

MINNEHAHA CREEK WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

For The Year Ended December 31, 2025

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MINNEHAHA CREEK WATERSHED DISTRICT
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INTRODUCTORY SECTION

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MINNEHAHA CREEK WATERSHED DISTRICT
ORGANIZATION
December 31, 2025

Board of Managers:

Term Expires

Sherry Davis White - President

March, 2027

Bill Olson - Vice President

March, 2028

Jessica Loftus - Treasurer

March, 2026

Eugene Maxwell - Secretary

March, 2028

Steve Sando

March, 2027

Richard Miller

March, 2026

Arun Hejmadi

March, 2028

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Minnehaha Creek Watershed District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Minnehaha Creek Watershed District, as of December 31, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Minnehaha Creek Watershed District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Report on Summarized Comparative Information

We have previously audited Minnehaha Creek Watershed District's 2024 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated April 17, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnehaha Creek Watershed District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, and the schedules of pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnehaha Creek Watershed District's basic financial statements. The accompanying schedule of revenues and expenditures by program/project is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures by program/project is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Redpath and Company, LLC

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

April 17, 2026

Management’s Discussion and Analysis

As management of the Minnehaha Creek Watershed District, Minnesota, (the MCWD or District), we offer readers of the MCWD’s financial statements this narrative overview and analysis of the financial activities of the MCWD for the fiscal year ended December 31, 2025.

Financial Highlights

- The assets and deferred outflows of resources of the MCWD (as shown on the Statement of Net Position on page 22) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$60,440,158 (net position). Of this amount, \$28,667,720 is categorized as unrestricted net position and is not legally restricted for significant purposes, therefore may be used to meet MCWD’s ongoing obligations
- There was an increase in the MCWD’s total net position of \$5,753,692. This is due in part to delayed or deferred projects for which tax levies were collected. This, along with interest earnings higher than anticipated, resulted in increased ending cash balances and net position. The District saw a decrease of \$962,808 in outstanding debt due to scheduled payments.
- As of the close of the current fiscal year, the District’s single governmental fund (Management Planning Fund) reported an ending fund balance of \$31,390,123, an increase of \$3,333,030 in comparison with the prior year. Approximately 65.7% of this total amount, or \$20,612,426, is assigned by management to show the intent of the funds but is also available for spending at the District’s discretion, while 34.2%, or \$10,752,163 is committed for unspent property taxes, and 0.1% or \$25,534, of this total amount is non-spendable for prepaid items.
- At the end of the current fiscal year, the assigned fund balance for the Management Planning fund was \$20,612,426, which is 255.1% of the 2025 total fund expenditures or 323.0% of next year’s Management Planning fund budget.
- The MCWD’s total noncurrent long-term liabilities decreased during the current fiscal year. The decrease is attributed to the reduction of scheduled debt payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the MCWD’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 supplemental information in addition to the basic financial statements themselves.

Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about non-major governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
MCWD’s Annual Financial Report

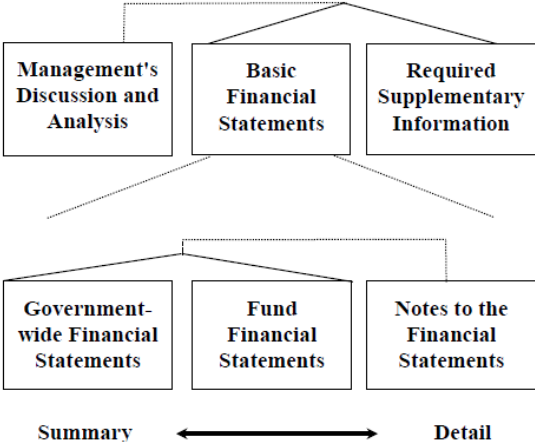


Figure 2 summarizes the major features of the MCWD’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Governmental Funds
Scope	Entire MCWD government	Entire MCWD government
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be fully used and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be fully used and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow of information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the MCWD that are principally supported by taxes and charges for services (*governmental activities*). The governmental activities of the MCWD include general government, programs, projects, and interest on long-term debt.

The government-wide financial statements can be found on Statements 1 and 2 of this report.

Fund Financial Statements. 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. The MCWD, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The MCWD maintains only one governmental fund. This information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Management Planning fund.

The District adopts an annual appropriated budget for its Management Planning fund. A budgetary comparison statement has been provided for the Management Planning fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Statements 3 through 5 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following Statement 5 of this report.

Required Supplementary Information. Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule (Statement 6), the Schedule of Proportionate Share of Net Pension Liability (Statement 7), the Schedule of Pension Contributions (Statement 8) and the notes to the required supplementary information 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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the MCWD, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$60,440,158 at the close of the most recent fiscal year.

The largest part of the District's net position (52.6%) is the investment in capital assets. The investment in capital assets (e.g., land, easements, buildings, machinery and equipment) is reduced by any related debt used to acquire those assets that is still outstanding to arrive at capital assets net of related debt. The MCWD uses these capital assets to provide services throughout the watershed district; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MCWD's Summary of Net Position

	Governmental Activities		
	2025	2024	Increase (Decrease)
Assets			
Current and other assets	\$ 34,084,106	\$ 31,248,437	\$ 2,835,669
Capital assets	38,481,470	37,286,411	1,195,059
Total Assets	72,565,576	68,534,848	4,030,728
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	192,107	176,592	15,515
Liabilities			
Noncurrent liabilities outstanding	7,305,863	8,265,949	(960,086)
Other liabilities	4,335,740	4,917,682	(581,942)
Total Liabilities	11,641,603	13,183,631	(1,542,028)
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions and debt refundings	675,922	841,343	(165,421)
Net Position			
Net investment in capital assets	31,772,438	29,668,169	2,104,269
Unrestricted	28,667,720	25,018,297	3,649,423
Total Net Position	\$ 60,440,158	\$ 54,686,466	\$ 5,753,692

The remaining balance of *unrestricted net position* (\$28,667,720) may be used to meet the District's ongoing obligations.

At the end of the current fiscal year, the MCWD is able to report positive balances in both categories of net position.

Governmental Activities. Governmental activities increased in the District’s net position by \$5,753,692. Key elements of the changes are as follows:

