Minnehaha Creek Watershed District ***REQUEST FOR BOARD ACTION***

MEETING DATE: April 12, 2018

TITLE: Acceptance of 2017 Annual Financial Report

RESOLUTION NUMBER: 18-036

PREPARED BY: Cathy Reynolds

E-MAIL: creynolds@minnehahacreek.org **TELEPHONE:** 952-641-4503

REVIEWED BY: ☒Administrator ☐ Counsel ☐ Program Mgr. (Name):______________________
☐ Board Committee ☐ Engineer ☐ Other

WORKSHOP ACTION:

☐ Advance to Board mtg. Consent Agenda. ☐ Advance to Board meeting for discussion prior to action.

☐ Refer to a future workshop (date):________ ☐ Refer to taskforce or committee (date):_______________

☐ Return to staff for additional work. ☐ No further action requested.

☒ Other (specify): **Acceptance at the April 12 Board Meeting**

PURPOSE or ACTION REQUESTED:

Board acceptance of the 2017 Annual Financial Report.

SUMMARY:
Pursuant to Minnesota Statutes §§6.756 and 103D.355, subdivision 1, the Minnehaha Creek Watershed District contracted with a private certified public accountant, Redpath and Company, to complete an annual audit of 2017 books and accounts.

The prepared 2017 Annual Financial Report was presented by Redpath representatives to the MCWD Executive Committee and the Board of Managers at their respective March 22, 2018 meetings. A copy of the audit was provided to all Board members to review during this meeting.

Following MCWD Board acceptance, and pursuant to Minnesota Rules 8410.0150, subpart 1.A, the audit will be filed with the state auditor's office and the Minnesota Board of Water and Soil Resources as required by state law. In compliance with financing obligations for the 325 Blake Road property, a copy of the audit will be transmitted to Wells Fargo. In addition, copies will be transmitted to Hennepin and Carver Counties.

ATTACHMENTS:
1. 2017 Annual Financial Report

RESOLUTION

RESOLUTION NUMBER: **18-036**

TITLE: **Acceptance of 2017 Annual Financial Audit**

WHEREAS, pursuant to Minnesota Statutes §§6.756 and 103D.355, and Minnesota Rules 8410.0150, an annual financial audit by a certified public accountant must be completed of the books and accounts of the Minnehaha Creek Watershed District;

WHEREAS, in accordance with those statutes and rules, the annual audit must be submitted to the state auditor's office and the Minnesota Board of Water and Soil Resources;

WHEREAS, the District's financing obligations for the purchase of the 325 Blake Road property require that it transmit its annual audit to Wells Fargo, and the District also transmits the audit to Hennepin and Carver Counties;

WHEREAS, Redpath and Company, a certified public accountant, has prepared an audit of the District's financial operations and condition for fiscal (calendar) year 2017, titled "Annual Financial Report (December 31, 2017)";

WHEREAS, the audit has reported internal control findings related to year-end closing and payroll processes; and

WHEREAS, the District Administrator, the Treasurer, and the District Board of Managers have reviewed the audit, and found management responses to internal control findings acceptable; and

WHEREAS, the audit was presented to the Board Executive Committee and the full Board of Managers on March 22, 2018;

NOW, THEREFORE, BE IT RESOLVED that the Minnehaha Creek Watershed District Board of Managers hereby accepts the 2017 Annual Financial Report, and directs the District Administrator to transmit it to the Minnesota State Auditor, the Minnesota Board of Water and Soil Resources, Hennepin County, Carver County, and Wells Fargo.

Resolution Number 18-036 was moved by Manager _____________, seconded by Manager ____________. Motion to adopt the resolution ___ ayes, ___ nays, ___abstentions. Date: _______________.

____ Date:_________________________
Secretary

MINNEHAHA CREEK WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2017

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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, 2017

Board of Managers:	Term Expires
Sherry Davis White - President	March, 2018
Brian Shekleton - Vice President	March, 2019
Richard Miller - Treasurer	March, 2020
Kurt Rogness - Secretary	March, 2018
Bill Becker	March, 2019
Jessica Loftus	March, 2020
Bill Olson	March, 2019

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FINANCIAL SECTION

DRAFT - 3-22-18

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INDEPENDENT AUDITOR'S REPORT

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

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, 2017, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Minnehaha Creek Watershed District, as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Minnehaha Creek Watershed's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated March 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of proportionate share of net pension liability, and schedule of pension contributions on pages 38 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnehaha Creek Watershed District's basic financial statements. The introductory section, supplementary financial information, and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary financial information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

