

**YELLOW MEDICINE RIVER
WATERSHED DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2020

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2020**

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**YELLOW MEDICINE RIVER WATERSHED DISTRICT
BOARD OF MANAGERS AND APPOINTED OFFICIAL
DECEMBER 31, 2020**

MANAGERS:

| <u>Name</u> | <u>Title</u> |
|---------------|------------------|
| Tim Dritz | President |
| Randy Kamrath | Vice President |
| Elmo Volstad | Secretary |
| Tim Buysse | Treasurer |
| Bill Briggs | Public Relations |

STAFF:

| | |
|---------------------|---------------|
| Michelle Overholser | Administrator |
|---------------------|---------------|

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, 2020, 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, 2020, 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 22-24 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 July 19, 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

July 19, 2021

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Cash | \$ 964,394 |
| Due from other governments | 47,929 |
| Prepaid expenses | 1,975 |
| Capital assets: | |
| Vehicle | 32,045 |
| Total Assets | 1,046,343 |
| Deferred Outflows of Resources: | |
| Deferred benefit pension plan | 13,125 |
| Combined Assets and Deferred Outflows of Resources | \$ 1,059,468 |
| Liabilities: | |
| Current Liabilities: | |
| Accrued wages and payroll taxes | \$ 7,335 |
| Unearned revenue | 343,177 |
| Long-term Liabilities: | |
| Net pension liability | 65,950 |
| Compensated absences | 9,910 |
| Total Liabilities | 426,372 |
| Deferred Inflows of Resources: | |
| Deferred benefit pension plan | 16,578 |
| Combined Liabilities and Deferred Inflows of Resources | \$ 442,950 |
| Net Position: | |
| Restricted - Ditches | \$ 92,679 |
| Unrestricted | 523,839 |
| Total Net Position | \$ 616,518 |

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, 2020**

| <u>Functions/Programs</u> | 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 | \$ 179,071 | \$ 2,250 | \$ - | \$ - | \$ (176,821) |
| Programs | 285,376 | - | 359,755 | - | 74,379 |
| Total Governmental Activities | \$ 464,447 | \$ 2,250 | \$ 359,755 | \$ - | (102,442) |
| General Revenues: | | | | | |
| General property taxes | | | | | 226,020 |
| Unrestricted interest earnings | | | | | 790 |
| Miscellaneous | | | | | 2,286 |
| Total General Revenues | | | | | 229,096 |
| Change in Net Position | | | | | 126,654 |
| Net Position - January 1 | | | | | 489,864 |
| Net Position - December 31 | | | | | \$ 616,518 |

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

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

| | General Fund | Special Revenue Funds (Ditches) | Intra-Activity Elimination | Total Governmental Funds |
|--|----------------------------|---------------------------------------|-------------------------------|--------------------------------|
| Assets | | | | |
| Cash | \$ 964,394 | \$ - | \$ - | \$ 964,394 |
| Due from other governments | 47,929 | - | - | 47,929 |
| Due from other funds | - | 92,679 | (92,679) | - |
| Prepaid expenses | 1,975 | - | - | 1,975 |
| Total Assets | <u>\$ 1,014,298</u> | <u>\$ 92,679</u> | <u>\$ (92,679)</u> | <u>\$ 1,014,298</u> |
| Liabilities: | | | | |
| Accrued wages and payroll taxes | \$ 7,335 | \$ - | \$ - | \$ 7,335 |
| Unearned revenue | 343,177 | - | - | 343,177 |
| Due to other funds | 92,679 | - | (92,679) | - |
| Total Liabilities | <u>443,191</u> | <u>-</u> | <u>(92,679)</u> | <u>350,512</u> |
| Fund Balances | | | | |
| Restricted - Ditches | - | 92,679 | - | 92,679 |
| Unassigned | 571,107 | - | - | 571,107 |
| Total Fund Balances | <u>571,107</u> | <u>92,679</u> | <u>-</u> | <u>663,786</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,014,298</u> | <u>\$ 92,679</u> | <u>\$ (92,679)</u> | <u>\$ 1,014,298</u> |