MCWD’s Changes in Net Position

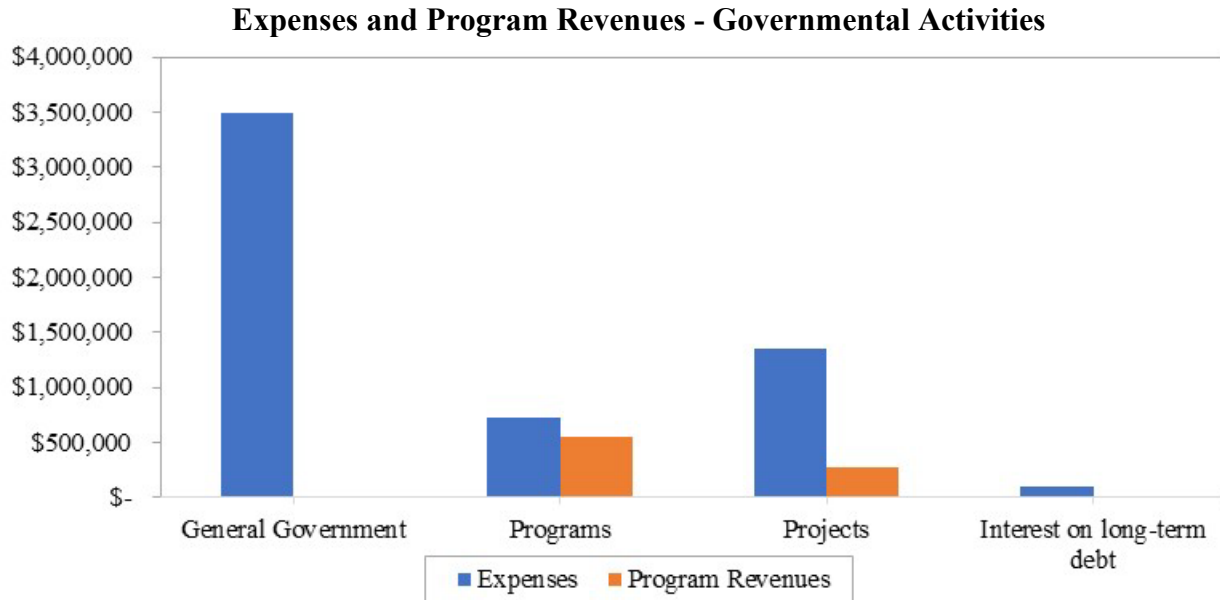
	Governmental Activities		
	2025	2024	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 111,056	\$ 66,285	\$ 44,771
Operating grants and contributions	273,336	107,431	165,905
Capital grants and contributions	440,555	197,218	243,337
General Revenues			
Taxes	9,766,126	9,730,883	35,243
Intergovernmental revenues not restricted to specific programs	-	521	(521)
Unrestricted interest earnings	772,122	786,711	(14,589)
Miscellaneous	60,586	424,948	(364,362)
Total Revenues	11,423,781	11,313,997	109,784
Expenses			
General government	3,497,390	3,180,426	316,964
Programs	724,614	967,653	(243,039)
Projects	1,348,716	967,815	380,901
Interest on long-term debt	99,369	125,406	(26,037)
Total Expenses	5,670,089	5,241,300	428,789
Change in Net Position	5,753,692	6,072,697	(319,005)
Net Position, January 1	54,686,466	48,613,769	6,072,697
Net Position, December 31	\$ 60,440,158	\$ 54,686,466	\$ 5,753,692

On the revenues side there were increases in each type of program revenues and tax revenues, with the most significant increases attributed to operating grants and capital grants. The District received funding during 2025 relating to new Watershed Based Funding grants and more LCCMR grant reimbursements than in the previous year. Additionally, miscellaneous revenue saw a decrease related to the transfer of the Lifetime funds from the surety account to the general funds account. These funds were then paid to the City of St. Louis Park for construction of the Northside Park project per the Lifetime agreement.

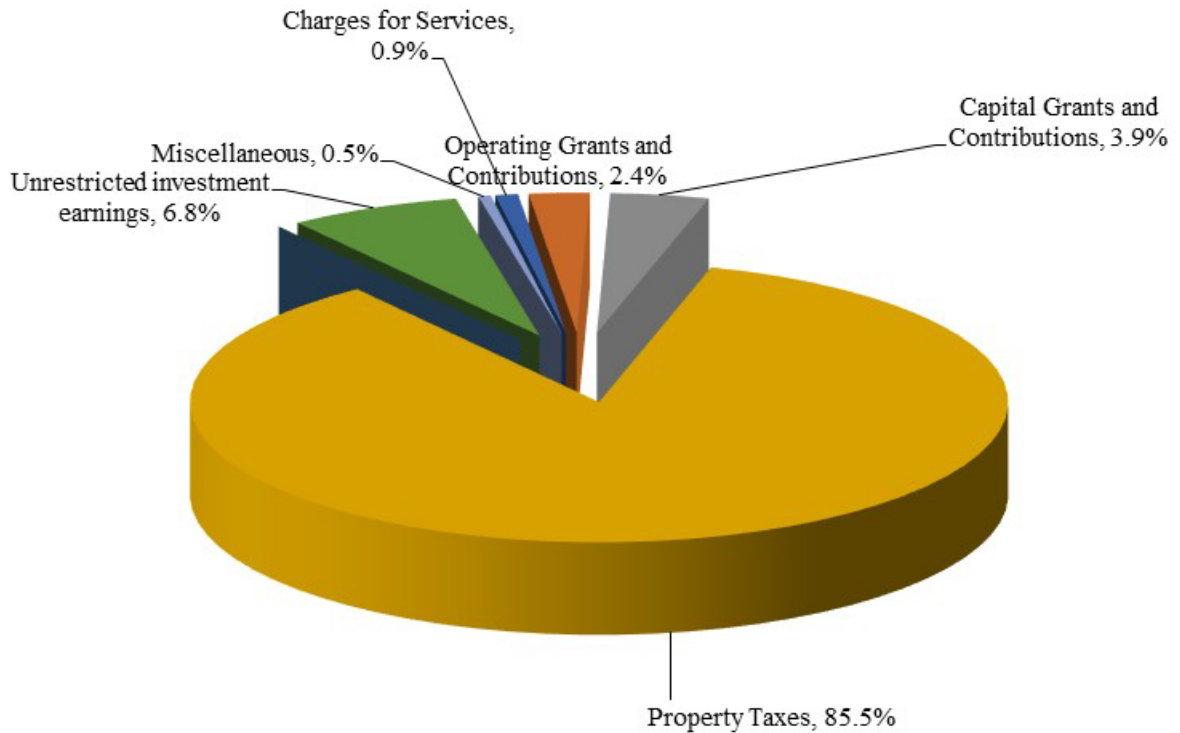
Regarding expenses, the MCWD plans and implements its large-scale capital projects on an approximate five-year timeline, which creates dynamic levy and expenditure cycles. By planning over time the levy for projected capital expenditures can be flattened to stabilize the annual levy and avoid substantial one-time increases. Planning in this manner creates income and expenditure cycles whereby capital projects take multiple years to develop prior to large construction expenses, which remain the bulk of the MCWD project costs. This cycle can and often does impact project expenses year over year. The bulk of the project expenditures in 2025 are the result of the District’s acquisition of property at 6300 Painter Road, Minnetrista MN.

General government expenses increased approximately 10% from the prior year. The largest component of the increase related to District wages and related taxes.

The following graph depicts various governmental activities and shows the program revenues and expenses directly related to those activities.



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, MCWD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The *Management Planning fund* is the operating fund for the MCWD. At the end of the current year, the fund balance of the Management Planning fund was \$31,390,123. The District's Management Planning fund balance increased \$3,333,030 during the current fiscal year. As a measure of the Management Planning fund's liquidity, it may be useful to compare assigned fund balance to total budgeted expenditures. Total assigned fund balance represents 255.1% of total 2025 expenditures.

Management Planning Fund Budgetary Highlights

The District's Management Planning fund budget reflects a \$3,532,992 fund balance decrease. Actual fund balance increased \$3,333,030 from the prior year, creating a positive variance of \$6,866,022.

Overall, revenues were over budget by \$325,186. This is largely due to investment/interest income which exceeded budgeted amount by \$322,122 due to favorable market conditions.

Expenditures overall were under budget by \$6,540,836, with \$3,538,602 in unspent project implementation funds due to on-going or delayed work on capital projects, including the MCWD's campus improvement project, 325 Blake Road Stormwater Management, and Cottageville Park Phase II.

