

**ROSEAU RIVER WATERSHED DISTRICT
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

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ROSEAU RIVER WATERSHED DISTRICT
OFFICIALS DIRECTORY
DECEMBER 31, 2019

BOARD OF MANAGERS

Jason Braaten	Chairperson
Tony Wensloff	Vice-Chair
Cody Schmalz	Secretary
Carter Diesen	Treasurer
Leroy Carriere	Manager

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Roseau River Watershed District
Roseau, Minnesota

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund and remaining fund information of the Roseau 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 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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 cash basis financial position of the governmental activities, each major fund and remaining fund information of the Roseau River Watershed District, as of December 31, 2019, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Roseau River Watershed District's basic financial statements. The officials directory, management's discussion and analysis, budgetary comparison schedule for the general fund – cash basis and the schedule of fund balances by project – cash basis as listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule for the general fund – cash basis and the schedule of fund balances by project – cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule for the general fund – cash basis and schedule of fund balances by project – cash basis are fairly stated, in all material respects, in relation to the financial statements as described in the basis of accounting in Note 1.

The officials directory and the management's discussion and analysis sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2020 on our consideration of the Roseau 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 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Roseau River Watershed District's internal control over financial reporting and compliance.



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

May 15, 2020

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

As management of the Roseau River Watershed District, we offer readers of the Roseau River Watershed District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The cash position of Roseau River Watershed District exceeded its liabilities at the close of the recent fiscal year by \$2,074,395 (net position).
- The District's total net cash position increased by \$36,544.
- The District's general fund ended the year with a fund balance of \$265,671.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basis of Accounting. The District has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's cash basis of accounting, revenues and expenses are recognized when cash transactions occur.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts and taxes receivable and related revenue not collected yet) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not paid yet) are not recorded in these financial statements. Therefore when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2019

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

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

Roseau River Watershed District maintains three major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of receipts, disbursements, and changes in fund balances for the General Fund, Special Revenue Fund, and Capital Projects Fund.

The basic government fund financial statements can be found on pages 11 through 14 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 24 of this report.

ROSEAU RIVER WATERSHED DISTRICT'S NET CASH POSITION

	2019	2018
ASSETS:		
Current assets	\$ 2,074,395	\$ 2,037,851
Total Assets	\$ 2,074,395	\$ 2,037,851
 NET CASH POSITION		
Restricted for ditch maintenance	\$ 1,740,448	\$ 1,751,447
Unrestricted	333,947	286,404
Total Net Cash Position	\$ 2,074,395	\$ 2,037,851

At the end of 2019 and 2018, the Roseau River Watershed District is able to report positive balances in net cash position.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2019

ROSEAU RIVER WATERSHED DISTRICT'S CHANGE IN NET CASH POSITION

Governmental activities resulted in an increase of Roseau River Watershed District's net position from the year ended December 31, 2018 to the year ended December 31, 2019 in the amount of \$36,544. The details of the change are as follows:

	<u>2019</u>	<u>2018</u>
RECEIPTS		
Special assessments and charges for services	\$ 122,116	\$ 138,595
Operating grants	-	61,876
Capital grants	649,385	773,460
General revenues:		
Property taxes	400,532	414,802
Other intergovernmental	13,775	13,474
Interest	<u>33,235</u>	<u>18,087</u>
Total Receipts	<u>1,219,043</u>	<u>1,420,294</u>
DISBURSEMENTS		
General & administration	424,817	462,721
Maintenance projects	228,069	280,848
Flood control projects	<u>529,613</u>	<u>1,082,602</u>
Total Disbursements	<u>1,182,499</u>	<u>1,826,171</u>
Change in Net Cash Position	<u>36,544</u>	<u>(405,877)</u>
Net Position - January 1	<u>2,037,851</u>	<u>2,443,728</u>
Net Position - December 31	<u>\$ 2,074,395</u>	<u>\$ 2,037,851</u>

Financial Analysis of the Government's Funds

At the end of the current fiscal year, Roseau River Watershed District's governmental funds reported combined ending fund balances (cash basis) of \$2,074,395. The total fund balance can be attributed to 1) General Fund, \$265,671, 2) Special Revenue Fund, \$1,740,448 and 3) Capital Projects Fund, \$68,276.

