



**Title:** Review and Acceptance of the 2019 Annual Financial Audit and Fund Transfers

**Resolution number:** 20-037 & 20-038

**Prepared by:** Name: James Wisker  
Phone: 952.641.4509  
Jwisker@minnehahacreek.org

**Recommended actions:** Acceptance of the 2019 Financial Audit  
Authorization of 2019 End of Year Fund Transfers and Closures

**Summary:**

Pursuant to Minnesota Statutes §§6.756 and 103D.355, subdivision 1, requiring an annual audit, the Minnehaha Creek Watershed District (MCWD) contracted with a private certified public accountant, Redpath and Company, to complete an annual audit of 2019 books and accounts.

The 2019 Annual Financial Report (Attachment 1) will be presented by Redpath representatives to the MCWD Executive Committee and subsequently to the Board of Managers at their regularly scheduled meeting on April 23, 2020.

Consistent with past practice, staff has identified a number of year-end transfers between sub-funds for the purposes of closing out sub-funds that are no longer needed or to remove negative balances within sub-funds. These transfers are summarized in the attached resolution. Staff has discussed these transfers with Redpath and Company, and they are reflected in the audit.

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 (BWSR). 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. MCWD 2019 Financial Audit



**RESOLUTION**

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**Resolution number:** 20-037

**Title:** Acceptance of the 2019 MCWD 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 2019, titled “Annual Financial Report - December 31, 2019”;
- WHEREAS, the audit has reported internal control findings related to (1) the year-end closing process, and (2) the District not obtaining documentation of a “responsible contractor” before bid award for a capital project, pursuant to MN Statutes 16C.285
- WHEREAS, the audit was presented to the Board Executive Committee and the full Board of Managers on April 23, 2020;
- 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

NOW, THEREFORE, BE IT RESOLVED that the Minnehaha Creek Watershed District Board of Managers hereby accepts the 2019 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 20-037 was moved by Manager \_\_\_\_\_, seconded by Manager \_\_\_\_\_. Motion to adopt the resolution \_\_\_ ayes, \_\_\_ nays, \_\_\_ abstentions. Date: 4/23/2020

\_\_\_\_\_ Date: April 23, 2020  
 Secretary



**RESOLUTION**

**Resolution number:** 20-038

**Title:** Authorization of 2019 End of Year Fund Transfers and Closures

WHEREAS, Redpath and Company, a certified public accountant, has prepared an audit of the District’s financial operations and condition for fiscal (calendar) year 2019, titled “Annual Financial Report - December 31, 2019”; and

WHEREAS, the District has established a number of sub-funds within the Management Planning Fund for individual programs and projects; and

WHEREAS, staff has identified a number of transfers between sub-funds for the purposes of closing out sub-funds that are no longer needed or to remove negative balances, as summarized in the table below;

Fund Code	Fund Name	Transfers In	Transfers Out	Notes
1002	General Operations	\$34,988.00		Transfer made to balance budget from other transfers
2001	Permit Administration	\$25,107.00		Transfer made to remove negative balance
3149	Highway 101 Causeway		\$(19,109.00)	Transfer made to zero out balance for fund closure
4003	Communications		\$(60,361.00)	Transfer made to zero out balance for fund closure
5007	SMCHB-Carp Management	\$19,375.00		Transfer made to remove negative balance
	<b>Totals</b>	<b>\$ 79,470.00</b>	<b>\$(79,470.00)</b>	

WHEREAS, staff has discussed these transfers with Redpath and Company, and they are reflected in the audit;

NOW, THEREFORE, BE IT RESOLVED that the Minnehaha Creek Watershed District Board of Managers hereby accepts the proposed transfers and fund closures within Management Planning Fund.

Resolution Number 20-038 was moved by Manager \_\_\_\_\_, seconded by Manager \_\_\_\_\_. Motion to adopt the resolution \_\_\_ ayes, \_\_\_ nays, \_\_\_ abstentions. Date: 4/23/2020