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

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

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

| | | |
|--|----|-----------------------|
| Total Fund Balances - Governmental | \$ | 663,786 |
| Capital assets used in governmental funds are not financial resources and therefore are not reported in funds. That asset is: | | |
| Vehicle | | 32,045 |
| 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 | | (9,910) |
| Net pension liability | | (65,950) |
| Governmental funds do not report long-term amounts related to pensions. | | |
| Deferred outflow of resources | | 13,125 |
| Deferred inflow of resources | | <u>(16,578)</u> |
| Total Net Position - Governmental Activities | \$ | <u><u>616,518</u></u> |

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | General Fund | Special Revenue Funds | Total Governmental Funds |
|-----------------------------|-----------------------------|-----------------------------|--------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Revenues | | | |
| Intergovernmental | | | |
| Reimbursements/grants | \$ 359,755 | \$ - | \$ 359,755 |
| Property taxes | 226,020 | - | 226,020 |
| Projects | - | - | - |
| Interest income | 3 | 787 | 790 |
| Permit/fines | 2,250 | - | 2,250 |
| Miscellaneous | 2,286 | - | 2,286 |
| Total Revenues | <u>590,314</u> | <u>787</u> | <u>591,101</u> |
| | | | |
| Expenditures | | | |
| Current: | | | |
| General government: | | | |
| Beaver control | 5,250 | - | 5,250 |
| Dues and subscriptions | 250 | - | 250 |
| Insurance | 4,501 | - | 4,501 |
| Notice/publishing | 502 | - | 502 |
| Office expenses | 3,912 | - | 3,912 |
| Travel | 4,102 | - | 4,102 |
| Mileage | 3,663 | - | 3,663 |
| Rent | 8,400 | - | 8,400 |
| Wages and per diem | 99,482 | - | 99,482 |
| Payroll taxes and benefits | 45,605 | - | 45,605 |
| Supplies | 6,604 | - | 6,604 |
| Capital outlay | 35,606 | - | 35,606 |
| Programs: | | | |
| Construction | 190,094 | - | 190,094 |
| Ditch repair | - | 3,935 | 3,935 |
| Engineering | 80,321 | - | 80,321 |
| Labor | 4,472 | - | 4,472 |
| Project materials | 6,554 | - | 6,554 |
| Total Expenditures | <u>499,318</u> | <u>3,935</u> | <u>503,253</u> |
| | | | |
| Net Change in Fund Balances | 90,996 | (3,148) | 87,848 |
| | | | |
| Fund Balances - January 1 | <u>480,111</u> | <u>95,827</u> | <u>575,938</u> |
| | | | |
| Fund Balances - December 31 | <u>\$ 571,107</u> | <u>\$ 92,679</u> | <u>\$ 663,786</u> |

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

**YELLOW MEDICINE RIVER 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, 2020**

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

| | |
|---|--------------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ 87,848 |
| | |
| Long-term pension activity is not reported in governmental funds. | |
| Pension credit | 13,592 |
| | |
| 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. | |
| Capital outlay | 35,606 |
| Depreciation expense | (3,561) |
| Compensated absences | <u>(6,831)</u> |
| Change in Net Position - Governmental Activities | <u><u>\$ 126,654</u></u> |

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

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 area within the following three counties: Yellow Medicine, Lincoln, and Lyon. A five-member Board appointed by the respective County Boards of Commissioners for 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, 2020**

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 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.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 consists of a checking account and a savings account.

Due from Other Governments

Due from other governments is recorded for state grant amounts that were received after year-end and all eligibility requirements had been met.

Prepaid Expenses

Prepaid expenses are for items that will provide future benefit over the next twelve months.

Capital Assets

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Vehicles is 5 years. The District does not currently have a threshold for capitalizing assets purchased.

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, 2020**

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This separate financial statement element 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) until that time. The District has type of deferred outflow which is pension related.

In addition to liabilities, the financial statements 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 one type of deferred inflow which is pension related.

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. 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, 2020**

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.

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 December 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.

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;

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

- 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. As of December 31, 2020, the District was covered by collateral.