___________, 2018

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BASIC FINANCIAL STATEMENTS

MINNEHAHA CREEK WATERSHED DISTRICT

STATEMENT OF NET POSITION **Statement 1**

December 31, 2017

With Comparative Totals For December 31, 2016

	Primary Government	
	Governmental Activities	
	2017	2016
Assets:		
Cash and investments	$17,632,782	$18,773,723
Accounts receivable - net	1,000	23,753
Due from other governments	86,260	442,137
Mortgage receivable	310,166	311,576
Prepaid item	39,089	21,567
Property taxes receivable:		
Delinquent	70,572	74,311
Due from county	94,426	72,385
Land held for resale	850,000	-
Capital assets - net:		
Depreciable	2,809,531	2,974,174
Nondepreciable	30,212,784	30,003,101
Total assets	52,106,610	52,696,727
Deferred outflows of resources:		
Related to pensions	493,638	1,110,201
Liabilities:		
Accounts payable	246,517	334,268
Salaries payable	55,258	55,447
Due to other governments	1,144,817	1,102,625
Unearned revenue	546,587	409,644
Contracts payable	57,894	547,929
Rental deposits payable	50,340	50,340
Surety deposits payable	1,379,024	1,213,912
Accrued interest payable	123,948	147,797
Unamortized loan premiums	481,668	515,494
Compensated absences payable:		
Due within one year	13,917	5,609
Due in more than one year	133,935	162,435
Loans payable:		
Due within one year	10,765,000	3,245,000
Due in more than one year	12,365,000	23,130,000
Due to the City of Richfield:		
Due within one year	174,905	177,405
Due in more than one year	2,564,525	2,739,430
Net pension liability:		
Due in more than one year	1,551,296	2,249,103
Total liabilities	31,654,631	36,086,438
Deferred inflow of resources:		
Related to pensions	402,808	182,706
Net position:		
Net investment in capital assets	9,410,647	6,086,781
Unrestricted	11,132,162	11,451,003
Total net position	$20,542,809	$17,537,784

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, 2017
With Comparative Totals For The Year Ended December 31, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government Totals	
Functions/Programs:	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	2017	2016
Primary government:						
Governmental activities:						
General government	$3,245,951	$ -	$563	$ -	($3,245,388)	($3,338,020)
Programs	1,199,321	71,044	3,045	-	(1,125,232)	(1,626,046)
Projects	2,612,149	1,322,617	76,402	-	(1,213,130)	(2,138,095)
Interest on long-term debt	797,940	-	-	-	(797,940)	(874,740)
Total governmental activities	$7,855,361	$1,393,661	$80,010	$0	(6,381,690)	(7,976,901)
General revenues:						
Property taxes					9,275,379	8,688,594
Grants and contributions not restricted to specific programs					856	925
Unrestricted investment earnings					55,290	60,813
Miscellaneous other					55,190	58,690
Total general revenues					9,386,715	8,809,022
Change in net position					3,005,025	832,121
Net position - January 1					17,537,784	16,705,663
Net position - December 31					$20,542,809	$17,537,784

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

MINNEHAHA CREEK WATERSHED DISTRICT

BALANCE SHEET **Statement 3**

GOVERNMENTAL FUNDS

December 31, 2017

With Comparative Totals For December 31, 2016

	Management Planning Fund	
Assets	2017	2016
Cash and investments	$17,632,782	$18,773,723
Accounts receivable - net	1,000	23,753
Due from other governments	86,260	442,137
Mortgage receivable	310,166	311,576
Prepaid item	39,089	21,567
Property taxes receivable:		
Delinquent	70,572	74,311
Due from county	94,426	72,385
Land held for resale	850,000	-
Total assets	$19,084,295	$19,719,452
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities:		
Accounts payable	$246,517	$334,268
Salaries payable	55,258	55,447
Due to other governments	1,144,817	1,102,625
Unearned revenue	546,587	409,644
Contracts payable	57,894	547,929
Rental deposits payable	50,340	50,340
Surety deposits payable	1,379,024	1,213,912
Total liabilities	3,480,437	3,714,165
Deferred inflows of resources:		
Unavailable revenue	380,738	385,887
Total deferred inflows of resources	380,738	385,887
Fund balance:		
Nonspendable	39,089	21,567
Assigned	15,184,031	15,597,833
Total fund balance	15,223,120	15,619,400
Total liabilities, deferred inflows of resources, and fund balance	$19,084,295	$19,719,452
Fund balance reported above	$15,223,120	$15,619,400
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.	33,022,315	32,977,275
Deferred outflows of resources - pension related are not current financial resources and, therefore, are not reported in the funds.	493,638	1,110,201
Long-term liabilities, including compensated absences payable, loans payable and net pension and other long-term obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(28,174,194)	(32,372,273)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	380,738	385,887
Deferred inflows of resources - pension related are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	(402,808)	(182,706)
Net position of governmental activities	$20,542,809	$17,537,784

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, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 4

	Management Planning Fund	
	2017	2016
Revenues:		
General property taxes	$9,279,118	$8,691,109
Intergovernmental - other	80,303	228,255
Permits	71,044	79,800
Investment income	55,290	60,813
Rental income	1,322,617	1,536,159
Other	56,600	60,077
Total revenues	10,864,972	10,656,213
Expenditures:		
Current:		
General government	3,025,730	2,948,310
Programs	1,179,515	1,774,905
Projects	2,568,304	3,768,874
Debt service:		
Principal	3,422,405	2,399,855
Interest	855,615	924,707
Capital outlay - land/buildings/easements	209,683	179,981
Total expenditures	11,261,252	11,996,632
Revenues over (under) expenditures	(396,280)	(1,340,419)
Other financing sources (uses):		
Transfers in	1,299,494	1,192,410
Transfers out	(1,299,494)	(1,192,410)
Total other financing sources (uses)	0	0
Net change in fund balance	(396,280)	(1,340,419)
Fund balance - January 1	15,619,400	16,959,819
Fund balance - December 31	$15,223,120	$15,619,400

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
For The Year Ended December 31, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 5

		2017	2016
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)		($396,280)	($1,340,419)
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. This is the amount by which depreciation exceeded capital outlays in the current period.		45,040	15,338
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,149)	(3,902)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		3,422,405	2,399,855
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.		77,867	31,098
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 exceeded pension contributions:			
Pension contributions	118,539		
Pension expense	(257,397)	(138,858)	(269,849)
Change in net position of governmental activities (Statement 2)		$3,005,025	$832,121

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 150 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 3 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. For the most part, the effect of interfund activity has been removed from these statements. *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.