\_\_\_\_\_  
 Secretary Date: April 23, 2020

**MINNEHAHA CREEK WATERSHED DISTRICT**

**ANNUAL FINANCIAL REPORT**

December 31, 2019

Draft 4/20/2020

Draft 4/20/2020

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**MINNEHAHA CREEK WATERSHED DISTRICT**  
**TABLE OF CONTENTS**

	<u>Ref No.</u>	<u>Page No.</u>
<b>INTRODUCTORY SECTION</b>		
Organization		3
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Management's Discussion and Analysis		11
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	Statement 1	22
Statement of Activities	Statement 2	23
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	24
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	Statement 5	26
Notes to Financial Statements		27
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Budgetary Comparison Schedule - Management Planning Fund	Statement 6	46
Schedule of Proportionate Share of Net Pension Liability - General Employees Retirement Fund	Statement 7	47
Schedule of Pension Contributions - General Employees Retirement Fund	Statement 8	48
Notes to RSI		49
<b>SUPPLEMENTARY FINANCIAL INFORMATION</b>		
Management Planning Fund:		
Schedule of Revenues and Expenditures by Program/Project	Exhibit 1	52
<b>OTHER INFORMATION SECTION - UNAUDITED</b>		
Market Values by Watershed	Exhibit 2	58
Schedule of Expenditures - Land Conservation and Cold Storage	Exhibit 3	60
<b>OTHER REPORTS</b>		
Report on Internal Control		65
Minnesota Legal Compliance Report		67
Schedule of Findings and Responses		69

Draft 4/20/2020

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**INTRODUCTORY SECTION**

Draft 4/20/2020



Draft 4/20/2020

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**MINNEHAHA CREEK WATERSHED DISTRICT**

ORGANIZATION

December 31, 2019

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**Board of Managers:**

Term Expires

Sherry Davis White - President

March, 2021

Bill Olson - Vice President

March, 2022

Richard Miller - Treasurer

March, 2020

Kurt Rogness - Secretary

March, 2021

Eugene Maxwell

March, 2022

Jessica Loftus

March, 2020

Arun Hejmadi

March, 2022

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**FINANCIAL SECTION**

Draft 4/20/2020

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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, 2019, 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Minnehaha Creek Watershed's 2018 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 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, the schedule of proportionate share of net pension liability, and schedule of pension contributions, as listed in the table of contents, 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 relates 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

\_\_\_\_\_, 2020



Draft 4/20/2020

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## Management's Discussion and Analysis

As management of the Minnehaha Creek Watershed District, Minnesota, (the Watershed District), we offer readers of the Watershed District's financial statements this narrative overview and analysis of the financial activities of the Watershed District for the fiscal year ended December 31, 2019.

### Financial Highlights

- The assets and deferred outflows of resources of the Watershed District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29,865,569 (net position). Of this amount, \$11,482,651 (unrestricted net position) may be used to meet the Watershed District's ongoing obligations to citizens and creditors.
- There was an increase in the Watershed District's total net position of \$6,479,742. This increase is attributable to the increase in capital assets due to a \$3,950,000 contribution of an easement and \$1,962,404 in the reduction in outstanding debt related to acquire the assets.
- As of the close of the current fiscal year, the Watershed District's governmental fund reported an ending fund balance of \$15,220,720, an increase of \$402,690 in comparison with the prior year. Approximately 99.4 percent of this total amount, \$15,127,309, is assigned by management to show the intent of the funds but is also available for spending at the Watershed District's discretion, while .6 percent, \$93,411 of this total amount is nonspendable for prepaid items.
- At the end of the current fiscal year, assigned fund balance for the Management Planning fund was \$15,127,309, which is 130.4 percent of 2019 total fund expenditures or 98.5 percent of next year's Management Planning fund budget.
- The Watershed District's total debt decreased \$1,962,404 during the current fiscal year. The decrease can be attributed to scheduled debt payments.