BUDGETARY HIGHLIGHTS

General Fund. The General Fund actual receipts were more than budget by \$4,675 and actual disbursements were over budget by \$153,540 for the year ended December 31, 2019.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2019

ADDITIONAL INFORMATION

Requests for Information. This financial report is designed to provide a general overview of Roseau River Watershed District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Roseau River Watershed District, 714 6th Street Southwest, Roseau, Minnesota 56751 or contacting Tracy Halstensgard at (218) 463-0313.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	<u>\$ 2,074,395</u>
TOTAL ASSETS	<u>2,074,395</u>
 NET CASH POSITION	
Restricted for ditch maintenance	1,740,448
Unrestricted	<u>333,947</u>
TOTAL NET POSITION	<u><u>\$ 2,074,395</u></u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

FUNCTION	Disbursements	Program Receipts and Sources			Net Cash Sources (Uses) and Change in Net Cash Position
		Fees, Assessments and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities Total
Governmental Activities:					
Administration	\$ 413,129	\$ 13	\$ -	\$ -	\$ (413,116)
Administrative construction	11,688	-	-	-	(11,688)
General maintenance projects	228,069	122,103	-	-	(105,966)
Flood control projects	529,613	-	-	649,385	119,772
Total Governmental Activities	\$ 1,182,499	\$ 122,116	\$ -	\$ 649,385	(410,998)
General Receipts:					
Property taxes					400,532
Intergovernmental (not restricted for special program)					
MV Credits					13,775
Interest earnings					33,235
Total General Receipts					447,542
Changes in Net Cash Position					36,544
Net Cash Position, January 1					2,037,851
Net Cash Position, December 31					\$ 2,074,395

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 265,671	\$ 1,740,448	\$ 68,276	\$ 2,074,395
TOTAL ASSETS	<u>\$ 265,671</u>	<u>\$ 1,740,448</u>	<u>\$ 68,276</u>	<u>\$ 2,074,395</u>
CASH FUND BALANCE				
Restricted for ditch maintenance	\$ -	\$ 1,740,448	\$ -	\$ 1,740,448
Committed for capital projects	-	-	68,276	68,276
Unassigned	<u>265,671</u>	<u>-</u>	<u>-</u>	<u>265,671</u>
TOTAL CASH FUND BALANCE	<u>\$ 265,671</u>	<u>\$ 1,740,448</u>	<u>\$ 68,276</u>	<u>\$ 2,074,395</u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
RECEIPTS				
Taxes	\$ 240,013	\$ -	\$ 160,519	\$ 400,532
Special assessments	-	116,763	2,500	119,263
Intergovernmental:				
State	8,284	-	242,895	251,179
RRWMB	-	-	253,656	253,656
Federal	-	-	158,325	158,325
Interest	6,365	18,122	8,748	33,235
Other	13	1,800	1,040	2,853
TOTAL RECEIPTS	<u>254,675</u>	<u>136,685</u>	<u>827,683</u>	<u>1,219,043</u>
DISBURSEMENTS				
Administration	308,072	33,205	71,852	413,129
Administrative construction	-	-	11,688	11,688
General maintenance projects	95,468	114,479	18,122	228,069
Flood control projects	-	-	529,613	529,613
TOTAL DISBURSEMENTS	<u>403,540</u>	<u>147,684</u>	<u>631,275</u>	<u>1,182,499</u>
Receipts Over (Under) Disbursements	(148,865)	(10,999)	196,408	36,544
Cash Fund Balance - January 1	<u>414,536</u>	<u>1,751,447</u>	<u>(128,132)</u>	<u>2,037,851</u>
Cash Fund Balance (Deficit) - December 31	<u>\$ 265,671</u>	<u>\$ 1,740,448</u>	<u>\$ 68,276</u>	<u>\$ 2,074,395</u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
FIDUCIARY FUND
DECEMBER 31, 2019