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 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.

The District reports the following major governmental fund:

Management Planning Fund Minn. Stat. Sec. 103B.241, subd. 1. - was established for the preparation of an overall plan for projects and improvements, and for projects and improvements to implement the approved plan. The Fund collects an ad valorem tax levy. The District levies out of Minnesota Statute Section 103B. Exhibit 1 shows the breakdown between projects.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. BUDGETARY DATA

The Board of Managers adopts an annual 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 by the District.

E. CASH AND INVESTMENTS

Investments are stated at fair value, except for investments in external investment pools that meet GASB Statement No. 79 requirements. The District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

F. 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS
The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS
The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City 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) and taxes and credits not received at year end are classified as delinquent and due from County 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.

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 computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 (amount not rounded) 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.

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than $10 million for the fiscal year ended December 31, 1999, the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District implemented the general provisions of GASB Statement No. 34 in 2004 and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets during 2004 through 2017.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than $10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District has elected not to report intangible assets acquired in years prior to 2010.

Property, plant and equipment of the District is depreciated using the straight-line method over the following useful lives:

Cold storage building	3 years (useful life)
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 are vested as severance pay are accrued when incurred 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. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

J. 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.

K. 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.

L. 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.

M. LONG-TERM OBLIGATION

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

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. 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 financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has pension related deferred inflows of resources reported in the government-wide Statement of Net Pension. The government 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 property taxes and mortgage receivable.

O. STATE-WIDE PENSION PLANS

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

P. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. 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, including compensated absences payable, loans payable, and other long-term obligations are not due and payable in the current period and therefore are not reported in the funds." The detail of this ($28,174,194) difference is as follows:

Loans payable	($23,130,000)
Unamortized loan premium	(481,668)
Accrued interest payable	(123,948)
Compensated absences	(147,852)
Due to the City of Richfield	(2,739,430)
Net pension liability	(1,551,296)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	($28,174,194)

Another element of that reconciliation explains that "other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds." The detail of this $380,738 difference is as follows:

Delinquent taxes	$70,572
Mortgage receivable	310,166
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$380,738

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The detail of this $45,040 difference is as follows:

Capital outlay	$209,683
Depreciation expense	(164,643)
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	$45,040

Another element of that reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this ($5,149) difference is as follows:

Unavailable revenue - general property taxes:	
At December 31, 2016	($74,311)
At December 31, 2017	70,572
Unavailable revenue - mortgage receivable:	
At December 31, 2016	(311,576)
At December 31, 2017	310,166
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	($5,149)

Another element of that reconciliation states that "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." The details of this $3,422,405 difference is as follows:

Loan principal repayments	$3,245,000
Due to the City of Richfield repayments	177,405
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$3,422,405

Another element of that reconciliation states that "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." The details of this $77,867 difference is as follows:

Amortization of debt premium/discount	$33,826
Compensated absences	20,192
Accrued interest	23,849
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$77,867

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

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

a) United States government treasury bills, treasury notes and treasury bonds;

b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

d) Unrated general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity:

e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and

f) Time deposits that are fully insured by any federal agency.

<u>Custodial Credit Risk- Deposits</u>. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State Statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. At December 31, 2017 the carrying amount of the District's deposits was $17,632,782 and the bank balance was $17,700,818. 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

Minnesota Statutes authorize the District to invest in the following:

a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.

b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.

c) Obligations of the State of Minnesota or any of its municipalities as follows:
   1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;

2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.

d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.

e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2017.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. The District follows State Statutes in regards to credit risk of investments. The District's investment policy states the District will cross-check all depositories under consideration against existing investments to ensure that funds in excess of insurance limits are not deposited with the same insitution unless collateralized.

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rates of debt investments could adversely affect the fair value of an investment. The District's investment policy states that the District will minimize interest rate risk by structuring its investment portfolio to ensure that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the District's investment in a single issuer. The District's investment policy states that they will diversify their investments according to type and maturity and will attempt to match investments with anticipated cash flow requirements.

Custodial Credit Risk- Investments. For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investment securities that is in the possession of an outside party. The District's investment policy states they will obtain collateral for all uninsured amounts on deposit.

The District uses a 3rd party financial advisor to ensure compliance with the above MN State Statutes.

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2017 are as follows:

	Management Planning
Delinquent property taxes	$42,985
Mortgage receivable	302,247
Total	$345,232

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:

	Property Taxes	Mortgage Receivable	Total
Management Planning Fund	$70,572	$310,166	$380,738

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$29,819,481	$ -	$ -	$29,819,481
Easements	183,620	-	-	183,620
Construction in progress	-	209,683	-	209,683
Total capital assets, not being depreciated	30,003,101	209,683	0	30,212,784
Capital assets, being depreciated:				
Buildings and improvements	3,676,449	-	-	3,676,449
Land improvements	1,237,357	-	-	1,237,357
Furniture	122,917	-	-	122,917
Equipment	257,981	-	-	257,981
Vehicle	172,437	-	-	172,437
Total capital assets, being depreciated	5,467,141	0	0	5,467,141
Less accumulated depreciation for:				
Buildings and improvements	2,115,879	103,317	-	2,219,196
Furniture	86,044	24,584	-	110,628
Equipment	169,788	18,886	-	188,674
Vehicle	121,256	17,856	-	139,112
Total accumulated depreciation	2,492,967	164,643	0	2,657,610
Total capital assets being depreciated - net	2,974,174	(164,643)	-	2,809,531
Governmental activities capital assets - net	$32,977,275	$45,040	$0	$33,022,315

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

Governmental activities:	
General government	$100,992
Program	19,806
Projects	43,845
Total	$164,643

Note 6 LONG-TERM DEBT

The District issued loans to provide funds for the acquisition of land and buildings. The District has also agreed to service the debt of the City of Richfield that was used to construct the storm water treatment facility.

