

**YELLOW MEDICINE RIVER
WATERSHED DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2019

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2019**

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**YELLOW MEDICINE RIVER WATERSHED DISTRICT
BOARD OF MANAGERS AND APPOINTED OFFICIAL
DECEMBER 31, 2019**

MANAGERS:

<u>Name</u>	<u>Title</u>
Tim Dritz	President
John Boulton (January – July)	Vice President
Randy Kamrath (August – December)	Vice President
Elmo Volstad	Secretary
Tim Buysse	Treasurer
Bill Briggs	Public Relations

STAFF:

Michelle Overholser	Administrator
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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Yellow Medicine River Watershed District
Minneota, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Yellow Medicine River Watershed District, Minneota, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Yellow Medicine River Watershed District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Yellow Medicine River Watershed District, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, the Schedule of Contributions, and the Schedule of Proportionate Share of Net Pension Liability on pages 22-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Yellow Medicine River Watershed District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2021, on our consideration of the Yellow Medicine River 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 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 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 the Yellow Medicine River Watershed District's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd
Certified Public Accountants
Waconia, Minnesota

June 14, 2021

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 764,311
Total Assets	<u>764,311</u>
Deferred Outflows of Resources:	
Deferred benefit pension plan	<u>8,540</u>
Combined Assets and Deferred Outflows of Resources	<u>\$ 772,851</u>
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 2,161
Accrued wages and payroll taxes	8,746
Unearned revenue	177,466
Long-term Liabilities:	
Net pension liability	49,759
Compensated absences	<u>3,079</u>
Total Liabilities	<u>241,211</u>
Deferred Inflows of Resources:	
Deferred benefit pension plan	<u>41,776</u>
Combined Liabilities and Deferred Inflows of Resources	<u>\$ 282,987</u>
Net Position:	
Restricted - Ditches	\$ 95,827
Unrestricted	<u>394,037</u>
Total Net Position	<u>\$ 489,864</u>

The notes to the financial statements are an integral part of this statement.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Net Position
Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
General government	\$ 154,959	\$ 250	\$ -	\$ -	\$ (154,709)
Programs	86,619	-	127,755	-	41,136
Total Governmental Activities	\$ 241,578	\$ 250	\$ 127,755	\$ -	(113,573)
General Revenues:					
General property taxes					235,961
Unrestricted interest earnings					2,402
Miscellaneous					818
Total General Revenues					239,181
Change in Net Position					125,608
Net Position - January 1, as previously reported					726,087
Adjustment to beginning Fund Balance/ Net Position					(361,831)
Net Position - January 1, as restated					364,256
Net Position - December 31					\$ 489,864

The notes to the financial statements are an integral part of this statement.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General Fund	Special Revenue Funds (Ditches)	Intra-Activity Elimination	Total Governmental Funds
Assets				
Cash	\$ 764,311	\$ -	\$ -	\$ 764,311
Due from other funds	-	95,827	(95,827)	-
Total Assets	<u>\$ 764,311</u>	<u>\$ 95,827</u>	<u>\$ (95,827)</u>	<u>\$ 764,311</u>
Liabilities:				
Accounts payable	\$ 2,161	\$ -	\$ -	\$ 2,161
Accrued wages and payroll taxes	8,746	-	-	8,746
Unearned revenue	177,466	-	-	177,466
Due to other funds	95,827	-	(95,827)	-
Total Liabilities	<u>284,200</u>	<u>-</u>	<u>(95,827)</u>	<u>188,373</u>
Fund Balances				
Restricted - Ditches	-	95,827	-	95,827
Unassigned	480,111	-	-	480,111
Total Fund Balances	<u>480,111</u>	<u>95,827</u>	<u>-</u>	<u>575,938</u>
Total Liabilities and Fund Balances	<u>\$ 764,311</u>	<u>\$ 95,827</u>	<u>\$ (95,827)</u>	<u>\$ 764,311</u>

The notes to the financial statements are an integral part of this statement.