## Overview of the Financial Statements

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

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

**Figure 1**  
**Required Components of the**  
**Watershed District's Annual Financial Report**

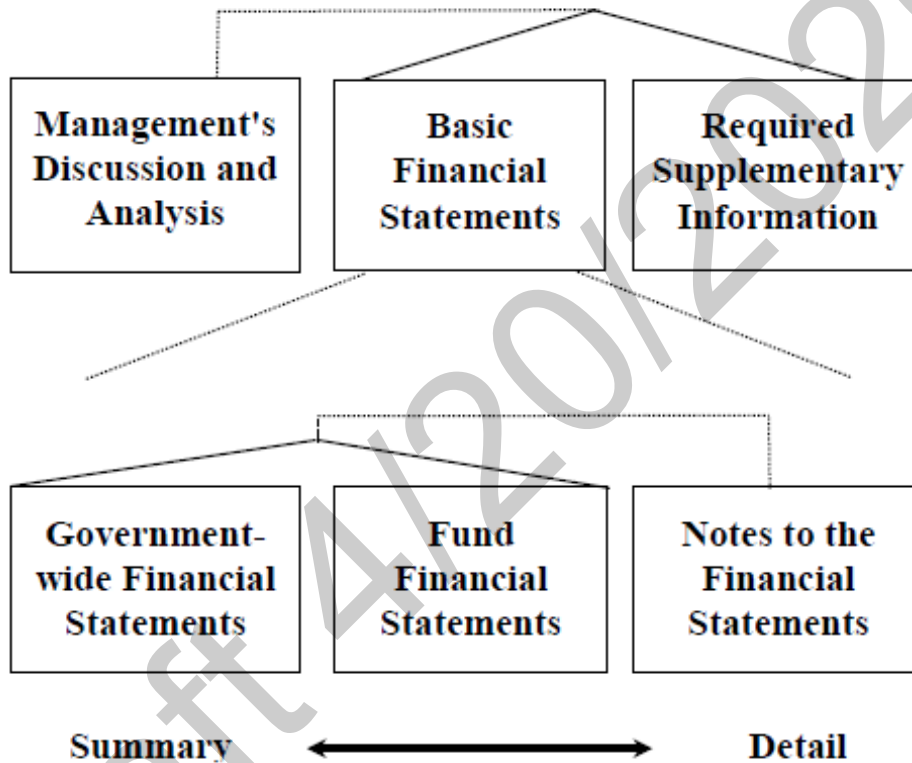


Figure 2 summarizes the major features of the Watershed District’s financial statements, including the portion of the Watershed District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure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

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

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

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

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

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

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

The government-wide financial statements start on page 22 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Watershed District, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

The basic governmental fund financial statements start on page 24 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 27 of this report.

**Required Supplementary Information.** Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 11 and the Schedules of Watershed District's Proportionate Share of Net Pension Liability, the Schedules of Watershed District Contributions and the notes to the required supplementary information starting on page 46 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.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Watershed District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$29,865,569 at the close of the most recent fiscal year.

The largest part of the Watershed District's net position (61.6 percent) is the investment in capital assets. The investment in capital assets (e.g., land, easements, buildings, machinery and equipment) is reduced by any related debt used to acquire those assets that is still outstanding to arrive at capital assets net of related debt. The Watershed District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Watershed District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Watershed District's Summary of Net Position

	Governmental Activities		Increase (Decrease)
	2019	2018	
<b>Assets</b>			
Current and other assets	\$ 19,358,801	\$ 19,328,102	\$ 30,699
Capital assets	37,371,933	33,292,095	4,079,838
<b>Total Assets</b>	<b>56,730,734</b>	<b>52,620,197</b>	<b>4,110,537</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pensions	93,640	254,669	(161,029)
<b>Liabilities</b>			
Noncurrent liabilities outstanding	20,381,575	22,360,161	(1,978,586)
Other liabilities	6,223,155	6,650,285	(427,130)
<b>Total Liabilities</b>	<b>26,604,730</b>	<b>29,010,446</b>	<b>(2,405,716)</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pensions	354,075	478,593	(124,518)
<b>Net Position</b>			
Net investment in capital assets	18,382,918	12,479,254	5,903,664
Unrestricted	11,482,651	10,906,573	576,078
<b>Total Net Position</b>	<b>\$ 29,865,569</b>	<b>\$ 23,385,827</b>	<b>\$ 6,479,742</b>

The remaining balance of *unrestricted net position* (\$11,482,651) may be used to meet the Watershed District's ongoing obligations to citizens and creditors.