GOVERNMENTAL ACTIVITIES

As of December 31, 2017, the long-term debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/17
Loan payable:					
2010B Loan	2.00 - 3.50%	09/15/2010	12/1/2030	$3,190,000	$2,290,000
2011 A-1 Loan	2.00 - 4.00%	11/15/2011	12/1/2031	4,715,000	3,665,000
2011A Wells Fargo Loan	3.57%	09/01/2013	10/1/2018	15,000,000	10,000,000
2012 Wells Fargo Loan	varies*	11/13/2012	11/1/2032	2,000,000	1,500,000
2013B Loan	2.00 - 3.00%	06/01/2013	12/1/2032	7,075,000	5,675,000
Due to the City of Richfield	N/A	3/20/2013	2/1/2033	3,455,258	2,739,430
				35,435,258	25,869,430
Compensated absences payable					147,852
Total District indebtedness - governmental activities				$35,435,258	$26,017,282

* Variable rate, equal to federal funds target rate

	2010B Loan		2011A 1 Loan		2011A Wells Fargo Loan		2012 Wells Fargo Loan		2013B Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest*	Principal	Interest
2018	$145,000	$70,813	$205,000	$133,968	$10,000,000	$357,000	$100,000	$24,774	$315,000	$146,838
2019	150,000	66,463	215,000	125,769	-	-	100,000	23,094	325,000	137,387
2020	155,000	63,463	220,000	117,169	-	-	100,000	21,531	335,000	127,638
2021	160,000	57,263	230,000	108,369	-	-	100,000	19,684	345,000	117,588
2022	165,000	52,463	240,000	99,169	-	-	100,000	18,057	355,000	107,237
2023-2027	900,000	185,063	1,325,000	369,394	-	-	500,000	65,128	1,880,000	426,024
2028-2032	615,000	41,875	1,230,000	123,950	-	-	500,000	23,115	2,120,000	191,550
Total	$2,290,000	$537,403	$3,665,000	$1,077,789	$10,000,000	$357,000	$1,500,000	$195,383	$5,675,000	$1,254,262

* Variable rate is reset each month, interest is estimated

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. Total amount due to the City of Richfield at December 31, 2017 was as follows:

Due to the City of Richfield	
2018	$174,905
2019	172,405
2020	169,905
2021	172,355
2022	169,755
2023-2027	852,601
2028-2032	854,209
2033-2034	173,295
Total	$2,739,430

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

<u>CHANGES IN LONG-TERM LIABILITIES</u>

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/17	Due Within One Year
Governmental activities:					
2010B - Loan payable	$2,435,000	$ -	($145,000)	$2,290,000	$145,000
2011A 1 - Loan payable	3,860,000	-	(195,000)	3,665,000	205,000
2011A Wells Fargo Loan payable	12,500,000	-	(2,500,000)	10,000,000	10,000,000
2012 Wells Fargo Loan payable	1,600,000	-	(100,000)	1,500,000	100,000
2013B - Loan payable	5,980,000	-	(305,000)	5,675,000	315,000
Due to the City of Richfield	2,916,835	-	(177,405)	2,739,430	174,905
Compensated absences	168,044	173,909	(194,101)	147,852	13,917
Total governmental activities	$29,459,879	$173,909	($3,616,506)	$26,017,282	$10,953,822

For the governmental activities, compensated absences are liquidated by the Management Planning Fund. All notes and loans are liquidated by the Management Planning Fund.

Note 7 DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The District's contributions to the GERF for the year ended December 31, 2017, were $118,539. The District's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

GERF Pension Costs

At December 31, 2017, the District reported a liability of $1,551,296 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $19,498. The net pension liability was measured as of June 30, 2017, 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, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was .0243% which was a decrease of .0034% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of $257,397 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional $563 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

At December 31, 2017, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$51,126	$98,320
Changes in actuarial assumptions	257,549	155,518
Difference between projected and actual investment earnings	7,238	-
Changes in proportion	121,366	148,970
Contributions paid to PERA subsequent to the measurement date	56,359	-
Total	$493,638	$402,808

$56,359 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2018	$93,340
2019	86,014
2020	(79,035)
2021	(65,848)
2022	-
Thereafter	-

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males and females, as appropriate with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for all GERF through 2064 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the GERF was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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 Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.5%. 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 Employees Retirement Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all 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 for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability	$2,406,175	$1,551,296	$851,422

H. PENSION PLAN FIDUCIARY NET POSITION

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

Note 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, 2017, a summary of the governmental fund balance classifications are as follows:

	Nonspendable Prepaid Item	Restricted	Committed	Assigned for Water Management	Unassigned	Total
Management Planning Fund	$39,089	$ -	$ -	$15,184,031	$ -	$15,223,120

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 any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2017.

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. The District 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. The District 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. There 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 COST SHARE AGREEMENTS

The District previously entered into cost share agreements with various property owners to install and maintain wetland buffers. The cost share agreements are paid in annual installments.

The following is a schedule of future payments under the cost share agreements.