ASSETS

Cash

\$ 29,805

LIABILITIES

Due to Red River Management Board

\$ 29,805

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF CHANGES IN NET CASH POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Custodial Fund
ADDITIONS	
Taxes	
Beltrami County	\$ 302
Kittson County	989
Lake of the Woods County	118
Marshall County	1,138
Roseau County	157,805
Intergovernmental:	
State Aid, Other	5,491
TOTAL ADDITIONS	165,843
 DEDUCTIONS	
Red River Watershed Management Board	163,309
TOTAL DEDUCTIONS	163,309
 CHANGE IN NET POSITION	 2,534
 NET POSITION - BEGINNING	 27,271
 NET POSITION - ENDING	 \$ 29,805

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

The Roseau River Watershed District, (the "District") was established under the Minnesota Watershed Act as an agency of the State of Minnesota. The purpose of the District is to carry out conservation of the natural resources of the State of Minnesota through land utilization, flood control, and other needs upon sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. The District serves an area in Northwestern Minnesota. The District is governed by the Board of Managers, which is composed of five members appointed by the county boards in accordance with Minnesota Statutes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Under the cash basis of accounting, all relevant Governmental Accounting Standards Board (GASB) pronouncements are followed.

Reporting Entity

The financial statements of the District include all organizations, funds and account groups over which the Board of Managers exercises significant influence or financial accountability. The District uses criteria established by GASB in determining financial accountability, which includes: the District's appointment of an entity's governing board; ability of the District to impose its will on that entity; or the potential for the entity to provide specific financial benefits or financial burdens on the District. Currently, the District does not have any component units.

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Cash Position and Statement of Activities Arising From Cash Transactions display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities (if any). The District displays all operations as governmental activities, because governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange receipts.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues (receipts) and expenditures (disbursements). Funds are typically organized into three categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Total assets, liabilities, revenues (receipts) or expenditures (disbursements) of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND

Total assets, liabilities, revenues (receipts) or expenditures (disbursements) of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

Governmental Funds

General Fund

The general fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than capital projects) where the expenditures are legally restricted for purposes specified in the grant or project agreements. The reporting entity includes the special revenue fund as a major fund.

Capital Projects Fund

The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of capital projects. The reporting entity includes the capital projects fund as a major fund.

Fiduciary Fund

Custodial Fund

The fiduciary fund accounts for assets held by the District in a purely custodial capacity on behalf of the Red River Watershed Management Board. Since this fund is custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of operations.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Cash Position and Statement of Activities Arising From Cash Transactions, governmental activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined below.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the cash basis of accounting, is used as appropriate.

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

Basis of Accounting

In the government-wide Statement of Net Cash Position and Statement of Activities Arising From Cash Transactions, governmental activities are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues and expenditures when they result from cash transactions, therefore revenues and expenditures are referred to as receipts and disbursements, respectively. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payable, unpaid goods or services received in the current year and accrued expenses) are not recorded in these financial statements.

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

Budgets

The budget is prepared using the same method of accounting as the financial statements. The annual adopted budget is not legally binding to the District, with the exception of the budget for the levy in the administrative fund, which is limited by state statute at \$250,000 and set by the Board for 2019 at \$250,000.

Revenues

In the Statement of Activities Arising From Cash Transactions, cash basis revenues (receipts) that are derived directly from each activity or from parties outside the District’s taxpayers are reported as program revenues. The District has the following program revenues: direct project cost reimbursements and project special assessments, rental income and operating and capital grants specific to projects. All other governmental revenues and general tax levies are classified as general revenue.