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

**Governmental Activities.** Governmental activities increased in the Watershed District's net position by \$6,479,742. Key elements of the changes are as follows:

### Watershed District's Changes in Net Position

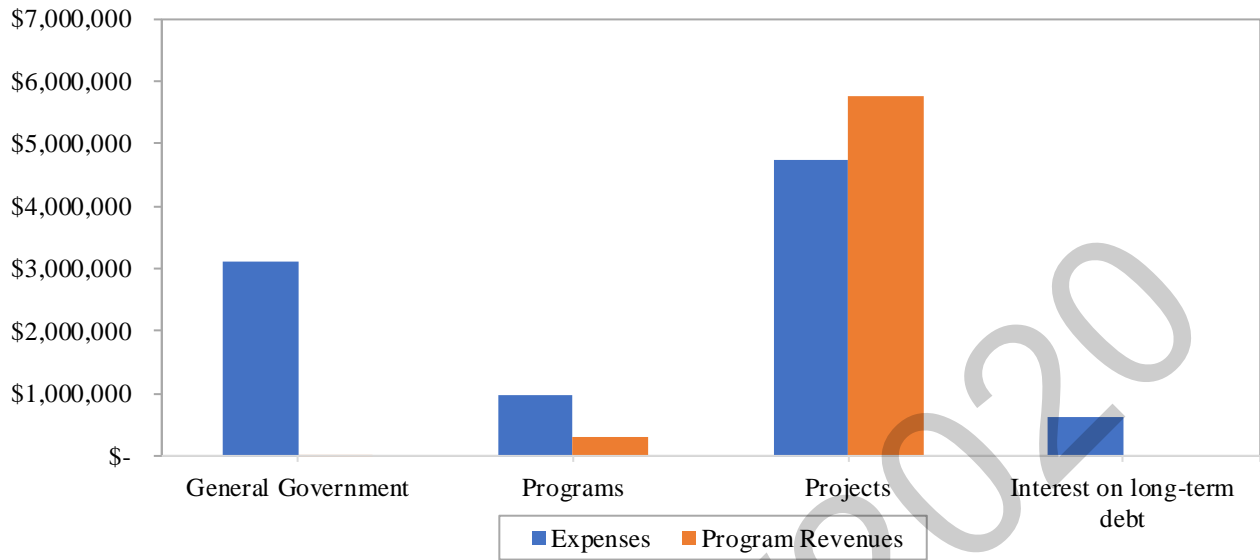
	Governmental Activities		
	2019	2018	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 1,537,763	\$ 693,785	\$ 843,978
Operating grants and contributions	582,295	1,974,303	(1,392,008)
Capital grants and contributions	3,950,000	-	3,950,000
General Revenues			
Taxes	9,623,577	9,640,584	(17,007)
Intergovernmental revenues not restricted to specific programs	628	1,816	(1,188)
Interest and investment income	159,170	83,844	75,326
Miscellaneous	94,267	49,620	-
Total Revenues	<u>15,947,700</u>	<u>12,443,952</u>	<u>3,459,101</u>
Expenses			
General government	3,123,331	3,206,406	(83,075)
Programs	976,509	1,041,062	(64,553)
Projects	4,733,494	4,637,204	96,290
Interest on long-term debt	634,624	716,262	(81,638)
Total Expenses	<u>9,467,958</u>	<u>9,600,934</u>	<u>(132,976)</u>
Change in Net Position	6,479,742	2,843,018	3,636,724
Net Position, January 1	<u>23,385,827</u>	<u>20,542,809</u>	<u>2,843,018</u>
Net Position, December 31	<u>\$ 29,865,569</u>	<u>\$ 23,385,827</u>	<u>\$ 6,479,742</u>

Increases in charges for services is primarily due to the increase in cost shares on the Arden Park Stream Restoration and Pamela Park Maintenance projects. Cost share revenues for these projects were \$1,269,000 and \$197,888, respectively. This increase was offset by a decrease in easement reimbursement revenue of \$575,677 from 2018. The decrease in operating grants and contributions was due to a \$1,305,700 grant received in 2018 for the Blake Road Stormwater Management project while only \$6,117 was recorded for 2019. Capital grants and contributions increased due to a donation of a conservation easement valued at \$3,950,000.