Year	Yetzer	Brockpahler	Yetzer II	Total
2018	$ -	$2,420	$9,398	$11,818
2019	-	2,420	9,398	11,818
Total	$0	$4,840	$18,796	$23,636

Note 13 COMMITTED CONTRACTS

At December 31, 2017, the District had commitments of $38,104 for uncompleted construction contracts.

Note 14 RECENTLY ISSUED ACCOUNTING STANDARDS

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

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 83 *Certain Asset Retirement Obligations.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84 *Fiduciary Activities.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 85 *Omnibus 2017.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 86 *Certain Debt Extinguishment Issues.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87 *Leases.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.

The effect these standards may have on future financial statements is not determinable at this time, but it is expected that Statement No. 87 may have a material impact.

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REQUIRED SUPPLEMENTARY INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION **Statement 6**
BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND
For The Year Ended December 31, 2017
With Comparative Actual Amounts For The Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	$9,315,286	$9,315,286	$9,279,118	($36,168)	$8,691,109
Intergovernmental - other	130,000	130,000	80,303	(49,697)	228,255
Permits	58,462	58,462	71,044	12,582	79,800
Investment income	-	-	55,290	55,290	60,813
Rental income	-	-	1,322,617	1,322,617	1,536,159
Other	-	-	56,600	56,600	60,077
Total revenues	9,503,748	9,503,748	10,864,972	1,361,224	10,656,213
Expenditures:					
District operations and personnel	3,101,889	3,101,889	3,025,730	76,159	2,948,310
Programs	1,628,651	1,628,651	1,179,515	449,136	1,774,905
Project implementation	4,226,797	4,226,797	2,568,304	1,658,493	3,768,874
Debt service	4,502,916	4,502,916	4,278,020	224,896	3,324,562
Capital outlay - land/buildings/easements	-	-	209,683	(209,683)	179,981
Total expenditures	13,460,253	13,460,253	11,261,252	2,199,001	11,996,632
Revenues over (under) expenditures	(3,956,505)	(3,956,505)	(396,280)	3,560,225	(1,340,419)
Other financing sources (uses):					
Transfers in	-	-	1,299,494	1,299,494	1,192,410
Transfers out	-	-	(1,299,494)	(1,299,494)	(1,192,410)
Total other financing sources (uses)	0	0	0	0	0
Net change in fund balance	($3,956,505)	($3,956,505)	(396,280)	$3,560,225	(1,340,419)
Fund balance - January 1			15,619,400		16,959,819
Fund balance - December 31			$15,223,120		$15,619,400

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION **Statement 7**
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY* -
GENERAL EMPLOYEES RETIREMENT FUND
For The Year Ended December 31, 2017

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)	District's 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
2015	2015	0.0241%	$1,248,987	$ -	$1,248,987	$1,419,427	88.0%	78.2%
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%

* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION **Statement 8**
SCHEDULE OF PENSION CONTRIBUTIONS* - GENERAL EMPLOYEES RETIREMENT FUND
For The Year Ended December 31, 2017

Fiscal Year Ending	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)
December 31, 2015	$114,171	$114,171	$0	$1,522,278	7.5%
December 31, 2016	121,071	121,071	0	1,614,270	7.5%
December 31, 2017	118,539	118,539	0	1,580,527	7.5%

* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2017

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

2017 Changes
Changes in Actuarial Assumptions:
- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes
Changes in Actuarial Assumptions:
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

- 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, 2017

	1002 General	1003 Information Technology	1004 Government Relations	2001 Permit Administration
Revenues:				
General property taxes	$1,059,583	$94,995	$26,621	$441,935
Intergovernmental - other	98	9	2	41
Permits	-	-	-	71,044
Investment income	55,290	-	-	-
Rental income	-	-	-	-
Other	-	-	-	10
Total revenues	1,114,971	95,004	26,623	513,030
Expenditures:				
General government:				
District operations and personnel	1,381,419	46,713	-	293,159
Programs	-	-	-	267,952
Projects	-	-	37,846	-
Debt service:				
Principal	100,000	-	-	-
Interest	36,446	-	-	-
Capital outlay - land/buildings/easements	-	-	-	-
Total expenditures	1,517,865	46,713	37,846	561,111
Revenues over (under) expenditures	(402,894)	48,291	(11,223)	(48,081)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	(86,513)
Total other financing sources (uses)	0	0	0	(86,513)
Net change in fund balance	(402,894)	48,291	(11,223)	(134,594)
Fund balance (deficit) - January 1	1,247,961	160,325	16,930	216,045
Fund balance (deficit) - December 31	$845,067	$208,616	$5,707	$81,451

2002 Planning & Projects	2003 Maintenance	2004 Land Conservation	2005 District Land Restoration	2006 Habitat Restoration Initiative	3106 Halstads Six-Mile Creek
$1,076,159	$437,596	$3,147,145	$ -	$13,304	$ -
99	40	290	-	1	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,000	-	6,072	-	-	-
1,082,258	437,636	3,153,507	0	13,305	0
389,229	182,997	-	-	-	-
-	-	-	-	-	-
511,881	190,395	145,709	-	15,113	-
-	-	3,145,000	-	-	-
-	-	819,169	-	-	-
-	-	-	-	-	-
901,110	373,392	4,109,878	0	15,113	0
181,148	64,244	(956,371)	0	(1,808)	0
41,155	25,804	116,595	-	77	-
(234,921)	(275,841)	-	(25,804)	-	-
(193,766)	(250,037)	116,595	(25,804)	77	0
(12,618)	(185,793)	(839,776)	(25,804)	(1,731)	-
225,801	311,990	9,287,628	25,804	1,731	131,303
$213,183	$126,197	$8,447,852	$0	$0	$131,303