**YELLOW MEDICINE WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

Amounts reported for the governmental activities in the statement of net position are different because:

Total Fund Balances - Governmental	\$	575,938
Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Compensated absences		(3,079)
Net pension liability		(49,759)
Governmental funds do not report long-term amounts related to pensions.		
Deferred outflow of resources		8,540
Deferred inflow of resources		(41,776)
		(41,776)
Total Net Position - Governmental Activities	\$	489,864

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund	Special Revenue Funds (Ditches)	Total Governmental Funds
Revenues			
Intergovernmental			
Reimbursements/grants	\$ 91,579	\$ -	\$ 91,579
Property taxes	235,961	-	235,961
Projects	-	36,176	36,176
Interest income	951	1,451	2,402
Permit fines	250	-	250
Miscellaneous	818	-	818
Total Revenues	<u>329,559</u>	<u>37,627</u>	<u>367,186</u>
Expenditures			
Current:			
General government:			
Audit	3,825	-	3,825
Beaver control	2,520	-	2,520
Dues and subscriptions	14,076	-	14,076
Insurance	4,161	-	4,161
Legal fees	6,660	-	6,660
Notice/publishing	124	-	124
Office expenses	3,674	-	3,674
Travel	9,566	-	9,566
Meetings	784	-	784
Mileage	7,008	-	7,008
Rent	8,200	-	8,200
Shared services	900	-	900
Wages and per diem	83,357	-	83,357
Payroll taxes and benefits	24,380	-	24,380
Supplies	3,261	-	3,261
Programs:			
Construction	44,867	-	44,867
Ditch repair	-	6,330	6,330
Engineering	26,294	-	26,294
Labor	2,015	-	2,015
Project materials	7,113	-	7,113
Total Expenditures	<u>252,785</u>	<u>6,330</u>	<u>259,115</u>
Revenues Over Expenditures	<u>76,774</u>	<u>31,297</u>	<u>108,071</u>
Other Financing Sources (Uses)			
Transfers in	29,384	-	29,384
Transfers out	-	(29,384)	(29,384)
Total Other Financing Sources (Uses)	<u>29,384</u>	<u>(29,384)</u>	<u>-</u>
Net Change in Fund Balances	106,158	1,913	108,071
Fund Balances - January 1, as previously reported	<u>632,173</u>	<u>93,914</u>	<u>726,087</u>
Adjustment to Beginning Fund Balances	(258,220)	-	(258,220)
Fund Balances - January 1, restated	373,953	93,914	467,867
Net Change in Fund Balances	<u>106,158</u>	<u>1,913</u>	<u>108,071</u>
Fund Balances - December 31	<u>\$ 480,111</u>	<u>\$ 95,827</u>	<u>\$ 575,938</u>

The notes to the financial statements are an integral part of this statement.

**YELLOW MEDICINE WATERSHED DISTRICT
RECONCILIATION OF THE
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Amounts reported for governmental activities in the statement of activities are different because:

Total Net Change in Fund Balances - Governmental Funds	\$ 108,071
Long-term pension activity is not reported in governmental funds.	
Pension credit	20,616
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	<u>(3,079)</u>
Change in Net Position - Governmental Activities	<u><u>\$ 125,608</u></u>

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Note 1 - Summary of Significant Accounting Policies

The Yellow Medicine River Watershed District was organized August 27, 1971, under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District covers an area within the following three counties: Yellow Medicine, Lincoln, and Lyon. A five-member Board appointed by the respective County Boards of Commissioners for a staggered three-year term operates the District.

The purpose of the Watershed Management Plan is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitats and water recreational facilities.
- Secure the other benefits associated with the proper management of surface and groundwater.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units by the Governmental Accounting Standards Board (GASB). The District's accounting policies are described below:

Financial Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Fund Financial Statements

The government-wide fund financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. The governmental activities are supported by intergovernmental revenues and tax revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general government revenues.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Charges for service, assessments to members, grants and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the organization.

The District reports the following major governmental funds:

The General Fund is the District's general operating fund. It is used to account for financial resources to be used for general administrative expenditures and programs of the District.