Capital outlay expenditures were under budget by \$1,563,646 which was largely due to pond dredging budgeted costs that did not occur during 2025.

District operations and personnel and programs were under budget by \$1,035,127 primarily due to position vacancies throughout the organization.

Capital Asset and Debt Administration

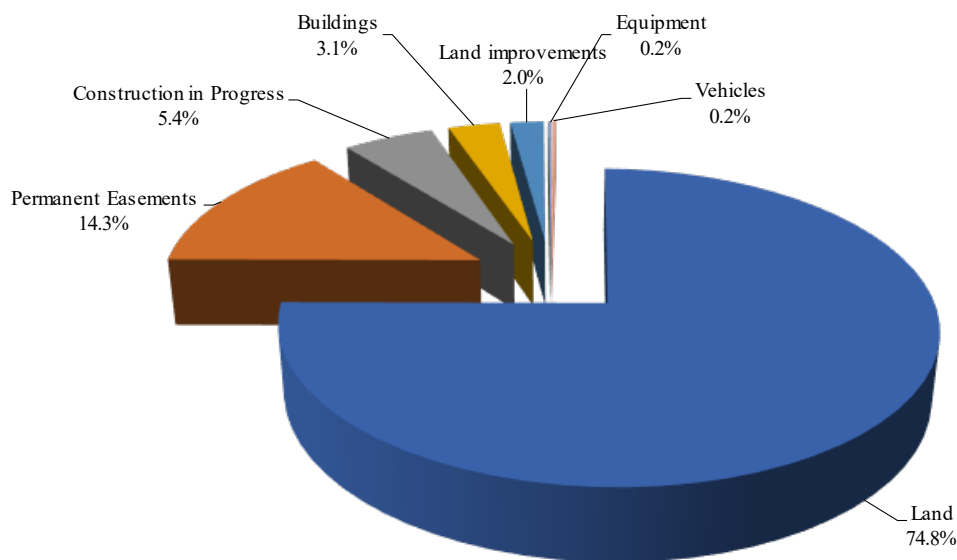
Capital Assets. The District's investment in capital assets for its governmental fund as of December 31, 2025, amounts to \$38,481,470 (net of accumulated depreciation). This investment in capital assets includes land, permanent easements, construction in progress, buildings, land improvements, furniture, equipment, and vehicles.

In 2025, the largest asset change year-over-year was \$827,992 for the purchase of a new land parcel. The District also had an increase in contracted services related to the 2D Model project, in which the expenses were largely reimbursed by LCCMR grant funds.

Additional information on the MCWD's capital assets can be found in Note 5 of this report.

MCWD's Capital Assets (Net of Depreciation)

	Governmental Activities		
	2025	2024	Increase (Decrease)
Land	\$ 28,715,113	\$ 27,887,121	\$ 827,992
Permanent Easements	5,333,620	5,333,620	-
Construction in Progress	2,476,909	2,024,436	452,473
Buildings	1,090,991	1,153,488	(62,497)
Land improvements	722,381	741,829	(19,448)
Furniture	-	-	-
Equipment	98,791	87,412	11,379
Vehicles	43,665	58,505	(14,840)
Total	\$ 38,481,470	\$ 37,286,411	\$ 1,195,059



Long-term Debt. At the end of the current fiscal year, the MCWD had total debt outstanding of \$7,305,381 for past capital improvement projects, including the debt incurred by the City of Richfield that was used to construct a storm water treatment facility.

MCWD’s Outstanding Debt

	Governmental Activities		
	2025	2024	Increase (Decrease)
Bonds and notes payable	\$ 6,023,657	\$ 6,825,535	\$ (801,878)
Due to the City of Richfield	1,281,724	1,442,654	(160,930)
Total	\$ 7,305,381	\$ 8,268,189	\$ (962,808)

The MCWD’s total debt decreased during the current fiscal year due to scheduled principal payments.

Additional information on the District’s long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year’s Budgets and Rates

The MCWD has a comprehensive budgeting process which includes review by department heads and the MCWD Board of Managers. The District considers factors such as state and county grants, cost share grants with cities, and permit fees when reviewing revenues. Expenses are monitored based on any potential staffing, equipment, project, and program needs and changes in resources.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Administrator, Minnehaha Creek Watershed District, 15320 Minnetonka Blvd, Minnetonka, MN 55345.

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BASIC FINANCIAL STATEMENTS

MINNEHAHA CREEK WATERSHED DISTRICT
STATEMENT OF NET POSITION
December 31, 2025
With Comparative Totals For December 31, 2024

Statement 1

	Governmental Activities	
	2025	2024
Assets:		
Cash and cash equivalents	\$33,423,142	\$30,756,218
Due from other governments	499,000	310,290
Prepaid items	25,534	27,773
Property taxes receivable:		
Delinquent	89,976	76,314
Due from county	46,454	77,842
Capital assets - net of accumulated depreciation:		
Nondepreciable	36,525,642	35,245,177
Depreciable	1,955,828	2,041,234
Total assets	<u>72,565,576</u>	<u>68,534,848</u>
Deferred outflows of resources related to pensions	<u>192,107</u>	<u>176,592</u>
Liabilities:		
Accounts payable	209,018	270,672
Salaries payable	15,115	13,477
Due to other governments	190,038	1,775,051
Contracts payable	82,840	82,840
Unearned revenue	1,297,234	161,088
Surety deposits payable	809,762	811,902
Accrued interest payable	19,623	22,035
Unamortized loan premiums	685,375	792,707
Compensated absences payable:		
Due within one year	34,617	25,102
Due in more than one year	311,556	225,915
Bonds and notes payable:		
Due within one year	833,988	801,878
Due in more than one year	5,189,669	6,023,657
Due to the City of Richfield:		
Due within one year	158,130	160,930
Due in more than one year	1,123,594	1,281,724
Net pension liability:		
Due in more than one year	681,044	734,653
Total liabilities	<u>11,641,603</u>	<u>13,183,631</u>
Deferred inflow of resources:		
Related to pensions	488,598	622,799
Related to debt refundings	187,324	218,544
Total deferred inflows of resources	<u>675,922</u>	<u>841,343</u>
Net position:		
Net investment in capital assets	31,772,438	29,668,169
Unrestricted	28,667,720	25,018,297
Total net position	<u>\$60,440,158</u>	<u>\$54,686,466</u>

The accompanying notes are an integral part of these financial statements.

MINNEHAHA CREEK WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2025

With Comparative Totals For the Year Ended December 31, 2024

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2025	2024
Primary government:						
Governmental activities:						
General government	\$3,497,390	\$ -	\$ -	\$ -	(\$3,497,390)	(\$3,146,067)
Programs	724,614	111,056	-	440,555	(173,003)	(704,150)
Projects	1,348,716	-	273,336	-	(1,075,380)	(894,743)
Interest on long-term debt	99,369	-	-	-	(99,369)	(125,406)
Total governmental activities	<u>\$5,670,089</u>	<u>\$111,056</u>	<u>\$273,336</u>	<u>\$440,555</u>	<u>(4,845,142)</u>	<u>(4,870,366)</u>
General revenues:						
Property taxes					9,766,126	9,730,883
Grants and contributions not restricted to specific programs					-	521
Unrestricted interest earnings					772,122	786,711
Miscellaneous other					60,586	424,948
Total general revenues					<u>10,598,834</u>	<u>10,943,063</u>
Change in net position					5,753,692	6,072,697
Net position - January 1					<u>54,686,466</u>	<u>48,613,769</u>
Net position - December 31					<u>\$60,440,158</u>	<u>\$54,686,466</u>

The accompanying notes are an integral part of these financial statements.

