

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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**RED RIVER WATERSHED MANAGEMENT BOARD**  
OFFICIAL DIRECTORY - UNAUDITED  
DECEMBER 31, 2022

<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
Bill Petersen	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

### Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of the Red River Watershed Management Board (RRWMB), as of December 31, 2022 and the related notes to the financial statements, which collectively comprise the RRWMB'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 financial position of the governmental activities and the general fund of the Red River Watershed Management Board as of December 31, 2022 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 for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Red River Watershed Management Board, 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.

### Emphasis of Matter - 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.

### 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 generally accepted 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 generally accepted 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 RRWMB’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 RRWMB’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.

### **Other Matters**

#### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the officials 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.



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

June 16, 2023

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

Our discussion and analysis of the Red River Watershed Management Board (RRWMB) financial performance provides an overview of the RRWMB's financial activities for the year ended December 31, 2022, within the limitations of the RRWMB's cash basis of accounting. Please read it in conjunction with the RRWMB's financial statements that begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The RRWMB's total expenditures exceeded total revenues, on the cash basis of accounting, by \$835,872 for the year. Revenues were lower due to the timing of when levy receipts were received. The RRWMB received \$781,035 of 2022 tax receipts in January 2023.
- The RRWMB's fund balance at the close of the current year was \$20,422,483.

**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 RRWMB'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 10 and 11 provide information about the activities of the RRWMB government-wide (or "as a whole") and present a longer-term view of the RRWMB's finances.

**Fund Financial Statements:** Fund financial statements (on pages 12 and 13) focus on the individual parts of the RRWMB government. Fund financial statements also report the RRWMB's operations in more detail than the government-wide statements by providing information about the RRWMB'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").

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**Basis of Accounting**

The RRWMB 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 RRWMB'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 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 RRWMB as a Whole**

**The RRWMB'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 RRWMB's reporting entity, are operated within separate legal entities that make up the primary government. The RRWMB 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 RRWMB as a whole begins on page 7. One of the most important questions about the RRWMB's finances is, "Is the RRWMB 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 RRWMB as a whole and about its activities in a way that helps answer this question. These statements include all of the RRWMB's assets and liabilities resulting from the use of the cash basis of accounting.

These two statements report the RRWMB's Net Cash Position and changes in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the RRWMB's Net Cash Position -the difference between assets and liabilities- as one way to measure the RRWMB's financial health or financial position. Over time, increases or decreases in the RRWMB'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 RRWMB's property tax base, the condition of the RRWMB's infrastructure and the amount of funds being allocated back out to projects, to assess the overall health of the RRWMB.

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



**RED RIVER WATERSHED MANAGEMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**Governmental Activities** – The RRWMB’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 or to show that it is meeting legal responsibilities for causing certain taxes, grants, and other money. The RRWMB has only one governmental fund.

**Governmental Fund** – The RRWMB’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 RRWMB’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 RRWMB’s programs.

**A FINANCIAL ANALYSIS OF THE RRWMB AS A WHOLE**

**Net Cash Position**

The RRWMB’s combined Net Cash Position, resulting from cash basis transactions, decreased \$835,872 between fiscal years 2021 and 2022. Cash was lower due to the timing of when levy receipts were received. The RRWMB received \$781,035 of 2022 tax receipts in January 2023.

	Governmental Activities		Change
	2021	2022	21-22
Cash	\$ 21,258,355	\$ 20,422,483	\$ (835,872)
Total cash assets	21,258,355	20,422,483	(835,872)
Net cash position			
Unrestricted	21,258,355	20,422,483	(835,872)
Total net cash position	\$ 21,258,355	\$ 20,422,483	\$ (835,872)

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**Changes in Net Position – Cash Basis**

For the year ended December 31, 2022, changes in Net Cash Position of RRWMB (resulting from cash basis transactions) changed as follows:

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2021</u>	<u>2022</u>	<u>21-22</u>
REVENUES			
Program revenues			
Charges for services and reimbursements	\$ 36,468	\$ 14,084	\$ (22,384)
Operating grants and contributions	406,185	447,182	40,997
General revenues			
Property taxes	3,457,096	4,292,504	835,408
Intergovernmental	406,474	474,830	68,356
Investment income	112,506	205,799	93,293
Total revenues	<u>4,418,729</u>	<u>5,434,399</u>	<u>1,015,670</u>
EXPENSES			
General government-flood control	<u>6,523,273</u>	<u>6,270,271</u>	<u>(253,002)</u>
Total expenses	<u>6,523,273</u>	<u>6,270,271</u>	<u>(253,002)</u>
Increase (decrease) in net cash position	(2,104,544)	(835,872)	1,268,672
Net cash position - January 1	<u>23,362,899</u>	<u>21,258,355</u>	<u>(2,104,544)</u>
Net cash position - December 31	<u>\$21,258,355</u>	<u>\$20,422,483</u>	<u>\$ (835,872)</u>

The \$1,015,670 increase in total revenues is largely due to an increase in property taxes in the amount of \$835,408, which in part occurred due to the timing of receipts from its Members, as well as an increase in investment income due to an increase in interest rates in the ICS account. The \$253,002 decrease in expenses is mainly due to the \$447,151 overall decrease in flood control project expenses which included 4 projects – Black River Impoundment, City of Halstad, Newfolden and Roseau Lake Bottom Project. This decrease in project expenses is due to final payouts or disbursements being made to projects that the RRWMB committed funds for and it is due to timing of when payment requests are being made by membership. There are many timing issues that come into play that affects when the RRWMB actually pays or disburses funds. There was also an increase of \$91,769 in mediation expenses.

The RRWMB is the fiscal agent for the Flood Damage Reduction Work Group (FDRWG) and the RRWMB provides in-kind resources towards fiscal management of the FDRWG. The RRWMB also has four Managers that are consensus voting members of the FDRWG and Managers along with RRWMB staff participate on several FDRWG committees. The RRWMB also allocated \$40,000 towards the Red River Coordinator position, which facilitates the FDRWG.

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

The RRWMB estimates that \$80,000 to \$100,000 in cash and in-kind was contributed towards the FDRWG in 2022. This includes the annual allocation of \$40,000 for the Coordinator position; staff in-kind time; RRWMB Manager participation in FDRWG meetings; committees, and activities; RRWMB legislative efforts, and related items.

**Governmental Activities**

To aid in the understanding of the Statement of Activities Arising from Cash Transactions on page 11, 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 RRWMB'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.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

RRWMB commitments of funding projects and programs in the future are \$34,069,685.

**CONTACTING THE RRWMB'S FINANCIAL MANAGEMENT**

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

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**STATEMENT OF NET CASH POSITION**  
**DECEMBER 31, 2022**

	<u>CASH ASSETS</u>	Total
Cash		<u>\$ 20,422,483</u>
Total assets		<u>\$ 20,422,483</u>
	<u>NET CASH POSITION</u>	
Unrestricted		<u>\$ 20,422,483</u>
Total net cash position		<u>\$ 20,422,483</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, 2022**

<u>FUNCTION /PROGRAM</u>	<u>Total</u>
Public safety - flood control:	
Administrative	\$ 642,782
Mediation	300,718
Coordinated services	48,000
Program funding	1,356,008
Project funding	3,922,763
Total program services	6,270,271
 Program receipts and sources:	
Charges for services and reimbursements	14,084
Operating grants and contributions	447,182
Total program receipts and sources	461,266
Net program expenses	5,809,005
 General revenues:	
Property taxes	4,292,504
Intergovernmental (not restricted to specific programs)	474,830
Investment earnings	205,799
Total general revenues	4,973,133
Decrease in net cash position	(835,872)
 Net cash position - January 1	21,258,355
Net cash position - December 31	\$ 20,422,483

See Notes to the Basic Financial Statements

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**STATEMENT OF FUND BALANCE ARISING FROM CASH TRANSACTIONS**  
**DECEMBER 31, 2022**

	<u>CASH ASSETS</u>	Total
Cash		<u>\$ 20,422,483</u>
Total assets		<u><u>\$ 20,422,483</u></u>
	<u>FUND BALANCES</u>	
Committed for projects		\$ 34,069,685
Unassigned		<u>(13,647,202)</u>
Total fund balance		<u><u>\$ 20,422,483</u></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, 2022**