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2017

	3120 Minnehaha Creek Gorge	3133 Minnehaha Creek Reach - 19-21	3135 Steiger Lake Pond	3139 Turbid Lake Phase I
Revenues:				
General property taxes	$ -	$ -	$ -	$ -
Intergovernmental - other	-	-	-	-
Permits	-	-	-	-
Investment income	-	-	-	-
Rental income	-	-	-	-
Other	-	-	-	-
Total revenues	0	0	0	0
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay - land/buildings/easements	-	-	-	-
Total expenditures	0	0	0	0
Revenues over (under) expenditures	0	0	0	0
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(49,960)	(67,981)	(21,870)	(41,155)
Total other financing sources (uses)	(49,960)	(67,981)	(21,870)	(41,155)
Net change in fund balance	(49,960)	(67,981)	(21,870)	(41,155)
Fund balance (deficit) - January 1	49,960	67,981	21,870	41,155
Fund balance (deficit) - December 31	$0	$0	$0	$0

3140 Taft/Legion Feasibility Study	3141 Minnehaha Creek Restoration Reach 14	3142 Long Lake Creek Project	3145 Blake Road Stormwater Management	3146 Cottageville Park	3147 54th St Stream Repair
$176,552	$ -	$ -	$41,238	$ -	$93,635
16	-	-	4	9,000	9
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	40,899	-
176,568	0	0	41,242	49,899	93,644
-	-	-	-	-	-
-	-	-	-	-	-
699	-	8,583	11,033	40,799	68,458
177,405	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
178,104	0	8,583	11,033	40,799	68,458
(1,536)	0	(8,583)	30,209	9,100	25,186
-	-	-	-	-	475,806
-	(1,814)	(80,232)	-	-	(3,741)
0	(1,814)	(80,232)	0	0	472,065
(1,536)	(1,814)	(88,815)	30,209	9,100	497,251
7,136	1,814	125,398	1,465,615	31,964	33,754
$5,600	$0	$36,583	$1,495,824	$41,064	$531,005

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2017

	3148 FEMA Flood Repairs	3149 Highway 101 Causeway	3150 Meadowbrook Golf Course	3151 Minnehaha Preserve Enhancement
Revenues:				
General property taxes	$59,767	$812,193	$ -	$ -
Intergovernmental - other	35,958	31,525	-	-
Permits	-	-	-	-
Investment income	-	-	-	-
Rental income	-	-	-	-
Other	-	-	-	-
Total revenues	95,725	843,718	0	0
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	54,922	88,336	2,535	22,481
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay - land/buildings/easements	-	-	-	209,683
Total expenditures	54,922	88,336	2,535	232,164
Revenues over (under) expenditures	40,803	755,382	(2,535)	(232,164)
Other financing sources (uses):				
Transfers in	49,960	-	569,163	16,566
Transfers out	-	(295,570)	(627)	-
Total other financing sources (uses)	49,960	(295,570)	568,536	16,566
Net change in fund balance	90,763	459,812	566,001	(215,598)
Fund balance (deficit) - January 1	-	(310,724)	244,511	225,430
Fund balance (deficit) - December 31	$90,763	$149,088	$810,512	$9,832

3152 SWLRT Trail Connection	3153 Wassermann West Project	4001 Stewardship Grant Program	4002 Education	4003 Communications	4004 Master Water Stewards Grant
$24,903	$ -	$99,611	$193,602	$129,561	$ -
2	-	9	18	12	3,045
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	182	3,237	200
24,905	0	99,620	193,802	132,810	3,245
-	-	-	148,134	83,862	-
-	-	96,157	95,608	103,288	171
-	3,741	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0	3,741	96,157	243,742	187,150	171
24,905	(3,741)	3,463	(49,940)	(54,340)	3,074
-	3,741	-	-	-	-
(24,905)	-	-	(16,313)	(7,399)	-
(24,905)	3,741	0	(16,313)	(7,399)	0
-	-	3,463	(66,253)	(61,739)	3,074
-	-	663	81,956	61,739	2,500
$0	$0	$4,126	$15,703	$0	$5,574

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2017

	4005 Cost Share Program	5001 Water Quality
Revenues:		
General property taxes	$485,380	$631,545
Intergovernmental - other	45	58
Permits	-	-
Investment income	-	-
Rental income	-	-
Other	-	-
Total revenues	485,425	631,603
Expenditures:		
General government:		
District operations and personnel	39,646	410,313
Programs	122,033	152,521
Projects	-	-
Debt service:		
Principal	-	-
Interest	-	-
Capital outlay - land/buildings/easements	-	-
Total expenditures	161,679	562,834
Revenues over (under) expenditures	323,746	68,769
Other financing sources (uses):		
Transfers in	-	-
Transfers out	-	(29,848)
Total other financing sources (uses)	0	(29,848)
Net change in fund balance	323,746	38,921
Fund balance (deficit) - January 1	1,078,426	209,182
Fund balance (deficit) - December 31	$1,402,172	$248,103