MINNEHAHA CREEK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2025
With Comparative Totals For December 31, 2024

Statement 3

	Management Planning Fund	
	2025	2024
Assets:		
Cash and cash equivalents	\$33,423,142	\$30,756,218
Due from other governments	499,000	310,290
Prepaid items	25,534	27,773
Property taxes receivable:		
Delinquent	89,976	76,314
Due from county	46,454	77,842
Total assets	<u>\$34,084,106</u>	<u>\$31,248,437</u>
Liabilities:		
Accounts payable	\$209,018	\$270,672
Salaries payable	15,115	13,477
Due to other governments	190,038	1,775,051
Contracts payable	82,840	82,840
Unearned revenue	1,297,234	161,088
Surety deposits payable	809,762	811,902
Total liabilities	<u>2,604,007</u>	<u>3,115,030</u>
Deferred inflows of resources:		
Unavailable revenue	<u>89,976</u>	<u>76,314</u>
Fund balance:		
Nonspendable	25,534	27,773
Committed	10,752,163	8,362,897
Assigned	20,612,426	19,666,423
Total fund balance	<u>31,390,123</u>	<u>28,057,093</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$34,084,106</u>	<u>\$31,248,437</u>
Fund balance reported above	\$31,390,123	\$28,057,093
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,481,470	37,286,411
Deferred outflows of resources related to pensions are not current financial resources and, therefore, are not reported in the funds.	192,107	176,592
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(9,037,596)	(10,068,601)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	89,976	76,314
Deferred inflows of resources related to pensions and debt refundings are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(675,922)</u>	<u>(841,343)</u>
Net position of governmental activities	<u>\$60,440,158</u>	<u>\$54,686,466</u>

The accompanying notes are an integral part of these financial statements.

MINNEHAHA CREEK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2025
With Comparative Totals For the Year Ended December 31, 2024

Statement 4

	Management Planning Fund	
	2025	2024
Revenues:		
General property taxes	\$9,752,464	\$9,830,773
Intergovernmental - other	716,411	270,811
Permits	111,056	66,285
Interest earnings	772,122	786,711
Other	60,586	424,948
Total revenues	<u>11,412,639</u>	<u>11,379,528</u>
Expenditures:		
Current:		
General government	3,513,696	3,189,773
Programs	1,169,820	936,145
Projects	1,324,060	593,214
Debt service:		
Principal	962,808	938,502
Interest	240,333	266,290
Capital outlay	868,892	690,312
Total expenditures	<u>8,079,609</u>	<u>6,614,236</u>
Revenues over (under) expenditures	<u>3,333,030</u>	<u>4,765,292</u>
Other financing sources (uses):		
Transfers in	6,005,757	4,820,673
Transfers out	(6,005,757)	(4,820,673)
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balance	3,333,030	4,765,292
Fund balance - January 1	<u>28,057,093</u>	<u>23,291,801</u>
Fund balance - December 31	<u><u>\$31,390,123</u></u>	<u><u>\$28,057,093</u></u>

The accompanying notes are an integral part of these financial statements.

MINNEHAHA CREEK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS

Statement 5

For The Year Ended December 31, 2025

With Comparative Totals For the Year Ended December 31, 2024

	<u>2025</u>	<u>2024</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$3,333,030	\$4,765,292
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay capitalized	868,892	690,312
Capital outlay not capitalized	-	(348,903)
Current expenditures capitalized	465,172	-
Depreciation expense	(139,005)	(154,797)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in delinquent property taxes	13,662	(99,890)
The issuance of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Loan principal repayments	801,878	779,822
Due to the City of Richfield repayments	160,930	158,680
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. Changes in these expense accruals are as follows:		
Change in accrued interest payable	2,412	2,332
Amortization of bond premium	107,332	107,332
Amortization of deferred inflows related to debt refundings	31,220	31,220
Change in compensated absences payable	(95,156)	(17,649)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities. This is the amount by which pension expense differed from pension contributions:		
Pension contributions	\$151,146	
Pension expense	52,179	
	<u>203,325</u>	<u>158,946</u>
Change in net position of governmental activities (Statement 2)	<u>\$5,753,692</u>	<u>\$6,072,697</u>

The accompanying notes are an integral part of these financial statements.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Minnehaha Creek Watershed District conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

Minnehaha Creek Watershed District (the District) was created in 1967 under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District is operated by a seven member Board of Managers appointed by the Hennepin and Carver County Boards of Commissioners for three year terms. Approximately 145 square miles of the District is in Hennepin County, while 30 square miles is in Carver County. The District includes all or part of 27 cities and 2 townships. In accordance with Governmental Accounting Standards Board (GASB) pronouncements and generally accepted accounting principles, the financial statements of the reporting entity should include the primary government and its component units. The District (primary government) does not have any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*. There are no business-type activities, which rely to a significant extent on fees and charges for services.

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 revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental fund:

Management Planning Fund - was established for the preparation of an overall plan for projects and improvements, and for projects and improvements to implement the approved plan. As authorized by Minnesota Statutes, Section 103B.241, the fund collects an ad valorem tax levy. Exhibit 1 shows the breakdown between projects.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide 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. Property taxes are recognized as revenues in the year for which they are levied. 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

MINNEHAHA CREEK WATERSHED DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2025

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. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be 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 District.

D. BUDGETARY DATA

The Board of Managers adopts a budget for the Management Planning Fund on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

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

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.

E. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the county in October (levy/assessment date) of each year for collection in the following year. The county is responsible for billing and collecting all property taxes for itself, the city, the local school district and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the county and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The county possesses this authority.

In the government-wide financial statements, property tax revenue is recognized in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

In the governmental fund financial statements, property tax revenue is recognized when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the county by December 31 (remitted to the District the following January) are classified as due from county. Taxes not collected by the county by December 31 are classified as delinquent taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

F. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

G. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. The District does not maintain material amounts of inventories of goods and supplies.

H. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets, and intangible assets such as easements, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings, structures and land improvements	30 years
Equipment	5 years
Vehicles	5 years
Furniture	5 years

I. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and accumulated sick leave benefits that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid is accrued in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net assets that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The District has one item that qualifies for reporting in this category. It is the pension related deferred outflows of resources reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net assets that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. They are the pension related deferred inflows of resources and the unamortized gain from a bond refunding transaction. The District also has a type of item,

which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from delinquent property taxes receivable.

L. DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to and deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. 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 Board.

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

Unassigned - is the residual classification for a general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the Board'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 Board's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

N. 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.

O. COMPARATIVE TOTALS

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2024, from which the summarized information was derived.

P. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The detail of this (\$9,037,596) difference is as follows:

Bonds and notes payable	\$6,023,657
Unamortized loan premium	685,375
Accrued interest payable	19,623
Compensated absences	346,173
Due to the City of Richfield	1,281,724
Net pension liability	<u>681,044</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$9,037,596</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains its deposits at depository banks authorized by the Board of Managers. All such banks 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. Securities pledged as collateral are required to be held in safekeeping by the District or in a financial institution other than that furnishing the collateral. Minnesota Statute 118A.03 identifies allowable forms of collateral.

