-	-	-	-	1	108	109	-	
157CC	RLRVR Grand Marais SWAGG	-	-	-	-	-	2	2,032	2,034	-	
157D	Grand Marais SWAGG	-	-	-	-	-	3	332	335	-	
164	Erosion Control Projects	-	-	-	-	26,005	62	2,070	28,137	-	
167A	Drainage- Inv & Insp	-	-	-	-	4,000	30	352	4,382	-	
168A	TR SWAGG	-	23	13,130	-	4,636	40	11,954	3,477	-	
172	FEMA D- Firm Grant	-	-	-	-	-	-	116	116	-	
176	Black River Impoundment	(4,204,749)	9,403	1,720,180	-	562,214	31,575	35,065	3,104,020	-	
178	TRF Westside FDR	(3,223,766)	110,288	1,155,854	-	19,886	18,929	5,885	2,002,324	-	
180A	Agassiz NWR Wetland	-	-	-	-	-	-	-	-	-	
180B	Agassiz Grant SILT	-	-	-	-	-	-	-	-	-	
180C	Mud River Project Work Team	(9,487)	-	9,593	-	29,480	166	10,330	39,870	-	
	Total Capital Projects	1,282,394	247,782	5,164,875	103,692	1,564,059	2,859,370	62,938	784,590	-	4,655,904
	Total All Funds	\$ 2,162,806	\$ 432,491	\$ 5,178,046	\$ 115,904	\$ 1,710,045	\$ 4,015,780	\$ 67,686	\$ -	\$ -	\$ 5,515,826

RED LAKE WATERSHED DISTRICT
STATEMENT OF DIRECT EXPENDITURES BY CLASSIFICATION –
GOVERNMENTAL FUNDS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>DIRECT EXPENDITURES:</u>	<u>2022</u>
Salaries -	
Inspection	\$ 50,923
Survey - Preliminary	5,248
Survey - Construction	1,542
Drafting	1,468
Engineering	22,734
Project Administration	273,131
Field Work - Water Programs	46,428
Other	106,695
Compensated Absences	25,520
Payroll Taxes and Benefits	116,825
Manager's Expense	62,970
Travel, Mileage, Meetings and Per Diems	12,348
Audit	9,450
Legal	49,195
Other Professional Fees	324,162
Office Supplies	14,263
Office Equipment	22,064
Dues and Subscriptions	14,449
Insurance and Bonds	46,622
Repairs and Maintenance	21,259
Utilities	9,001
Telephone	9,702
Advertising and Publications	10,824
Truck Expense	20,221
Miscellaneous	6,256
Land Acquisition and Easements	17,792
Construction	2,189,023
Engineering Costs and Fees	9,628
Engineering Fees	463,054
Engineering Equipment	52,983
	<hr/>
Total Expenditures	\$ 4,015,780
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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the 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, 2022 and the related notes to the financial statements, and have issued our report thereon dated April 4, 2023.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions insofar as they relate to accounting matters.

Purpose of the Report

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



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

April 4, 2023

**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 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, 2022, and the related notes to the financial statements, which collectively comprise the Red Lake Watershed District's basic financial statements and have issued our report thereon dated April 4, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Red Lake Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Red Lake Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Red Lake Watershed District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Lake Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Red Lake Watershed District's Response to Finding

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

Purpose of this Report

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



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

April 4, 2023

RED LAKE WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-001 Finding – Significant Deficiency

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with the 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 cash basis of accounting. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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

RED LAKE WATERSHED DISTRICT
CORRECTIVE ACTION PLAN
DECEMBER 31, 2022

2022-001 Finding

Contact Person – Myron Jesme, Administrator

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

Completion Date – Ongoing - December 31, 2023