The Special Revenue Funds (Ditches) are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. These funds include the Ditch #1, #2, #4, #5, #7, #8, #16, #17, and #18 funds.

Budgets

Budgets are adopted annually by the Board of Managers. During the budget year, supplemental appropriations and deletions are, or may be, authorized by the Board. The amounts shown in the financial statements as "Budget" represent the original budgeted amounts plus all revisions made during the year and/or for the year. Encumbrance accounting, under which purchase orders, contracts and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval procedures.

At December 31, 2019, the District's actual expenditures exceeded the final budget by \$6,330 in the Special Revenue Funds.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Cash

Cash is stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis and short-term money market investments, which are stated at amortized cost.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds".

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are also recorded as unearned revenue.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. This item results from actuarial calculations.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, 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.

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 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 resolution of the District Board.

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

Unassigned – is the residual classification for the general fund.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standards Update, Leases (Topic 842), intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of net position and statement of activities, the new ASU will require both types of leases to be recognized on the statement of net position and the statement of activities. The ASU leases will take effect for all non-public companies for fiscal years beginning after June 15, 2021.

Annual and Sick Leave

Under the District's personnel policies, employees are granted annual leave in varying amounts based on their length of service. Annual leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 8 hours per month. The limit on the accumulation of annual leave is 240 hours and the limit on the accumulation of sick leave is 400 hours. Upon termination of employment from the District, in good standing, employees are paid accrued annual leave and 50% of any unused sick leave hours. If an employee terminates their position due to illness or death, they will be paid accrued annual leave and any unused sick leave hours, up to 400 hours. If an employee retires and has a minimum of 10 years with the District, they will be paid accrued annual leave and any unused sick leave hours, up to 400 hours.

Note 2 - Deposits and Investments

Deposits

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

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

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. At December 31, 2019, the carrying amount of the District's deposits were \$764,311 and the bank balance was \$764,831. The District's bank balances over FDIC limits were not covered by collateral.

Note 3 - Risk Management

The District is exposed to various risks of loss for which the District carries commercial insurance policies.

There were no reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 4 - Long-Term Liabilities

Changes in long-term liabilities for the period ended December 31, 2019 were:

	January 1, 2019	Increases	Decreases	December 31, 2019
Net Pension Liability	\$ 66,571	\$ -	\$ 16,812	\$ 49,759
Compensated Absences	-	3,079	-	3,079
Total	<u>\$ 66,571</u>	<u>\$ 3,079</u>	<u>\$ 16,812</u>	<u>\$ 52,838</u>

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Note 5 – Defined Benefit Pension Plan

Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of 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 percent of average salary for each of the first ten years of service and 1.7 percent of average salary for each additional year.

Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living (COLA) announced by the SSA, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2019, were \$5,362. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2019, the District reported a liability of \$49,759 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$1,500. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was .0009 percent, which was a decrease of .0003 percent from its proportionate share measured as of June 30, 2018.

The District's proportionate share of the net pension liability	\$	49,759
State of Minnesota's proportionate share of the net pension liability associated with the District		1,500
Total	\$	51,259

For the year ended December 31, 2019, the District recognized a pension credit of \$20,616 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$112 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

At December 31, 2019, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,812	\$ 502
Changes in actuarial assumptions	513	7,804
Difference between projected and actual investment earnings	-	11,578
Changes in Proportion	3,420	21,892
Contributions paid to PERA subsequent to the measurement date	2,795	-
Total	\$ 8,540	\$ 41,776

The \$2,795 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2020	\$ (15,091)
2021	(16,095)
2022	(5,040)
2023	195

Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Domestic Equity	36	5.10
Private Markets	25	5.90
Fixed Income	20	0.75
International Equity	17	5.90
Cash Equivalents	2	0.00
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability:	\$ 81,801	\$ 49,759	\$ 23,302

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 6 - Stewardship, Compliance and Accountability

Excess of expenditures over budget – The Special Revenue Funds had expenditures in excess of budget for the year as follows: Expenditures \$6,330; Budget \$0; Excess \$6,330.