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. At December 31, 2025, the carrying amount of the District’s deposits was \$33,423,142 and the bank balance was \$33,521,672. The entire bank balance was covered by federal depository insurance, surety bonds or perfected collateral held by the District’s agent in the District’s name.

B. INVESTMENTS

Subject to rating, yield, maturity and issuer requirements as prescribed by statute, Minnesota Statutes 118A.04 and 118A.05 authorize the District to invest in United States securities, state and local securities, commercial paper, time deposits, temporary general obligation bonds, repurchase agreements, Minnesota joint powers investment trust and guaranteed investment contracts.

The District did not invest in any of the above listed investments during 2025.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2025 are as follows:

	Delinquent Property Taxes
Management Planning Fund	<u>\$45,000</u>

Note 4 UNAVAILABLE REVENUES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	Delinquent Property Taxes
Management Planning Fund	<u>\$89,976</u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$2,024,436	\$452,473	\$ -	\$2,476,909
Land	27,887,121	827,992	-	28,715,113
Permanent easements	5,333,620	-	-	5,333,620
Total capital assets, not being depreciated	<u>35,245,177</u>	<u>1,280,465</u>	<u>-</u>	<u>36,525,642</u>
Capital assets, being depreciated:				
Buildings and improvements	1,874,912	-	-	1,874,912
Land improvements	793,114	-	-	793,114
Furniture	137,836	-	-	137,836
Equipment	538,605	53,599	(14,847)	577,357
Vehicles	262,515	-	-	262,515
Total capital assets, being depreciated	<u>3,606,982</u>	<u>53,599</u>	<u>(14,847)</u>	<u>3,645,734</u>
Less accumulated depreciation for:				
Buildings and improvements	721,424	62,497	-	783,921
Land improvements	51,285	19,448	-	70,733
Furniture	137,836	-	-	137,836
Equipment	451,193	42,220	(14,847)	478,566
Vehicles	204,010	14,840	-	218,850
Total accumulated depreciation	<u>1,565,748</u>	<u>139,005</u>	<u>(14,847)</u>	<u>1,689,906</u>
Total capital assets being depreciated - net	<u>2,041,234</u>	<u>(85,406)</u>	<u>-</u>	<u>1,955,828</u>
Governmental activities capital assets - net	<u>\$37,286,411</u>	<u>\$1,195,059</u>	<u>\$ -</u>	<u>\$38,481,470</u>

Depreciation expense was charged to function/programs of the District as follows:

Governmental activities:	
General government	\$94,383
Program	19,966
Projects	24,656
Total	<u>\$139,005</u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

Note 6 LONG TERM DEBT

Proceeds from long-term debt were used to provide funds for the acquisition of land and buildings. The District also agreed to service the debt of the City of Richfield that was used to construct a storm water treatment facility.

As of December 31, 2025, the long-term debt of the District consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/2025
Direct borrowings:					
Bonds and notes payable:					
2013B Hennepin Co bonds	2.00 - 3.00%	06/01/2013	12/01/2032	\$7,075,000	\$2,895,000
2019 Bremer Bank note	2.56%	11/01/2019	11/01/2034	1,300,000	838,657
2020B Hennepin Co bonds	5.00%	09/24/2020	12/01/2031	3,825,000	2,290,000
Due to the City of Richfield		03/21/2013	02/1/2033	3,455,258	1,281,724
				<u>15,655,258</u>	<u>7,305,381</u>
Compensated absences payable					<u>346,173</u>
Total District indebtedness				<u>\$15,655,258</u>	<u>\$7,651,554</u>

	2013B Hennepin Co Bonds		2019 Bremer Bank Note		2020B Hennepin Co Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$385,000	\$78,038	\$83,988	\$20,935	\$365,000	\$114,500
2027	390,000	69,375	86,152	18,772	380,000	96,250
2028	400,000	60,600	88,371	16,552	405,000	77,250
2029	410,000	51,600	90,648	14,275	420,000	57,000
2030	425,000	39,300	92,983	11,940	445,000	36,000
2031-2034	885,000	40,050	396,515	23,178	275,000	13,750
Total	<u>\$2,895,000</u>	<u>\$338,963</u>	<u>\$838,657</u>	<u>\$105,652</u>	<u>\$2,290,000</u>	<u>\$394,750</u>

According to the terms of the loan agreement between the District and Bremer Bank, in the event of default (as defined in the loan agreement) the outstanding unpaid principal balance of the note and any accrued interest thereon shall automatically become immediately due and payable.

During 2013, the District entered into a cooperative agreement with the City of Richfield. The agreement called for the City to finance and design a regional storm water treatment facility. The City issued bonds in the amount of \$2,770,000 to finance the construction, which per the agreement, the District agreed to service. The agreement requires the District to cover the annual debt service payments, both principal and interest.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

Total amount due to the City of Richfield at December 31, 2025 was as follows:

<u>Due to the City of Richfield</u>	
2026	\$158,130
2027	160,280
2028	162,330
2029	159,330
2030	157,005
2031-2034	<u>484,649</u>
Total	<u><u>\$1,281,724</u></u>

It is not practicable to determine the specific year for payment of long-term accrued compensated absences.

DEFERRED INFLOW OF RESOURCES RELATED TO DEBT REFUNDINGS

During 2020, Hennepin County and the City of Richfield issued refunding bonds associated with the District’s debt. As a result of the refunding transactions, the District recorded a deferred inflow of resources on its statement of net position equal to the difference between the reacquisition price and the net carrying amount of the old debt. The deferred inflow will be amortized through the year 2031, resulting in a reduction to interest expense of \$31,220 per year.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2025 was as follows:

	<u>Balance</u> <u>01/01/25</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2025</u>	<u>Due Within</u> <u>One Year</u>
Direct borrowings:					
2013B Hennepin County bonds	\$3,270,000	\$ -	(\$375,000)	\$2,895,000	\$385,000
2019 Bremer Bank note	920,535	-	(81,878)	838,657	83,988
2020B Hennepin County bonds	2,635,000	-	(345,000)	2,290,000	365,000
Due to City of Richfield - 2020B	1,442,654	-	(160,930)	1,281,724	158,130
Compensated absences *	<u>251,017</u>	<u>95,156</u>	<u>-</u>	<u>346,173</u>	<u>34,617</u>
Total	<u><u>\$8,519,206</u></u>	<u><u>\$95,156</u></u>	<u><u>(\$962,808)</u></u>	<u><u>\$7,651,554</u></u>	<u><u>\$1,026,735</u></u>

* The change in the compensated absences liability is presented as a net change.

Note 7 DEFINED BENEFIT PENSION PLAN

A. PLAN DESCRIPTION

The District participates in the General Employees Retirement Plan (General Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). Plan provisions are established and administered according to Minnesota Statutes, Chapters 353, 353D, 353E, 353G and 356. Minnesota Statutes Chapter 356 defines each plan’s financial reporting requirements. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

MINNEHAHA CREEK WATERSHED DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2025

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

B. 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. When a member is “vested,” they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

The General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989 receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first ten years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of the highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by 0.25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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. 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 prorated increase.

C. CONTRIBUTIONS

Minnesota Statutes Chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.50% for General Plan members. The District’s contributions to the General Employees Fund for the year ended December 31, 2025, were \$151,146. The District’s contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

At December 31, 2025, the District reported a liability of \$681,044 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.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

The State of Minnesota’s proportionate share of the net pension liability associated with the District totaled \$16,429.