Note 3 - Capital Assets

Capital assets activity for the year ended December 31, 2020 was as follows:

| | Beginning | Addition | Deletion | Ending |
|--------------------------------|-------------|-----------|----------|------------------|
| Equipment | \$ - | \$ 35,606 | \$ - | \$ 35,606 |
| Less: Accumulated Depreciation | - | 3,561 | - | 3,561 |
| Net Capital Assets | <u>\$ -</u> | | | <u>\$ 32,045</u> |

Note 4 - 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 5 - Long-Term Liabilities

Changes in long-term liabilities for the period ended December 31, 2020 were:

| | January 1, 2020 | Increases | Decreases | December 31, 2020 |
|-----------------------|--------------------|------------------|-------------|----------------------|
| Net Pension Liability | \$ 49,759 | \$ 16,191 | \$ - | \$ 65,950 |
| Compensated Absences | 3,079 | 6,831 | - | 9,910 |
| Total | <u>\$ 52,838</u> | <u>\$ 23,022</u> | <u>\$ -</u> | <u>\$ 75,860</u> |

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

Note 6 - 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 for each of the first ten years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is 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, 2020**

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 2020 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, 2020, were \$7,266. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2020, the District reported a liability of \$65,950 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. 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 \$1,973. The net pension liability was measured as of June 30, 2020, 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, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was .0011 percent at the end of the measurement period and .0009 percent for the beginning of the period.

| | | |
|--|----|--------|
| The District's proportionate share of the net pension liability | \$ | 65,950 |
| State of Minnesota's proportionate share of the net pension liability associated with the District | | 1,973 |
| Total | \$ | 67,923 |

For the year ended December 31, 2020, the District recognized a pension credit of \$13,592 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$172 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, 2020**

At December 31, 2020, 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 | \$ 722 | \$ 582 |
| Changes in actuarial assumptions | - | 2,390 |
| Difference between projected and actual investment earnings | - | 596 |
| Changes in Proportion | 8,257 | 13,010 |
| Contributions paid to PERA subsequent to the measurement date | 4,146 | - |
| Total | <u>\$ 13,125</u> | <u>\$ 16,578</u> |

The \$4,146 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, 2021. 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 |
|-------------------------|------------------------|
| 2021 | \$ (12,163) |
| 2022 | (1,108) |
| 2023 | 4,129 |
| 2024 | 1,543 |

Actuarial Assumptions

The total pension liability in the June 30, 2020, 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, 2020**

Actuarial assumptions used in the June 30, 2020 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. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

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 2020 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.

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: | \$ 105,695 | \$ 65,950 | \$ 33,164 |

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 7 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Managers adopts an annual budget for the following year for the General and Special Revenue Funds. Any modifications in the adopted budget can be made upon request of and approval by the Board of Managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Note 8 - 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 9 - Risk and Uncertainty

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." During 2020 the stock market was unpredictable and interest rates decreased. The economy is still managing, but future economic conditions are unknown. For fiscal year 2020, COVID-19 had little effect on the District, but the extent to which COVID-19 may impact the District's future financial condition or results of its operations is uncertain.

Note 10 - Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 19, 2021, the date the financial statements were available to be issued.