Property Taxes

The District levies property taxes on property owners within the District, which is set by the Board in September and are certified to the County for collection in the subsequent year. In Minnesota, counties act as collection agents for all property taxes.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

The approved levy becomes an enforceable lien as of January 1 in the subsequent year. Property taxes may be paid by taxpayers in two equal installments on May 15 and October 15 (November 15 for farm property). The counties typically provide tax settlements to the District in January, June and December. Property taxes are recognized when received from the counties under the cash basis of accounting.

The District also levies special assessments through the counties against property owners who obtain direct benefits from projects or property owners who request, through the petition process, to have a project undertaken. The special assessment collections are recorded in a manner similar to that for property taxes.

Cash and Investments

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by Minnesota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund. It is the policy of the District in which funds with deficit averages are not charged with the investment earnings lost in financing the deficits.

Equity

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

Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Cash Fund Balance

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

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

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

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

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Interfund Balances

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

Estimates

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

NOTE 2 CASH

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

At December 31, 2019, the District's carrying amount of deposits was \$2,104,200 and the bank balance was \$2,105,494. All of the deposits were covered by Federal Depository Insurance or with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Credit Risk

The District is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of Minnesota Housing Finance Agency rated "A" or better; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District has no investment policy that would further limit its investment choices.

Custodial Risk

The District does not have a formal policy that would limit the amount invested in any single financial institution. Approximately 56% of the District's cash is held at Border State Bank of Roseau, Minnesota and the remaining 44% is held at Citizen's State Bank of Roseau, Minnesota.

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the Roseau River Watershed District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (accounted for in the General Employees Fund), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

For all General Employees Plan members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service before retirement benefits begin.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Plan. That report may be obtained on the PERA's website at www.mnpera.org.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Plan Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in 2019. In 2019, the Roseau River Watershed District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.5% for Coordinated Plan members. The District's contribution to the Public Employees Retirement Fund for the year ended December 31, 2019 was \$12,423.

NOTE 4 CONTINGENCIES

Grants

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2019, may be impaired. The District is not aware of any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Claims and Litigation

The District may be involved in some legal actions relating to projects undertaken or attempted to be undertaken. Although the outcomes cannot be determined, the District believes any potential liability would not have a material impact on the financial condition of the District.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 DEFICIT FUND BALANCES

The following special revenue and capital projects had deficit fund balances as of December 31, 2019:

<u>Fund</u>	<u>Project</u>	<u>Total</u>
Special Revenue	Ditch #16	\$ 25,449
Capital Projects	Palmville Maintenance	25,709
Capital Projects	West Intercept Maintenance	848
Capital Projects	Hay Creek Norland	299
Capital Projects	Other Maintenance	831
Capital Projects	Beltrami	178,874
Capital Projects	Whitney Lake	220,274
Capital Projects	Lake Bottom	379,740
Capital Projects	WMA	355,195
Capital Projects	Side Water Inlets	20,382
Capital Projects	CD 16 Improvement	25,730
Capital Projects	River Restoration	228

The deficits are expected to be eliminated through future revenues or transfers.

NOTE 7 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement, except for paragraph 11b, are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the District's financial statements.