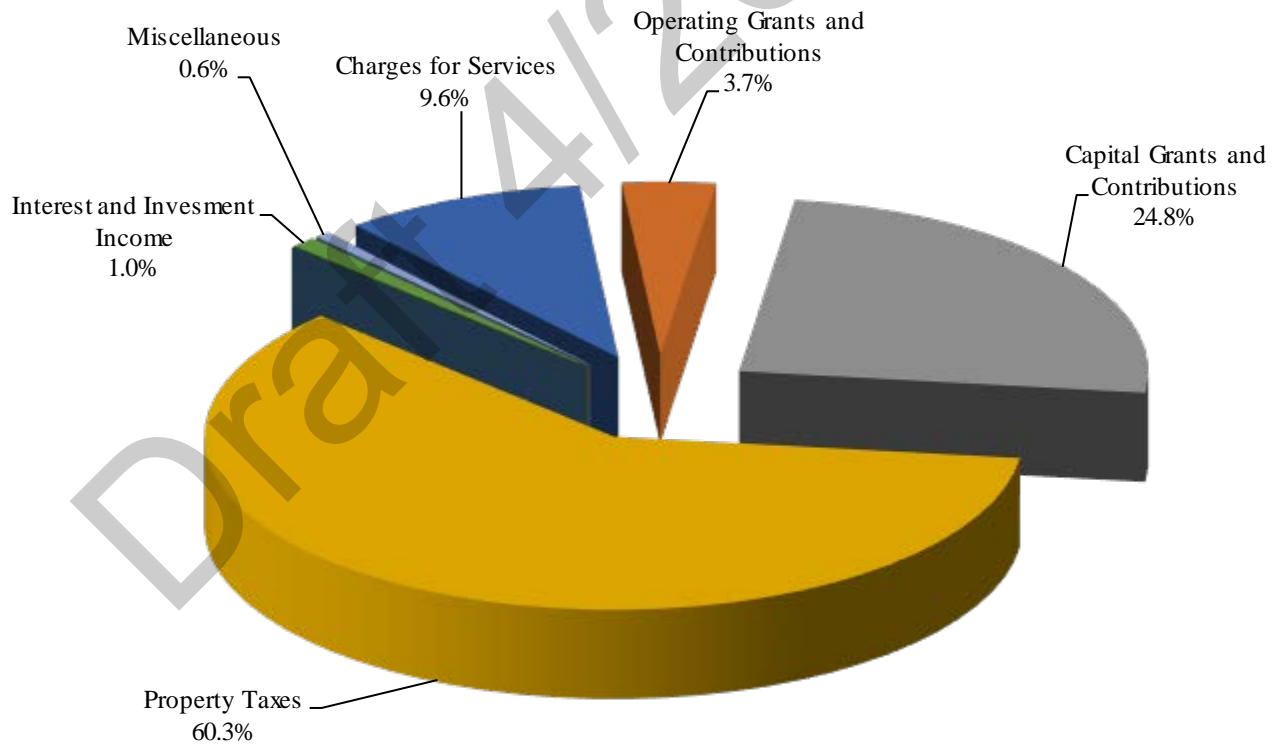
Expenses decreased in the governmental activities by \$132,976. General government activities portion of the decrease is from a 2018 capital asset disposal of \$114,286. The decrease in Programs is mostly attributed to a \$136,499 decrease in the Cost Share program and is offset with an increase of \$92,941 in the Water Quality program. The increase in Projects is comprised of increased expenditures from the Arden Park Street Stream Restoration and Wassermann West projects of \$2,747,490 and \$220,986 respectively. These increases are offset by decreases of the expenditures incurred in 2018 for \$2,089,059 related to the Blake Road Stormwater Management project, and \$757,023 related to business at the Cold Storage facility.

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

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source - Governmental Activities





## Financial Analysis of the Government's Funds

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

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

The *Management Planning fund* is the operating fund of the Watershed District. At the end of the current year, the fund balance of the Management Planning fund was \$15,220,720. The Watershed District's Management Planning fund balance increased \$402,690 during the current fiscal year. As a measure of the Management Planning fund's liquidity, it may be useful to compare assigned fund balance to total budgeted expenditures. Total assigned fund balance represents 130.4 percent of total 2019 expenditures.

### Management Planning fun Budgetary Highlights

The Watershed District's Management Planning fund budget was amended during the year. The amended budget reflects a \$2,531,886 fund balance decrease. Actual fund balance increased \$402,690 from the prior year, creating a positive variance of \$2,934,576.

Overall, revenues were over budget by \$540,012. The most significant positive revenue variance was from intergovernmental revenue accounts totaling \$396,907 and other revenue of \$100,435 reporting variances over budget. The most significant negative revenue variance was from property taxes which were less then budget by \$52,375.

Overall expenditures were under budget by \$2,394,576, with the largest reflecting in capital outlay. Capital outlay's budget variance is due to the Watershed District's policy of budgeting all construction costs as capital outlay and recording them appropriately when not capitalizable. During 2019, this occurred with the Arden Park Stream Restoration project where \$3,425,304 was budgeted and \$3,250,432 was expended as a noncapitalizable expenditure. The remaining expenditures variance is due to projects coming in under budget and behind schedule.