	5002 E-Grade (Ecosystem Evaluation)	5005 AIS Program	5006 Research & Monitoring General Ops	6001 Cold Storage	Total All Projects
	$190,708	$43,085	$ -	$ -	$9,279,118
	18	4	-	-	80,303
	-	-	-	-	71,044
	-	-	-	-	55,290
	-	-	-	1,322,617	1,322,617
	-	-	-	-	56,600
	190,726	43,089	0	1,322,617	10,864,972
	50,258	-	-	-	3,025,730
	190,140	151,018	627	-	1,179,515
	-	-	-	1,365,773	2,568,304
	-	-	-	-	3,422,405
	-	-	-	-	855,615
	-	-	-	-	209,683
	240,398	151,018	627	1,365,773	11,261,252
	(49,672)	(107,929)	(627)	(43,156)	(396,280)
	-	-	627	-	1,299,494
	-	(35,000)	-	-	(1,299,494)
	0	(35,000)	627	0	0
	(49,672)	(142,929)	-	(43,156)	(396,280)
	123,237	229,443	-	200,872	15,619,400
	$73,565	$86,514	$0	$157,716	$15,223,120

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OTHER INFORMATION SECTION - UNAUDITED

MINNEHAHA CREEK WATERSHED DISTRICT
MARKET VALUES BY WATERSHED - UNAUDITED

For Taxes Payable in 2017

Watershed	Estimated Market Value Personal	Real	Total
1 Nine Mile Creek	$91,823,200	$18,642,148,000	$18,733,971,200
2 Elm Creek WMO	122,970,000	11,692,645,100	11,815,615,100
3 Lower MN River	522,944,300	3,242,361,500	3,765,305,800
4 Minnehaha Creek	257,507,800	45,321,013,400	45,578,521,200
5 Riley Purgatory	93,269,700	10,286,396,100	10,379,665,800
6 Rice Creek	1,000,300	151,262,100	152,262,400
7 Middle Mississippi	199,363,300	26,537,977,600	26,737,340,900
8 Bassett Creek	92,022,200	12,824,590,500	12,916,612,700
9 Shingle Creek	89,516,001	11,848,744,000	11,938,260,001
10 West Mississippi Watershed	1,964,800	5,751,831,400	5,753,796,200
County total	$1,472,381,601	$146,298,969,700	$147,771,351,301

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

Exhibit 2

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
$91,823,200	$18,213,924,973	$18,305,748,173	$91,823,200	$18,553,160,079	$18,644,983,279
122,970,000	11,343,903,456	11,466,873,456	122,970,000	11,288,397,425	11,411,367,425
522,944,300	3,122,836,660	3,645,780,960	522,944,300	3,200,303,325	3,723,247,625
257,507,800	44,351,297,981	44,608,805,781	257,507,800	44,306,489,450	44,563,997,250
93,269,700	10,050,139,702	10,143,409,402	93,269,700	10,229,415,975	10,322,685,675
1,000,300	144,180,366	145,180,666	1,000,300	149,815,100	150,815,400
198,662,035	25,865,559,833	26,064,221,868	195,609,500	26,268,760,625	26,464,370,125
92,022,200	12,370,697,956	12,462,720,156	92,022,200	12,718,082,625	12,810,104,825
89,516,001	11,071,701,493	11,161,217,494	89,516,001	11,722,865,705	11,812,381,706
1,964,800	5,374,559,652	5,376,524,452	1,964,800	5,639,938,200	5,641,903,000
$1,471,680,336	$141,908,802,072	$143,380,482,408	$1,468,627,801	$144,077,228,509	$145,545,856,310

MINNEHAHA CREEK WATERSHED DISTRICT
SCHEDULE OF EXPENDITURES - LAND CONSERVATION AND COLD STORAGE - UNAUDITED
ACCOUNTS 2004 AND 6001

	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
	Land Conservation and Cold Storage				
Expenses:					
Operations and projects	$159,018	$123,978	$238,229	$598,187	$1,038,972
Capital outlay:					
Whitman property	900,000	-	-	-	-
Walders property	90,000	-	-	-	-
Chute Property	-	1,539,050	-	-	-
Dierks Property	-	2,710,383	-	-	-
Waldera Property	-	-	539,963	-	-
Rye Property	-	-	418,026	-	-
Weis Property	-	-	-	1,030,000	-
Barkus Property	-	-	-	220,094	-
Broing Property	-	-	-	1,128,206	-
Ugorets Property	-	-	-	351,044	-
Nemar Property	-	-	-	331,514	-
Halstead Drive (Halverson)	-	-	-	-	2,316,264
Cold Storage Facility	-	-	-	-	15,118,964
7701 Halstead Drive	-	-	-	-	-
1308 Lake Street	-	-	-	-	-
1312 Lake Street	-	-	-	-	-
Katy Hills Easement	-	-	-	-	-
Jane and James Hesse Easement	-	-	-	-	-
Capitalized for audit	990,000	4,249,433	957,989	3,060,858	17,435,228
Building purchases not capitalized****	-	-	-	2,045,000	-
Total capital outlay	990,000	4,249,433	957,989	5,105,858	17,435,228
Total expenditures**	$1,149,018	$4,373,411	$1,196,218	$5,704,045	$18,474,200

** The total expenditures does not include debt service payments, issuance expense, and transfers out.
**** This was the portion of the Ugorets and Nemar properties that was not capitalized for the audit. The amount is related to the price of the buildings on the property, which were being demolished and, therefore, were not capital assets to depreciate.