RECEIPTS

Property taxes	\$	4,292,504
Intergovernmental:		
State of Minnesota:		
MV-credit		127,186
Project funding:		
River Watch Program		107,613
Mediation		314,264
Project funding:		
LiDAR Cost Share		347,644
Other income:		
Contributions & Donations		25,305
Investment income		205,799
Refunds and reimbursements:		
Stream Gauge		13,947
Miscellaneous		137
		137
 Total receipts		 5,434,399

DISBURSEMENTS

Administrative:		
Red River Coordinator fees		40,000
Manager expense		64,166
Technical		17,247
Contracted services		104,781
Office operations		370,922
Professional		45,666
Mediation funding:		
Project teams		300,718
Coordinating services:		
Red River Retention Authority		48,000
Program funding:		
Stream Gauging		117,164
Programs and Initiatives		68,086
Feasibility Study		15,456
Study funding		10,000
RRBC		85,000
Water Quality		752,425
River Watch		307,877
Project funding:		
City of Halstad		11,994
Farmstead Ring Dikes		195,983
Pine Lake		682,805
Property Acquisition/Demo		127,399
Newfolden		184,402
Redpath Project		1,000,000
Black River Impoundment Project		1,720,180
		1,720,180
 Total disbursements		 6,270,271
 Excess of disbursements over receipts		 (835,872)
 Fund balance January 1		 21,258,355
 Fund balance December 31	\$	 20,422,483

See Notes to the Basic Financial Statements

**RED RIVER WATERSHED MANAGEMENT BOARD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**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 RRWMB. Members of the RRWMB during 2022 were the Joe River Watershed District, Two Rivers Watershed District, Roseau River Watershed District, Middle Snake Tamarac Rivers Watershed District, Red Lake Watershed District, Wild Rice Watershed District and Bois de Sioux Watershed District. The RRWMB can levy up to .04836 percent of taxable market value of all property within the RRWMB 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 RRWMB.

**A. FINANCIAL REPORTING ENTITY**

The Red River Watershed Management Board of Managers ("RRWMB") 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 RRWMB 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 RRWMB 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 RRWMB'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 RRWMB 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 RRWMB currently has only one governmental fund.



**RED RIVER WATERSHED MANAGEMENT BOARD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2022

**Governmental Funds**

General Fund

The General Fund is the primary operating fund of the RRWMB. 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 RRWMB 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, 2022

**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 RRWMB’s taxpayers are reported as program revenues. The RRWMB 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 RRWMB’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, 2022

When both restricted and unrestricted resources are available for use, it is the RRWMB'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 RRWMB'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 \$200,000.

**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 RRWMB'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 RRWMB 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 RRWMB maintains a cash account at its depository bank. Investments are carried at fair value. The RRWMB considers ICS Accounts to be cash.

**Interest Rate Risk**

The RRWMB 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 RRWMB'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, 2022

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

**RED RIVER WATERSHED MANAGEMENT BOARD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2022

**Custodial Credit Risk - Deposits**

In accordance with Minnesota Statutes, the RRWMB 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 RRWMB 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, 2022, the checking account balance was \$200,000 and the ICS Account balance was \$20,987,030. The bank balance at December 31, 2022 was covered by FDIC insurance held by multiple agents in the RRWMB's name and each agent held under the \$250,000 FDIC insurance threshold amount.

**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 RRWMB after receipt from the county treasurer.

Property tax revenues are recognized when cash payments are received.

**NOTE 5 DEFINED BENEFIT PENSION PLANS**

The RRWMB 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.

**RED RIVER WATERSHED MANAGEMENT BOARD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
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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 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/](http://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. In 2022, Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary,

The RRWMB makes annual contributions to the pension plans equal to the amount required by state statutes. In 2022, the Red River Watershed Management Board was required to contribute the following percentages of annual covered payroll: 7.5% for Coordinated Plan members. The

**RED RIVER WATERSHED MANAGEMENT BOARD**  
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RRWMB's contribution to the Public Employees Retirement Fund for the year ended December 31, 2022 was \$14,474.