**Capital Asset and Debt Administration**

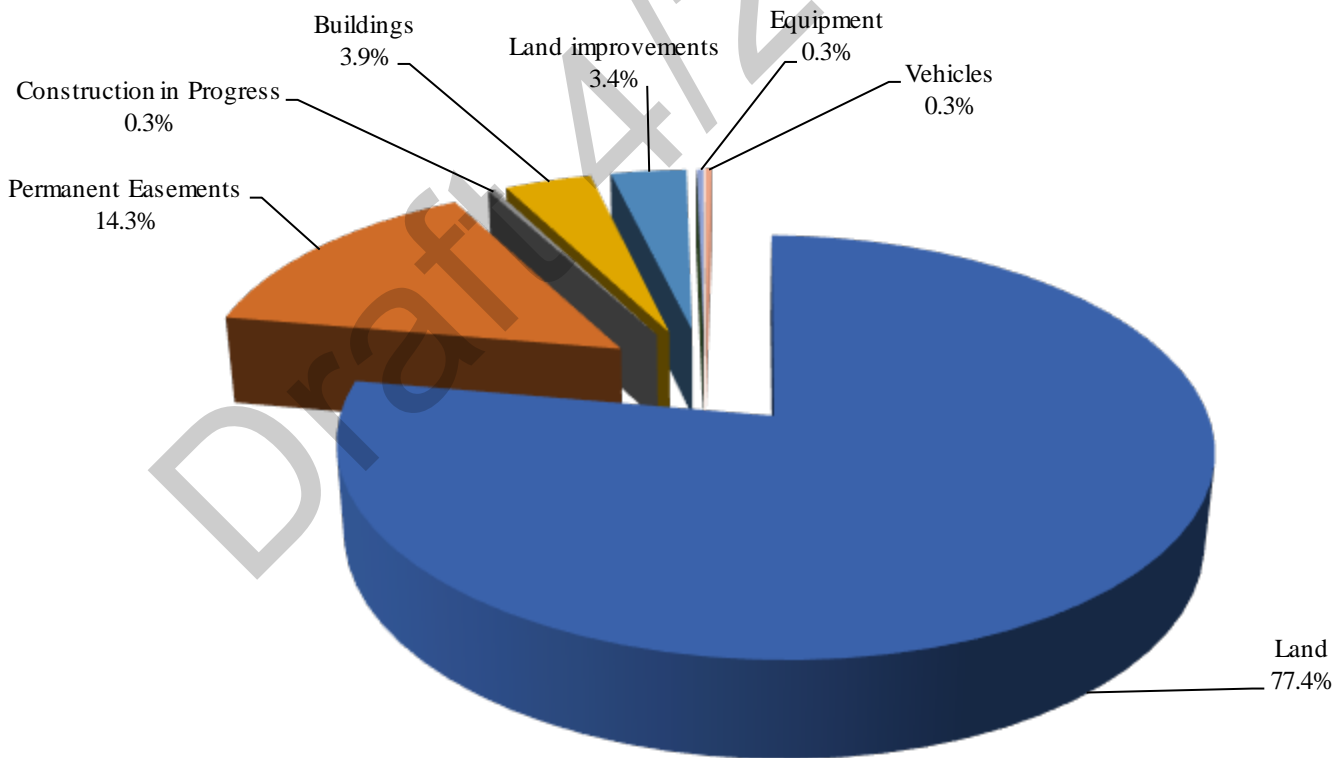
**Capital Assets.** The Watershed District’s investment in capital assets for its governmental fund as of December 31, 2019, amounts to \$37,371,933 (net of accumulated depreciation). This investment in capital assets includes land, permanent easements, construction in progress, buildings, land improvements, furniture, equipment, and vehicles.

Major capital asset events during the current fiscal year include the donation of a \$3,950,000 conservation easement.

Additional information on the Watershed District’s capital assets can be found in Note 5 starts on page 35 of this report.