District’s proportionate share of the net pension liability	\$681,044
State of Minnesota’s proportionate share of the net pension liability associated with the District	<u>16,429</u>
Total	<u><u>\$697,473</u></u>

The net pension liability was measured as of June 30, 2025, 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 proportion 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, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA’s participating employers. The District’s proportionate share was 0.0206% at the end of the measurement period and 0.0199% for the beginning of the period.

For the year ended December 31, 2025, the District recognized pension expense of (\$52,179) for its proportionate share of the General Plan’s pension expense. In addition, the District recognized an additional (\$2,520) 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.

At December 31, 2025, the District reported General Employees Fund deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$65,036	\$ -
Changes in actuarial assumptions	16,409	158,358
Net difference between projected and actual earnings on pension plan investments	-	271,147
Changes in proportion	33,697	59,093
Employer contributions subsequent to the measurement date	<u>76,965</u>	<u>-</u>
Total	<u><u>\$192,107</u></u>	<u><u>\$488,598</u></u>

The \$76,965 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, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2026	(\$89,871)
2027	(149,921)
2028	(85,257)
2029	(48,407)
2030	-
Thereafter	-

The net pension liability will be liquidated by the Management Planning Fund.

E. ACTUARIAL METHODS AND ASSUMPTIONS

The total pension liability for the cost-sharing defined benefit plan was determined by an actuarial valuation as of June 30, 2025, using the entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25% per year
Investment Rate of Return	7.00%

The long-term investment rate of return is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7.00% is within that range.

Benefit increases after retirement are assumed to be 1.50% for the General Plan.

Salary growth assumptions in the General Plan range in annual increments from 11.50% after one year of service to 3.00% after 27 years of service.

Mortality rates for the General Plan are based on the Pub-2010 General Employee Mortality Table. The table is adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Plan are reviewed every four years. The General Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.50%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1.00% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.50%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1.00% and 1.50%.
- The 1.00% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

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	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	25.0%	5.90%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2025 was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Plan was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY SENSITIVITY

The following presents the District’s proportionate share of the net pension liability, 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 one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Proportionate share of the General Plan net pension liability	\$1,654,148	\$681,044	(\$108,363)

H. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the 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 at www.mnpera.org.

Note 8 CONTINGENCIES

The District has indicated that any existing or pending lawsuits, claims or other actions in which the District is a defendant are either covered by insurance; of an immaterial amount; or, in the judgement of the District, remotely recoverable by plaintiffs.

Note 9 FUND BALANCE CLASSIFICATIONS

At December 31, 2025, fund balance classifications for the Management Planning Fund are as follows:

	<u>Fund Balance</u>
Nonspendable - prepaid items	\$25,534
Committed for water management	10,752,163
Assigned for water management	<u>20,612,426</u>
 Total	 <u><u>\$31,390,123</u></u>

Note 10 FEDERAL AND STATE ASSISTED PROGRAMS - COMPLIANCE AUDITS

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2025.

Note 11 RISK MANAGEMENT

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The District pays an annual premium to LMCIT and is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. The District's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The District pays an annual premium to the LMCIT and is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The District retains risk for the deductible portions. Deductibles are considered immaterial to the financial statements.

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

Note 12 COMMITTED CONTRACTS

At December 31, 2025, the District had commitments of \$201,383 for uncompleted construction contracts.

Note 13 RECLASSIFICATION

Since 2006, the District has reported a liability to the City of Minneapolis (the City) in the amount of \$1,006,382 relating to a project that never materialized. Prior to 2025, the liability was classified as *due to other governments*. In 2024, the District entered into a Cooperative Agreement with the City and the Minneapolis Park and Recreation Board (MPRB) in which the City and MPRB will reimburse the District for their share of certain project costs.

The City's share of project costs is being applied towards the \$1,006,382 liability. Because the District no longer anticipates returning these funds to the City, the amount has been reclassified as *unearned revenue* within the financial statements. As of December 31, 2025, the balance of unearned revenue relating to this agreement was \$955,322.

Note 14 RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 103 *Financial Reporting Model Improvements*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2025.

Statement No. 104 *Disclosure of Certain Capital Assets*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2025.

Statement No. 105 *Subsequent Events*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2026.

The effect these standards may have on future financial statements is not determinable at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND
For The Year Ended December 31, 2025
With Comparative Actual Amounts For The Year Ended December 31, 2024

Statement 6

	Budgeted Amounts		2025 Actual Amounts	Variance with Final Budget - Positive (Negative)	2024 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$9,869,513	\$9,869,513	\$9,752,464	(\$117,049)	\$9,830,773
Intergovernmental - other	692,940	692,940	716,411	23,471	270,811
Permits	75,000	75,000	111,056	36,056	66,285
Interest earnings	450,000	450,000	772,122	322,122	786,711
Other	-	-	60,586	60,586	424,948
Total revenues	<u>11,087,453</u>	<u>11,087,453</u>	<u>11,412,639</u>	<u>325,186</u>	<u>11,379,528</u>
Expenditures:					
Current:					
General government:					
District operations and personnel	4,548,823	4,548,823	3,513,696	1,035,127	3,189,773
Programs	1,573,281	1,573,281	1,169,820	403,461	936,145
Projects	4,662,662	4,862,662	1,324,060	3,538,602	593,214
Debt service	1,203,141	1,203,141	1,203,141	-	1,204,792
Capital outlay	2,432,538	2,432,538	868,892	1,563,646	690,312
Total expenditures	<u>14,420,445</u>	<u>14,620,445</u>	<u>8,079,609</u>	<u>6,540,836</u>	<u>6,614,236</u>
Revenues over (under) expenditures	<u>(3,332,992)</u>	<u>(3,532,992)</u>	<u>3,333,030</u>	<u>6,866,022</u>	<u>4,765,292</u>
Other financing sources (uses):					
Transfers in	-	-	6,005,757	6,005,757	4,820,673
Transfers out	-	-	(6,005,757)	(6,005,757)	(4,820,673)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(\$3,332,992)</u>	<u>(\$3,532,992)</u>	<u>3,333,030</u>	<u>\$6,866,022</u>	<u>4,765,292</u>
Fund balance - January 1			<u>28,057,093</u>		<u>23,291,801</u>
Fund balance - December 31			<u>\$31,390,123</u>		<u>\$28,057,093</u>

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY -
 GENERAL EMPLOYEES RETIREMENT FUND
 For The Last Ten Years

Measurement Date June 30	Fiscal Year Ending December 31	District's Proportionate (Percentage) of the Net Pension Liability	District's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)	Covered Payroll (c)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	2016	0.0277%	\$2,249,103	\$29,414	\$2,278,517	\$1,690,960	134.7%	68.9%
2017	2017	0.0243%	1,551,296	19,498	1,570,794	1,564,790	100.4%	75.9%
2018	2018	0.0228%	1,264,851	41,581	1,306,432	1,533,239	85.2%	79.5%
2019	2019	0.0220%	1,216,331	37,832	1,254,163	1,554,991	80.7%	80.2%
2020	2020	0.0229%	1,372,960	42,326	1,415,286	1,632,352	86.7%	79.1%
2021	2021	0.0233%	995,014	30,371	1,025,385	1,677,075	61.1%	87.0%
2022	2022	0.0216%	1,710,727	50,078	1,760,805	1,614,630	109.1%	76.7%
2023	2023	0.0217%	1,213,440	33,453	1,246,893	1,727,814	72.2%	83.1%
2024	2024	0.0199%	734,653	18,997	753,650	1,681,872	44.8%	89.1%
2025	2025	0.0206%	681,044	16,429	697,473	1,861,281	37.5%	90.8%