Note 7 - Commitments and Contingencies

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

Note 8 - Subsequent Events

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the District's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the District's financial condition or results of operations is uncertain.

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 14, 2021, the date the financial statements were available to be issued.

Note 9 - Prior Period Adjustments

The January 1, 2019, General Fund Balance was decreased by \$258,220 to account for a grant that was fully recognized in 2018, but not all of the grant requirements were completed as of December 31, 2018, therefore resulting in Unearned Revenue. The January 1, 2019, Net Position was also decreased by an additional \$103,611, due to PERA amounts not being recorded on the 2018 financial statements. These changes resulted in a beginning Fund Balance of \$467,867 and a beginning Net Position of \$364,256.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental				
Reimbursements/grants	\$ 28,044	28,044	\$ 91,579	\$ 63,535
Property taxes	240,000	240,000	235,961	(4,039)
Interest income	-	-	951	951
Permit fines	1,800	1,800	250	(1,550)
Miscellaneous	800	800	818	18
Total Revenues	<u>270,644</u>	<u>270,644</u>	<u>329,559</u>	<u>58,915</u>
Expenditures				
Current:				
General government:				
Audit	5,000	5,000	3,825	1,175
Beaver control	10,000	10,000	2,520	7,480
Dues and subscriptions	7,000	7,000	14,076	(7,076)
Equipment	10,000	10,000	-	10,000
Insurance	5,000	5,000	4,161	839
Legal fees	5,000	5,000	6,660	(1,660)
Notice/publishing	-	-	124	(124)
Office expenses	4,000	4,000	3,674	326
Travel	10,000	10,000	9,566	434
Meetings	5,000	5,000	784	4,216
Mileage	10,000	10,000	7,008	2,992
Rent	8,400	8,400	8,200	200
Shared services	-	-	900	(900)
Wages and per diem	100,000	100,000	83,357	16,643
Payroll taxes and benefits	30,000	30,000	24,380	5,620
Supplies	4,000	4,000	3,261	739
Programs:				
Construction	57,244	57,244	44,867	12,377
Engineering	-	-	26,294	(26,294)
Labor	10,000	10,000	2,015	7,985
Project materials	-	-	7,113	(7,113)
Total Expenditures	<u>280,644</u>	<u>280,644</u>	<u>252,785</u>	<u>27,859</u>
Revenues Over (Under) Expenditures	<u>(10,000)</u>	<u>(10,000)</u>	<u>76,774</u>	<u>86,774</u>
Other Financing Sources				
Transfers in	-	-	29,384	29,384
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>29,384</u>	<u>29,384</u>
Net Change in Fund Balances	(10,000)	(10,000)	106,158	116,158
Fund Balances - January 1, as previously reported	<u>632,173</u>	<u>632,173</u>	<u>632,173</u>	<u>-</u>
Adjustment to Beginning Fund Balances	(258,220)	(258,220)	(258,220)	-
Fund Balances - January 1, as restated	373,953	373,953	373,953	-
Net Change in Fund Balances	<u>(10,000)</u>	<u>(10,000)</u>	<u>106,158</u>	<u>116,158</u>
Fund Balances - December 31	<u>\$ 363,953</u>	<u>\$ 363,953</u>	<u>\$ 480,111</u>	<u>\$ 116,158</u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Projects	\$ 10,000	\$ 10,000	\$ 36,176	\$ 26,176
Interest income	500	500	1,451	951
Total Revenues	<u>10,500</u>	<u>10,500</u>	<u>37,627</u>	<u>27,127</u>
Expenditures				
Current:				
Programs:				
Ditch repair	-	-	6,330	(6,330)
Total Expenditures	<u>-</u>	<u>-</u>	<u>6,330</u>	<u>(6,330)</u>
Revenues Over Expenditures	<u>10,500</u>	<u>10,500</u>	<u>31,297</u>	<u>20,797</u>
Other Financing Uses				
Transfers out	-	-	(29,384)	(29,384)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>(29,384)</u>	<u>(29,384)</u>
Net Change in Fund Balances	10,500	10,500	1,913	(8,587)
Fund Balances - January 1	<u>93,914</u>	<u>93,914</u>	<u>93,914</u>	<u>-</u>
Fund Balances - December 31	<u>\$ 104,414</u>	<u>\$ 104,414</u>	<u>\$ 95,827</u>	<u>\$ (8,587)</u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
MINNEOTA, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2019**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 1,385	\$ 1,385	\$ -	\$ 18,467	7.50%
2016	\$ 4,318	\$ 4,318	\$ -	\$ 57,573	7.50%
2017	\$ 7,986	\$ 7,986	\$ -	\$ 106,480	7.50%
2018	\$ 4,726	\$ 4,726	\$ -	\$ 63,013	7.50%
2019	\$ 5,357	\$ 5,357	\$ -	\$ 71,427	7.50%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each year-end were determined December 31.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2019**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	Covered Payroll (c)	Employers Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0013%	\$ 67,373	\$ -	\$ 67,373	\$ 76,177	88.44%	78.19%
2016	0.0006%	\$ 48,717	\$ 628	\$ 49,345	\$ 40,497	121.85%	68.90%
2017	0.0015%	\$ 95,759	\$ 1,239	\$ 96,998	\$ 97,617	99.37%	75.90%
2018	0.0012%	\$ 66,571	\$ 2,114	\$ 68,685	\$ 79,438	86.46%	79.50%
2019	0.0009%	\$ 49,759	\$ 1,500	\$ 51,259	\$ 62,394	82.15%	80.20%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2019**