**Watershed District’s Capital Assets**  
(Net of Depreciation)

	Governmental Activities		
	2019	2018	Increase (Decrease)
Land	\$ 28,944,552	\$ 28,944,552	\$ -
Permanent Easements	5,333,620	\$ 1,383,620	3,950,000
Construction in Progress	116,458	-	116,458
Buildings	1,465,974	1,528,471	(62,497)
Land improvements	1,280,688	1,278,564	2,124
Furniture	12,930	-	12,930
Equipment	115,768	53,720	62,048
Vehicles	101,943	103,168	(1,225)
<b>Total</b>	<b>\$ 37,371,933</b>	<b>\$ 33,292,095</b>	<b>\$ 4,079,838</b>



**Long-term Debt.** At the end of the current fiscal year, the Watershed District had total debt outstanding of \$20,967,121. The Watershed District agreed to service the debt of the City of Richfield that was used to construct a storm water treatment facility.

### Watershed District’s Outstanding Debt

	Governmental Activities		
	2019	2018	Increase (Decrease)
Loans and notes payable	\$ 18,575,000	\$ 20,365,000	\$ (1,790,000)
Due to the City of Richfield	2,392,121	2,564,525	(172,404)
Total	\$ 20,967,121	\$ 22,929,525	\$ (1,962,404)

The Watershed District’s total debt decreased during the current fiscal year.

Additional information on the Watershed District’s long-term debt can be found in Note 6 starting on page 36 of this report.

#### **Economic Factors and Next Year’s Budgets and Rates**

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

#### **Requests for Information**

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

**BASIC FINANCIAL STATEMENTS**

Draft 4/20/2020

**MINNEHAHA CREEK WATERSHED DISTRICT**

STATEMENT OF NET POSITION

**Statement 1**

December 31, 2019

With Comparative Totals For December 31, 2018

	Primary Government	
	Governmental Activities	
	2019	2018
<b>Assets:</b>		
Cash and investments	\$17,896,199	\$16,374,594
Accounts receivable - net	3,914	8,136
Due from other governments	68,770	1,526,054
Prepaid items	93,411	106,659
Property taxes receivable:		
Delinquent	89,119	89,160
Due from county	61,309	71,252
Mortgage receivable	296,079	302,247
Land held for resale	850,000	850,000
Capital assets - net of accumulated depreciation:		
Nondepreciable	34,394,630	30,328,172
Depreciable	2,977,303	2,963,923
Total assets	<u>56,730,734</u>	<u>52,620,197</u>
Deferred outflows of resources related to pensions	<u>93,640</u>	<u>254,669</u>
<b>Liabilities:</b>		
Accounts payable	215,101	468,160
Salaries payable	47,251	27,007
Due to other governments	1,085,030	1,097,362
Contracts payable	169,362	110,320
Unearned revenue	394,259	522,250
Surety deposits payable	1,841,880	1,893,566
Accrued interest payable	93,912	112,541
Unamortized loan premiums	414,015	447,841
Compensated absences payable:		
Due within one year	10,345	8,833
Due in more than one year	150,123	128,190
Loans payable:		
Due within one year	1,782,094	1,790,000
Due in more than one year	16,792,906	18,575,000
Due to the City of Richfield:		
Due within one year	169,906	172,405
Due in more than one year	2,222,215	2,392,120
Net pension liability:		
Due in more than one year	1,216,331	1,264,851
Total liabilities	<u>26,604,730</u>	<u>29,010,446</u>
Deferred inflow of resources related to pensions	<u>354,075</u>	<u>478,593</u>
<b>Net position:</b>		
Net investment in capital assets	18,382,918	12,479,254
Unrestricted	11,482,651	10,906,573
Total net position	<u>\$29,865,569</u>	<u>\$23,385,827</u>

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

**MINNEHAHA CREEK WATERSHED DISTRICT**

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2019

With Comparative Totals For The Year Ended December 31, 2018

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2019	2018
Primary government:						
Governmental activities:						
General government	\$3,123,331	\$ -	\$2,833	\$ -	(\$3,120,498)	(\$3,196,709)
Programs	976,509	70,875	246,203	-	(659,431)	(885,495)
Projects	4,733,494	1,466,888	333,259	3,950,000	1,016,653	(2,134,380)
Interest on long-term debt	634,624	-	-	-	(634,624)	(716,262)
Total governmental activities	<u>\$9,467,958</u>	<u>\$1,537,763</u>	<u>\$582,295</u>	<u>\$3,950,000</u>	<u>(3,397,900)</u>	<u>(6,932,846)</u>
General revenues:						
Property taxes					9,623,577	9,640,584
Grants and contributions not restricted to specific programs					628	1,816
Unrestricted investment earnings					159,170	83,844
Miscellaneous other					94,267	49,620
Total general revenues					<u>9,877,642</u>	<u>9,775,864</u>
Change in net position					6,479,742	2,843,018
Net position - January 1					<u>23,385,827</u>	<u>20,542,809</u>
Net position - December 31					<u>\$29,865,569</u>	<u>\$23,385,827</u>