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS -
GENERAL EMPLOYEES RETIREMENT FUND
For The Last Ten Years

Statement 8

Fiscal Year Ending December 31	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2016	\$121,071	\$121,071	\$ -	\$1,614,270	7.5%
2017	118,539	118,539	-	1,580,527	7.5%
2018	114,075	114,075	-	1,521,002	7.5%
2019	121,394	121,394	-	1,618,594	7.5%
2020	123,495	123,495	-	1,646,432	7.5%
2021	125,153	125,153	-	1,668,710	7.5%
2022	126,575	126,575	-	1,687,118	7.5%
2023	124,892	124,892	-	1,665,212	7.5%
2024	130,174	130,174	-	1,735,653	7.5%
2025	151,146	151,146	-	2,015,285	7.5%

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2025

Note A LEGAL COMPLIANCE – BUDGETS

The Management Planning Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the Management Planning Fund.

Note B PENSION INFORMATION

PERA – General Employees Retirement Fund

2025 Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.50%.

2025 Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1.00% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.50%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1.00% and 1.50%.
- The 1.00% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

2024 Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

2023 Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million was contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2025

2022 Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- 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% 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 years 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% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2020 Changes in Plan Provisions:

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

2019 Changes in Actuarial Assumptions:

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

2019 Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 Changes in Actuarial Assumptions:

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

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2025

2018 Changes in Plan Provisions:

- 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%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Annual increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90% funding ratio to 50% of the Social Security Cost-of-Living Adjustment, not less than 1.00% and not more than 1.50%, 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 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability, and 3.00% for non-vested deferred member liability.
- The assumed annual increase rate was changed from 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter.

2017 Changes in Plan Provisions:

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16 million in 2017 and 2018 and \$6 million thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21 million to \$31 million in calendar years 2019 to 2031. The State's contribution changed from \$16 million to \$6 million in calendar years 2019 to 2031.

2016 Changes in Actuarial Assumptions:

- The assumed annual benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

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SUPPLEMENTARY FINANCIAL INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2025

	1002 General Operations	1003 Information Technology	1005 Facility CIP	2001 Permit Administration
Revenues:				
General property taxes	\$740,915	\$241,000	\$598,372	\$850,663
Intergovernmental - other	-	-	-	-
Permits	-	-	-	111,056
Interest earnings	772,122	-	-	-
Other	1,083	-	-	-
Total revenues	<u>1,514,120</u>	<u>241,000</u>	<u>598,372</u>	<u>961,719</u>
Expenditures:				
General government:				
District operations and personnel	1,083,912	219,477	484	324,828
Programs	-	-	-	366,012
Projects	-	-	649	-
Debt service:				
Principal	81,878	-	-	-
Interest	23,045	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>1,188,835</u>	<u>219,477</u>	<u>1,133</u>	<u>690,840</u>
Revenues over (under) expenditures	<u>325,285</u>	<u>21,523</u>	<u>597,239</u>	<u>270,879</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(870,369)	(31,754)	(597,239)	(240,965)
Total other financing sources (uses)	<u>(870,369)</u>	<u>(31,754)</u>	<u>(597,239)</u>	<u>(240,965)</u>
Net change in fund balance	(545,084)	(10,231)	-	29,914
Fund balance - January 1	<u>682,369</u>	<u>25,254</u>	<u>-</u>	<u>240,965</u>
Fund balance - December 31	<u><u>\$137,285</u></u>	<u><u>\$15,023</u></u>	<u><u>\$ -</u></u>	<u><u>\$270,879</u></u>

2002 Planning & Projects	2003 Project Maintenance & Land Management	2004 Debt Service	2008 Policy Planning	3001 Capital Finance
\$1,031,505	\$677,441	\$1,098,218	\$643,884	\$ -
-	-	-	-	72,209
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>1,031,505</u>	<u>677,441</u>	<u>1,098,218</u>	<u>643,884</u>	<u>72,209</u>
575,053	116,907	-	474,695	-
-	-	-	-	72,209
395,557	306,058	1,243	57,088	-
-	-	880,930	-	-
-	-	217,288	-	-
-	25,610	-	-	827,992
<u>970,610</u>	<u>448,575</u>	<u>1,099,461</u>	<u>531,783</u>	<u>900,201</u>
60,895	228,866	(1,243)	112,101	(827,992)
-	-	-	-	2,788,664
(153,909)	(261,880)	-	(186,228)	(1,688,354)
<u>(153,909)</u>	<u>(261,880)</u>	<u>-</u>	<u>(186,228)</u>	<u>1,100,310</u>
(93,014)	(33,014)	(1,243)	(74,127)	272,318
<u>153,909</u>	<u>234,088</u>	<u>547,014</u>	<u>186,228</u>	<u>14,505,897</u>
<u>\$60,895</u>	<u>\$201,074</u>	<u>\$545,771</u>	<u>\$112,101</u>	<u>\$14,778,215</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2025

	3002 Pond Dredging	3003 Cedar Meadows Pond	3103 Minneapolis Capital Projects	3145 Blake Road Stormwater Management
Revenues:				
General property taxes	\$17,534	\$ -	\$ -	\$1,605,863
Intergovernmental - other	-	-	-	-
Permits	-	-	-	-
Interest earnings	-	-	-	-
Other	-	-	51,060	-
Total revenues	<u>17,534</u>	<u>-</u>	<u>51,060</u>	<u>1,605,863</u>
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	15,550	-	51,060	29,957
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>15,550</u>	<u>-</u>	<u>51,060</u>	<u>29,957</u>
Revenues over (under) expenditures	<u>1,984</u>	<u>-</u>	<u>-</u>	<u>1,575,906</u>
Other financing sources (uses):				
Transfers in	-	787,900	-	-
Transfers out	-	-	-	(1,515,987)
Total other financing sources (uses)	<u>-</u>	<u>787,900</u>	<u>-</u>	<u>(1,515,987)</u>
Net change in fund balance	1,984	787,900	-	59,919
Fund balance - January 1	<u>1,033,611</u>	<u>-</u>	<u>-</u>	<u>2,962,244</u>
Fund balance - December 31	<u>\$1,035,595</u>	<u>\$787,900</u>	<u>\$ -</u>	<u>\$3,022,163</u>

3146 Cottageville Park	3150 Meadowbrook Golf Course	3152 SWLRT Trail Connection	3155 Minneapolis Stormwater Mgmt	3158 Turbid-Lunsten Wetland Restoration	3159 County Round 6 Pond Retrofit	3160 East Auburn Wetland Restoration
\$ -	\$ -	\$293,535	\$ -	\$150,000	\$203,614	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	293,535	-	150,000	203,614	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
30,391	-	95,179	-	-	58,370	79,311
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	1,200	5,647
30,391	-	95,179	-	-	59,570	84,958
(30,391)	-	198,356	-	150,000	144,044	(84,958)
-	2,257,572	-	-	-	-	-
-	-	-	-	-	(13,885)	-
-	2,257,572	-	-	-	(13,885)	-
(30,391)	2,257,572	198,356	-	150,000	130,159	(84,958)
1,385,728	-	189,169	2,999,993	730,624	445,422	510,963
\$1,355,337	\$2,257,572	\$387,525	\$2,999,993	\$880,624	\$575,581	\$426,005