Exhibit 3

12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	Total
Land Conservation and Cold Storage						
$1,511,286	$1,645,924	$1,512,166	$1,567,901	$1,458,808	$1,511,482	$11,365,951
-	-	-	-	-	-	900,000
-	-	-	-	-	-	90,000
-	-	-	-	-	-	1,539,050
-	-	-	-	-	-	2,710,383
-	-	-	-	-	-	539,963
-	-	-	-	-	-	418,026
-	-	-	-	-	-	1,030,000
-	-	-	-	-	-	220,094
-	-	-	-	-	-	1,128,206
-	-	-	-	-	-	351,044
-	-	-	-	-	-	331,514
-	-	-	-	-	-	2,316,264
-	-	-	-	-	-	15,118,964
2,278,518	-	-	-	-	-	2,278,518
192,235	-	-	-	-	-	192,235
182,436	-	-	-	-	-	182,436
56,774	-	-	-	-	-	56,774
-	-	-	-	80,000	-	80,000
2,709,963	-	-	-	80,000	-	29,483,471
-	-	-	-	-	-	2,045,000
2,709,963	0	0	0	80,000	0	31,528,471
$4,221,249	$1,645,924	$1,512,166	$1,567,901	$1,538,808	$1,511,482	$42,894,422

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OTHER REPORTS

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REPORT ON INTERNAL CONTROL

To the Board of Managers and Management
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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Minnehaha Creek Watershed District’s 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control presented in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control presented in the accompanying Schedule of Findings and Responses as item 2017-002 to be a significant deficiency.

Minnehaha Creek Watershed District’s written response to the significant deficiency and material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

______________, 2018

Minnehaha Creek Watershed District
Report on Internal Control
Schedule of Findings and Responses

2017-001 Audit Adjustments / Year-end Closing Process

Criteria: Audit adjustments are considered to be a deficiency in internal control as defined by auditing standards.

Condition: During the course of our audit, we identified material adjustments to the financial statements related to the recording of land held for resale and project expenditures.

Cause: The District's year-end closing process did not identify these corrections prior to the audit due to District employees not providing all relevant data to the accounting staff to record entries related to 2017.

Effect: By not having effective closing and review controls, there is an increased risk that financial statement misstatements could occur and not be detected in a timely basis. Prior to the audit adjustments, 2017 project expenditures were overstated and land held for resale was understated by $850,000.

Recommendation: We recommend the District continue efforts to assure that all adjustments are identified during the year-end closing process. Specifically, we recommend the District identify and discuss any new contracts or agreements with the accounting staff to ensure all project and contract data is getting appropriately captured in the financial accounting system.

Views of Responsible Officials and Corrective Action Plan: The District will continue to work with its accountant and auditor to identify all adjustments needed to financials and ensure that they are taken care of during the year-end closing process or at an earlier point when the adjustments are identified.

2017-002 Payroll Controls

Criteria: Effective internal control procedures over payroll include timekeeping for all employees to ensure recorded labor hours, including hours worked and paid time-off, are accurately recorded and approved. In addition, effective internal control procedures over payroll should include management reviews to monitor the overall integrity of the timekeeping system. The District's payroll policies require timecards to be prepared and signed by all non-exempt employees, and that all timecards be approved by their director or supervisor. In addition, all exempt employees are required to submit a request of leave form for time-off requests, which are then approved by their director or supervisor. Once approved, timecards and time-off requests are sent to the Operations Director for review. They are then summarized and sent to the District's third-party accountant for payroll processing.

Condition: Per review of the District's timesheets for the last pay period in November 2017 for its 27 employees, we noted that 11 employees' timesheets did not have a signature of approval from their supervisor, and 4 employees that used paid time-off or sick leave did not complete a request of leave form as required by the District's policies.

Cause: Unknown.

Effect: Lack of supporting timesheets and paid time-off requests, and the lack of approval of employee's time subjects the District to a higher risk that fraud or error could occur with the District's recorded labor hours and not be detected in a timely manner.

Recommendation: We recommend that the District complete an employee awareness training to assure that all employees are aware of the importance of proper time charging and approval practices. In addition, we recommend additional monitoring controls be put in place at the District to ensure its internal payroll policies are being followed. We also recommend the District consider adopting a policy where all employees are required to submit timesheets on a regular basis, not just non-exempt employees, to reduce the risk that exempt employees fail to submit time-off requests.

Views of Responsible Officials and Corrective Action Plan: The District is working to establish new payroll policies and procedures and to enforce the following of those procedures by all employees. The conditions and recommendations notes above will be addressed in this process.

MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Managers of the
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, 2017, 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 ___________, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with provisions for tax increment financing because it is not applicable to the District.

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 *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

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, LTD.
St. Paul, Minnesota

____________________, 2018

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Honorable Managers of the
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 (the District) for the year ended December 31, 2017. 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 November 20, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the 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 2017. We noted no transactions entered into by the 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 Governmental Activities financial statements are management’s estimates of the net pension liability, the pension related deferred outflows and inflows of resources and pension expense. Management’s estimates relating to the net pension liability, pension related deferred outflows and inflows of resources and pension expense are based on actuarial studies. We evaluated the key factors and assumptions 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 disclosure most likely to be considered sensitive is Note 7– Defined Benefit Pension Plans.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 are no uncorrected misstatements that have an effect on our opinion on the financial statements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Recognized capital outlay and land held for resale for the 2017 Victoria land purchase with the intent to be resold: Increased land held for resale by $850,000 and reduced property/easement acquisition expenditures by $850,000.

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 ________________, 2018.

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 the 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 the 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.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, schedule of proportionate share of net pension liability, and schedule of pension contributions, 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 supplementary financial information section, 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 the other information sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on it.

Other Reports

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

Other Comments and Recommendations

During our communications with management, it was noted that there was an attempted fraud in the District's accounts at the bank which occurred during 2017. However, the internal controls in place at the Bank prevented fraud from occurring. An investigation was performed and no issues were noted.

Restrictions on Use

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

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

_____________, 2018