ROSEAU RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original & Final Budgeted Amounts	Actual Amounts	Final Budget to Actual Variance
RECEIPTS			
Property taxes:			
Roseau County	\$ 244,079	\$ 235,626	\$ (8,453)
Kittson County	3,208	1,977	(1,231)
Marshall County	1,964	1,739	(225)
Lake of the Woods County	235	235	-
Beltrami County	514	436	(78)
Total property taxes	<u>250,000</u>	<u>240,013</u>	<u>(9,987)</u>
Intergovernmental:			
State:			
Other state aid	-	8,284	8,284
Total Intergovernmental	<u>-</u>	<u>8,284</u>	<u>8,284</u>
Other:			
Interest	-	6,365	6,365
Other	-	13	13
Total Other	<u>-</u>	<u>6,378</u>	<u>6,378</u>
TOTAL RECEIPTS	<u>250,000</u>	<u>254,675</u>	<u>4,675</u>
DISBURSEMENT			
Administration:			
Salaries and benefits	145,000	130,086	(14,914)
Manager's per diem and expenses	10,000	18,294	8,294
Dues and subscriptions	3,000	4,470	1,470
Engineering	4,000	72,098	68,098
Legal and accounting	15,000	18,510	3,510
Repairs and maintenance	10,000	21,359	11,359
Rent and utilities	7,000	4,353	(2,647)
Insurance	11,000	4,643	(6,357)
Telephone and internet	2,000	2,641	641
Office	-	16,659	16,659
Real estate taxes	13,000	12,776	(224)
Postage and delivery	9,000	340	(8,660)
Printing and advertising	-	1,843	1,843
Total Administration	<u>229,000</u>	<u>308,072</u>	<u>79,072</u>

See Notes to the Budgetary Comparison Schedule

ROSEAU RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original & Final Budgeted Amounts	Actual Amounts	Final Budget to Actual Variance
	<u> </u>	<u> </u>	<u> </u>
General Maintenance Projects:			
Roseau River projects	\$ 9,000	\$ 43,268	\$ 34,268
Stream gauging	12,000	11,374	(626)
Capital outlay	<u>-</u>	<u>40,826</u>	<u>40,826</u>
Total General Maintenance Projects	<u>21,000</u>	<u>95,468</u>	<u>74,468</u>
 TOTAL DISBURSEMENTS	 <u>250,000</u>	 <u>403,540</u>	 <u>153,540</u>
 Excess Receipts Over Disbursements	 -	 (148,865)	 (148,865)
 Cash Fund Balance, January 1	 <u>414,536</u>	 <u>414,536</u>	 <u>-</u>
 Fund Balance, December 31	 <u>\$ 414,536</u>	 <u>\$ 265,671</u>	 <u>\$ (148,865)</u>

See Notes to the Budgetary Comparison Schedule

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 – BUDGETARY COMPARISON

The budget is prepared using the same method of accounting as the financial statements. The budget presented for the general fund is presented in accordance with the cash basis of accounting. All appropriations lapse at year-end.

The budget is adopted through passage of a resolution by the board. Administration can authorize the transfer of budgeted amounts with the general fund. The State imposed an administrative budget limit of watershed districts of \$250,000.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2019, expenditures exceeded appropriations in the general fund by \$153,540, mainly due to parking lot paving, engineering costs, and project costs.

ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FUND BALANCES BY PROJECT- CASH BASIS
DECEMBER 31, 2019

	Fund Balance 1/1/2019	Receipts and Other Sources				Disbursements			Fund Balance 12/31/2019	
		Taxes and Special Assessments	Capital & Operating Grants	Other Receipts	Allocated Interest	Total	Adminstrative	Direct Project		Total
GENERAL FUND:										
Administrative	\$ 414,536	\$ 240,013	\$ 8,284	\$ 13	\$ 6,365	\$ 254,675	\$ 308,072	\$ 95,468	\$ 403,540	\$ 265,671
SPECIAL REVENUE FUND:										
Watershed Ditch #3	21,435	10,917	-	-	-	10,917	2,961	13,716	16,677	15,675
County Ditch #8	14,611	8,753	-	-	-	8,753	1,223	3,340	4,563	18,801
Ditch #16	(6,440)	4,616	-	-	-	4,616	2,411	21,214	23,625	(25,449)
State Ditch #51	1,721,841	92,477	-	1,800	18,122	112,399	26,610	76,209	102,819	1,731,421
Total Special Project Fund	1,751,447	116,763	-	1,800	18,122	136,685	33,205	114,479	147,684	1,740,448
CAPITAL PROJECTS FUND:										
Administrative Construction	999,973	160,519	5,491	-	8,748	174,758	386	11,688	12,074	1,162,657
Maintenance:										
Palmville Maintenance	(20,260)	-	-	-	-	-	4,857	592	5,449	(25,709)
West Intercept Maintenance	3,513	2,500	-	-	-	2,500	1,611	5,250	6,861	(848)
Hay Creek Norland	25,948	-	-	1,040	-	1,040	16,293	10,994	27,287	(299)
Weed Management	732	-	-	-	-	-	-	-	-	732
Other	455	-	-	-	-	-	-	1,286	1,286	(831)
Flood Control:										
Beltrami	(141,001)	-	21,686	-	-	21,686	677	58,882	59,559	(178,874)
Whitney Lake	(322,310)	-	310,429	-	-	310,429	12,987	195,406	208,393	(220,274)
Lake Bottom	(318,855)	-	217,886	-	-	217,886	28,675	250,096	278,771	(379,740)
WMA	(448,942)	-	99,384	-	-	99,384	5,606	31	5,637	(355,195)
Hay Creek Norland	112,997	-	-	-	-	-	-	-	-	112,997
Side Water Inlets	(20,382)	-	-	-	-	-	-	-	-	(20,382)
CD 16 Improvement	-	-	-	-	-	-	532	25,198	25,730	(25,730)
River Restoration	-	-	-	-	-	-	228	-	228	(228)
Total Capital Project Fund	(128,132)	163,019	654,876	1,040	8,748	827,683	71,852	559,423	631,275	68,276
TOTAL	\$ 2,037,851	\$ 519,795	\$ 663,160	\$ 2,853	\$ 33,235	\$ 1,219,043	\$ 413,129	\$ 769,370	\$ 1,182,499	\$ 2,074,395

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Roseau River Watershed District
Roseau, 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 cash basis financial statements of the governmental activities, each major fund, and the remaining fund information of Roseau River Watershed District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2020. Roseau River Watershed District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Legal Compliance

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

Purpose of the Report

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



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

May 15, 2020

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Managers
Roseau River Watershed District
Roseau, 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, each major fund, and the remaining fund information of Roseau 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 District's cash basis basic financial statements, and have issued our report thereon dated May 15, 2020. Roseau River Watershed District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Roseau River Watershed District's Response to Findings

The Roseau River Watershed District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Roseau 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

May 15, 2020

**ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Deficiency 2019-001 – Material Weakness

Criteria: Segregation of duties.

Condition: The District has one employee responsible for the majority of the accounting functions. The employee handles incoming monies, prepares the receipt documents, prepares deposits, issues checks and distributes them and receives and reconciles the bank statements. The employee maintains the general ledger.

Cause: Size and cost constraints limit the number of personnel available to perform accounting duties within the District.

Effect: The lack of segregated duties reduces the level of internal controls over financial reporting which could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The areas should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

View of Responsible Officials: The District is aware of this situation and will continue to monitor operations and added a staff member in 2017. The Board believes the most effective control lies in its awareness and oversight of this situation.

ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Deficiency 2019-002 – Significant Deficiency

Criteria: The District does not have the internal resources to prepare full-disclosure financial statements in conformity with the cash basis of accounting.

Condition: An internal control deficiency over financial reporting may be determined present in the absence of the District's ability to prepare its financial statements and accompanying notes to the financial statements in accordance with the cash basis of accounting. This control deficiency could result in a material misstatement to the financial statements that would not be detected or prevented.

Cause: Due to limited personnel, as auditors we were requested to draft the financial statements and accompanying notes to the financial statements and propose journal entries needed in accordance with the cash basis of accounting.

Effect: A material misstatement in the District's financial statements may go undetected.

Recommendation: Compensating controls could be provided through client preparation of the financial statement preparation and/or review function. It is the decision of the board charged with governance to evaluate the degree of risk associated with the condition upon consideration of benefits received and cost associated with making the necessary changes.

View of Responsible Officials: The recommendation will be implemented when it becomes cost effective.