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2025

	3501 Morningside Ravine Stabilization	3502 Holbrook Park Regional Stormwater	3503 Northside Park Project (Lifetime)	3504 Calvary Church Stormwater Management
Revenues:				
General property taxes	\$ -	\$ -	\$ -	\$125,000
Intergovernmental - other	172,153	31,494	-	-
Permits	-	-	-	-
Interest earnings	-	-	-	-
Other	-	-	8,443	-
Total revenues	<u>172,153</u>	<u>31,494</u>	<u>8,443</u>	<u>125,000</u>
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	172,153	31,494	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	8,443	-
Total expenditures	<u>172,153</u>	<u>31,494</u>	<u>8,443</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Other financing sources (uses):				
Transfers in	171,621	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>171,621</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	171,621	-	-	125,000
Fund balance - January 1	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>-</u>
Fund balance - December 31	<u><u>\$171,621</u></u>	<u><u>\$400,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$125,000</u></u>

4001 Stewardship Grant Program	4002 Outreach	4005 Cost Share Program	5001 Research & Monitoring	5008 LCCMR	Total All Projects
\$ -	\$470,817	\$ -	\$1,004,103	\$ -	\$9,752,464
-	-	-	-	440,555	716,411
-	-	-	-	-	111,056
-	-	-	-	-	772,122
-	-	-	-	-	60,586
-	470,817	-	1,004,103	440,555	11,412,639
-	316,404	-	401,936	-	3,513,696
-	71,677	-	219,367	440,555	1,169,820
-	-	-	-	-	1,324,060
-	-	-	-	-	962,808
-	-	-	-	-	240,333
-	-	-	-	-	868,892
-	388,081	-	621,303	440,555	8,079,609
-	82,736	-	382,800	-	3,333,030
-	-	-	-	-	6,005,757
-	(154,082)	-	(291,105)	-	(6,005,757)
-	(154,082)	-	(291,105)	-	-
-	(71,346)	-	91,695	-	3,333,030
8,129	118,582	405,799	291,105	-	28,057,093
\$8,129	\$47,236	\$405,799	\$382,800	\$ -	\$31,390,123

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OTHER INFORMATION SECTION - UNAUDITED

MINNEHAHA CREEK WATERSHED DISTRICT
MARKET VALUES BY WATERSHED - UNAUDITED

For Taxes Payable in 2025

Watershed	Estimated Market Value		
	Personal	Real	Total
1 Nine Mile Creek	\$53,462,300	\$28,155,128,900	\$28,208,591,200
2 Elm Creek WMO	167,573,700	23,732,492,200	23,900,065,900
3 Lower MN River	762,112,200	5,257,559,800	6,019,672,000
4 Minnehaha Creek	192,079,500	72,852,332,700	73,044,412,200
5 Riley Purgatory	75,052,600	15,822,592,400	15,897,645,000
6 Rice Creek	1,208,900	251,749,800	252,958,700
7 Middle WMO	134,654,500	39,549,766,600	39,684,421,100
8 Bassett Creek	84,599,900	21,426,017,800	21,510,617,700
9 Shingle Creek	63,664,500	21,149,133,100	21,212,797,600
10 West Mississippi Watershed	34,018,400	10,591,501,200	10,625,519,600
County total	<u>\$1,568,426,500</u>	<u>\$238,788,274,500</u>	<u>\$240,356,701,000</u>

Source: Hennepin County Taxpayer Services - Property Tax - Tax Accounting

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
\$53,462,300	\$27,745,419,116	\$27,798,881,416	\$53,462,300	\$27,744,011,575	\$27,797,473,875
167,573,700	23,382,150,929	23,549,724,629	167,573,700	23,154,032,600	23,321,606,300
762,112,200	5,142,363,788	5,904,475,988	704,244,500	5,190,312,900	5,894,557,400
192,079,500	71,927,287,572	72,119,367,072	192,079,500	71,085,480,225	71,277,559,725
75,052,600	15,612,816,451	15,687,869,051	75,052,600	15,665,506,350	15,740,558,950
1,208,900	248,051,243	249,260,143	1,208,900	250,999,800	252,208,700
134,654,500	38,807,925,141	38,942,579,641	120,230,800	37,980,234,650	38,100,465,450
84,599,900	20,999,653,438	21,084,253,338	84,599,900	21,146,934,200	21,231,534,100
63,664,500	20,359,509,669	20,423,174,169	63,664,500	20,694,555,250	20,758,219,750
34,018,400	10,239,496,270	10,273,514,670	34,018,400	10,395,082,100	10,429,100,500
<u>\$1,568,426,500</u>	<u>\$234,464,673,617</u>	<u>\$236,033,100,117</u>	<u>\$1,496,135,100</u>	<u>\$233,307,149,650</u>	<u>\$234,803,284,750</u>

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OTHER REQUIRED REPORTS

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REPORT ON INTERNAL CONTROL

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District as of and for the year ended December 31, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered Minnehaha Creek Watershed District's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnehaha Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnehaha Creek Watershed District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Board of Managers, management, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, LLC

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

April 17, 2026



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MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Minnehaha Creek Watershed District's basic financial statements, and have issued our report thereon dated April 17, 2026.

In connection with our audit, nothing came to our attention that caused us to believe that Minnehaha Creek Watershed District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public 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 Minnesota Statute § 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 Minnehaha Creek Watershed District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of Minnehaha Creek Watershed District and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, LLC

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

April 17, 2026



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District for the year ended December 31, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 5, 2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Minnehaha Creek Watershed District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2025. We noted no transactions entered into by Minnehaha Creek Watershed District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements are estimates used to calculate the net pension liability, pension related deferred outflows and inflows of resources, and pension expense. These estimates are based on actuarial studies. We evaluated the methods, assumptions, and data used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Determining sensitivity is subjective, however, we believe the disclosures most likely to be considered sensitive are Note 6 – Long Term Debt and Note 7 – Defined Benefit Pension Plan.

The financial statement disclosures are neutral, consistent, and clear.



Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 17, 2026.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Minnehaha Creek Watershed District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Minnehaha Creek Watershed District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

User Restrictions within SmartSheets

During our audit procedures, we performed a walkthrough of the District's use of SmartSheets as it relates to invoice management. The walkthrough identified that there are currently no user restrictions over who can add or edit data, including who can upload invoices, edit invoice documentation, and sign off as reviewer of an invoice. SmartSheets does create an activity log that identifies changes made by each user, however, this activity log sheet is lengthy and is not monitored on a regular basis. Compensating internal controls are the Board Treasurer's review of invoices and the Board of Managers review and approval of the check register at each month's board meeting.

We recommend the District work with SmartSheets to establish specific user restrictions based on each user's job position and their needs within SmartSheets.

Interest Earnings

Because all District funds are currently maintained in depository accounts, interest earnings are limited. We recommend the District invest a portion of its available funds to improve earnings while maintaining adequate liquidity and safety.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedule, and schedules of pension information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of revenues and expenditures by program/project, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and other information sections, which accompany the financial statements but are not RSI. Such information has not been subjected to 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 Reports

Various reports on compliance and internal controls are contained in the Other Required Reports section of the audited financial statement document.

Restriction on Use

This information is intended solely for the information and use of the Board of Managers and management of Minnehaha Creek Watershed District and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, LLC

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

April 17, 2026