**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, 2020**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | | | | |
| Reimbursements/grants | \$ 33,044 | 33,044 | \$ 359,755 | \$ 326,711 |
| Property taxes | 240,000 | 240,000 | 226,020 | (13,980) |
| Interest income | - | - | 3 | 3 |
| Permit/fines | 1,500 | 1,500 | 2,250 | 750 |
| Miscellaneous | 500 | 500 | 2,286 | 1,786 |
| Total Revenues | <u>275,044</u> | <u>275,044</u> | <u>590,314</u> | <u>315,270</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| Audit | 5,000 | 5,000 | - | 5,000 |
| Beaver control | 3,000 | 3,000 | 5,250 | (2,250) |
| Dues and subscriptions | 7,000 | 7,000 | 250 | 6,750 |
| Education | 15,000 | 15,000 | - | 15,000 |
| Equipment | 7,000 | 7,000 | - | 7,000 |
| Insurance | 5,000 | 5,000 | 4,501 | 499 |
| Legal fees | 5,000 | 5,000 | - | 5,000 |
| Notice/publishing | 250 | 250 | 502 | (252) |
| Office expenses | 5,500 | 5,500 | 3,912 | 1,588 |
| Travel | - | - | 4,102 | (4,102) |
| Meetings | 5,000 | 5,000 | - | 5,000 |
| Mileage | 7,000 | 7,000 | 3,663 | 3,337 |
| Rent | 8,400 | 8,400 | 8,400 | - |
| Shared services | 5,000 | 5,000 | - | 5,000 |
| Wages and per diem | 135,000 | 135,000 | 99,482 | 35,518 |
| Payroll taxes and benefits | 40,000 | 40,000 | 45,605 | (5,605) |
| Software | 5,000 | 5,000 | - | 5,000 |
| Supplies | 4,000 | 4,000 | 6,604 | (2,604) |
| Capital outlay | - | - | 35,606 | (35,606) |
| Programs: | | | | |
| Construction | - | - | 190,094 | (190,094) |
| Engineering | - | - | 80,321 | (80,321) |
| Labor | - | - | 4,472 | (4,472) |
| Project materials | 28,144 | 28,144 | 6,554 | 21,590 |
| Total Expenditures | <u>290,294</u> | <u>290,294</u> | <u>499,318</u> | <u>(209,024)</u> |
| Net Change in Fund Balances | (15,250) | (15,250) | 90,996 | 106,246 |
| Fund Balances - January 1 | 480,111 | 480,111 | 480,111 | - |
| Fund Balances - December 31 | <u>\$ 464,861</u> | <u>\$ 464,861</u> | <u>\$ 571,107</u> | <u>\$ 106,246</u> |

Notes are an integral part of the basic financial statements.

**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, 2020**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Projects | \$ 10,000 | \$ 10,000 | \$ - | \$ (10,000) |
| Interest income | 500 | 500 | 787 | 287 |
| Total Revenues | <u>10,500</u> | <u>10,500</u> | <u>787</u> | <u>(9,713)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Programs: | | | | |
| Ditch repair | - | - | 3,935 | (3,935) |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>3,935</u> | <u>(3,935)</u> |
| Net Change in Fund Balances | 10,500 | 10,500 | (3,148) | (13,648) |
| Fund Balances - January 1 | <u>95,827</u> | <u>95,827</u> | <u>95,827</u> | <u>-</u> |
| Fund Balances - December 31 | <u>\$ 106,327</u> | <u>\$ 106,327</u> | <u>\$ 92,679</u> | <u>\$ (13,648)</u> |

Notes are an integral part of the basic financial statements.

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

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2020**

| 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% |
| 2020 | \$ 7,266 | \$ 7,266 | \$ - | \$ 96,881 | 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, 2020**

| 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) | Employer's 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% |
| 2020 | 0.0011% | \$ 65,950 | \$ 1,973 | \$ 67,923 | \$ 82,848 | 81.99% | 79.10% |

* 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
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
GENERAL EMPLOYEE RETIREMENT FUND
DECEMBER 31, 2020**

NOTE 1 - CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS

2020 -

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

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.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
GENERAL EMPLOYEE RETIREMENT FUND
DECEMBER 31, 2020**

NOTE 1 - CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS (CONTINUED)

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.

2020 - Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

NOTE 2 - BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Managers adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$499,318; Budget \$290,294; Excess \$209,024. The Special Revenue Fund had expenditures in excess of budget for the year as follows: Expenditures \$3,935; Budget \$0; Excess \$3,935.

**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, the general fund and special revenue fund of Yellow Medicine River Watershed District as of and for the year ended December 31, 2020, 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 July 19, 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.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting, described in the accompany Schedule of Findings and Responses as item 2020-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Responses to Findings

Yellow Medicine River Watershed District's responses to the findings identified in our audit have been included in the Schedule of Findings and Responses. The Yellow Medicine River Watershed District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

July 19, 2021

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Managers
Yellow Medicine River Watershed District
Minneota, 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, 2020, 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 July 19, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that Yellow Medicine River Watershed District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, in so far 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 Yellow Medicine River Watershed District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

July 19, 2021

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2020**

2020-001 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.