**NOTE 6 RISK MANAGEMENT**

The RRWMB 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 RRWMB 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 RRWMB. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**NOTE 7 COMMITMENTS**

The RRWMB for 2022 has commitments for Watershed Board projects totaling \$34,069,685.

In 2018, the RRWMB entered into an office space lease agreement with the Wild Rice Watershed District, paying the total lease amount of \$180,000 upfront in 2018. 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 RRWMB may from time to time offer loans to Watershed Districts to assist in acquiring land for various projects, preliminary engineering, and construction. If the project develops, the loan is agreed to become part of the funding commitment between the RRWMB and the Districts. If the project does not develop, the receiving Board will repay the loan according to the loan agreement. The RRWMB utilizes a tiered process which is called the "Step process" to commit, obligate, and disburse funds to its membership and below is a brief description of this Process:

- a. Step 1 – Initial Submittal: Preliminary project information is submitted at this Step.
- b. Step 2 – Engineers Report: Funds are committed at this Step.
- c. Step 3 – Final Submittal: Funds are obligated at this Step.

Funding advances/loans approved via resolution to member watershed districts in 2022 included:

Wild Rice Watershed District (WRWD)

- City of Perley - The RRWMB approved funding of \$625,000 for the City of Perley Flood Levee Improvement Project being developed and implemented by the WRWD. at the December 14, 2021 regular meeting. In February 2022, the funding agreement was executed.
- Goose Prairie Project. At the April 19, 2022 RRWMB meeting, the WRWD requested an increase of \$157,000 for the Goose Prairie WMA Enhancement Project based on the 2022 RRWMB approved cost per STar of \$39.07. The RRWMB Managers approved the request and the original approved RRWMB contribution will be adjusted from \$400,000 to \$557,000 ( $\$39.07 \times 14,261$  acre/feet). An updated funding agreement was approved and executed at this meeting.

**RED RIVER WATERSHED MANAGEMENT BOARD**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2022

Bois de Sioux Watershed District (BdSWD)

- Redpath Project - Advanced \$1,000,000 in April 2022. The BdSWD submitted a Step III Submittal with the RRWMB for the Redpath Impoundment Project, which will store 25,009 acre-feet of water. The STar Value is calculated to be 483,472 as indicated in the STar Value Calculation Worksheet. The STar value cost for calendar year 2022 is \$39.07 as approved by the RRWMB Managers in January 2022. Phase 1 of the Project is currently under construction with the \$1 Million loan from the RRWMB.

At December 31, 2022, there were amounts outstanding totaling \$34,069,685, which consisted of \$27,660,094 in remaining RRWMB commitments for flood damage reduction projects, \$2,545,074 in commitments for annually funded programs or one-time allocations, and \$3,864,517 in Water Quality Program commitments.

In 2022, the RRWMB approved approximately 20 contracts and funding agreements with a variety of vendors. The RRWMB has statutory authority to enter into contracts and funding agreements to meet its mission. The RRWMB works closely with its legal counsel to develop draft contracts and funding agreements with member watershed districts, partners, stakeholders, State of Minnesota, and the federal government. Funding agreements and contracts are approved via resolution and are also reviewed by legal counsel prior to the RRWMB and grantee officially signing documents. The RRWMB used Adobe Sign in 2022 to obtain electronic signatures from legal counsel, the Board, and grantee.

**NOTE 9 RELATED PARTY**

The RRWMB is a member of the Red River Retention Authority (RRRA) via a joint powers agreement with the Red River Joint Water Resource District in North Dakota. The RRWMB allocated \$48,000 to the RRRA in 2022. As previously mentioned, the RRWMB participates on the FDRWG and its committees, with the RRWMB being an original signer of the 1998 Flood Mediation Agreement. The RRWMB also participates on several partner and stakeholder boards as voting or consensus members including the Red River Basin Commission, International Water Institute, State of Minnesota Drainage Work Group, and USDA Natural Resources Conservation Service – State Technical Committee. The RRWMB committed \$85,000 to the Red River Basin Commission in 2022. 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 16, 2023, 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, 2022, and the related notes to the financial statements which collectively comprise the RRWMB's basic financial statements, and have issued our report thereon dated June 16, 2023.

### 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 RRWMB 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 16, 2023