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2019 - The mortality project scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent for year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Change in Plan Provisions

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

**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**

To the Board of Managers
Yellow Medicine River Watershed District
Minneota, 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 financial statements of the governmental activities of Yellow Medicine River Watershed District, Minneota, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Yellow Medicine River Watershed District's basic financial statements, and have issued our report thereon dated June 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yellow Medicine River Watershed District's internal control over financial reporting to determine the 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 Yellow Medicine River Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Yellow Medicine River Watershed District's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over financial reporting as described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a significant deficiency.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine River 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 determination of financial statement amounts. 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*.

Yellow Medicine River Watershed District's Response to Findings

Yellow Medicine River Watershed District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Yellow Medicine River Watershed District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to 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 entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

June 14, 2021

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Managers
Yellow Medicine River Watershed District
Minnesota, Minnesota

We have audited, 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 the financial statements of the governmental activities and the general fund of Yellow Medicine River Watershed District, as of and for the year ended December 31, 2019, and the related notes to the financial statements which collectively comprise the Yellow Medicine River Watershed District's basic financial statements, and have issued our report thereon dated June 14, 2021.

In connection with our audit, Yellow Medicine River Watershed District failed to comply with the Deposits and Investments provision of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivision*, as described in the Schedule of Findings and Responses as item 2019-002. 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 Yellow Medicine River Watershed District's noncompliance with the above referenced provisions.

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

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

June 14, 2021

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

2019-001 Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Managers.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

2019-002 Deficiencies in Collateral for Deposits

Criteria: Minnesota Statute 118A.03 provides certain specific collateral requirements for deposits as follows:

118A.03 WHEN AND WHAT COLLATERAL REQUIRED.

Subdivision 1. For deposits beyond insurance.

To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section 336.4-108.

Subd. 2. In lieu of surety bond.

The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government Treasury bills, Treasury notes, Treasury bonds;
- (2) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- (5) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- (6) Time deposits that are fully insured by any federal agency.

Subd. 3. Amount.

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

Subd. 4. Assignment

Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subd. 5. Withdrawal of excess collateral.

A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the government entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. Default

For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Subd. 7. Safekeeping

All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

Condition / context: At December 31, 2019, the District held deposits of \$764,831. Deposits up to \$250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral shortfall was \$551,265 (\$501,150 X110%). The District was unable to provide evidence that such deposits were properly collateralized in accordance with State Statutes.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the District obtain sufficient collateral to comply with Minnesota Statute 118A.03.

Management Response: Management is working on getting this fixed.