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

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2019  
With Comparative Totals For December 31, 2018

**Statement 3**

	Management Planning Fund	
	2019	2018
<b>Assets:</b>		
Cash and investments	\$17,896,199	\$16,374,594
Accounts receivable - net	3,914	8,136
Due from other governments	68,770	1,526,054
Prepaid items	93,411	106,659
Property taxes receivable:		
Delinquent	89,119	89,160
Due from county	61,309	71,252
Mortgage receivable	296,079	302,247
Land held for resale	850,000	850,000
Total assets	<u>\$19,358,801</u>	<u>\$19,328,102</u>
<b>Liabilities:</b>		
Accounts payable	\$215,101	\$468,160
Salaries payable	47,251	27,007
Due to other governments	1,085,030	1,097,362
Contracts payable	169,362	110,320
Unearned revenue	394,259	522,250
Surety deposits payable	1,841,880	1,893,566
Total liabilities	<u>3,752,883</u>	<u>4,118,665</u>
<b>Deferred inflows of resources:</b>		
Unavailable revenue	<u>385,198</u>	<u>391,407</u>
<b>Fund balance:</b>		
Nonspendable	93,411	106,659
Assigned	15,127,309	14,711,371
Total fund balance	<u>15,220,720</u>	<u>14,818,030</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$19,358,801</u>	<u>\$19,328,102</u>
Fund balance reported above	\$15,220,720	\$14,818,030
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.	37,371,933	33,292,095
Deferred outflows of resources related to pensions are not current financial resources and, therefore, are not reported in the funds.	93,640	254,669
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(22,851,847)	(24,891,781)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	385,198	391,407
Deferred inflows of resources related to pensions are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(354,075)</u>	<u>(478,593)</u>
Net position of governmental activities	<u>\$29,865,569</u>	<u>\$23,385,827</u>

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

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**

**Statement 4**

For The Year Ended December 31, 2019

With Comparative Totals For The Year Ended December 31, 2018

	Management Planning Fund	
	2019	2018
Revenues:		
General property taxes	\$9,623,618	\$9,621,996
Intergovernmental - cost share	1,466,888	299,355
Intergovernmental - other	580,090	1,667,067
Permits	70,875	98,005
Investment income	159,170	83,844
Rental income	-	20,103
Easement revenue	-	575,677
Other	100,435	57,539
Total revenues	<u>12,001,076</u>	<u>12,423,586</u>
Expenditures:		
Current:		
General government	3,032,900	2,982,759
Programs	939,416	1,003,981
Projects	4,686,525	4,589,864
Debt service:		
Principal	1,962,404	2,939,905
Interest	687,079	761,496
Capital outlay - land/buildings/easements	290,062	550,671
Total expenditures	<u>11,598,386</u>	<u>12,828,676</u>
Revenues over (under) expenditures	<u>402,690</u>	<u>(405,090)</u>
Other financing sources (uses):		
Transfers in	1,228,074	3,868,540
Transfers out	(1,228,074)	(3,868,540)
Total other financing sources (uses)	<u>0</u>	<u>0</u>
Net change in fund balance	402,690	(405,090)
Fund balance - January 1	<u>14,818,030</u>	<u>15,223,120</u>
Fund balance - December 31	<u>\$15,220,720</u>	<u>\$14,818,030</u>

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



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

**Statement 5**

For The Year Ended December 31, 2019

With Comparative Totals For The Year Ended December 31, 2018

	<u>2019</u>	<u>2018</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$402,690	(\$405,090)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	290,062	550,671
Depreciation expense	(160,224)	(166,605)
The effect of various other transactions involving capital assets:		
Permanent conservation easement donated to the District	3,950,000	-
Loss on disposal of capital assets	-	(114,286)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in delinquent property taxes	(41)	18,588
Change in mortgage receivable	(6,168)	(7,919)
The issuance of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Loan principal repayments	1,790,000	2,765,000
Due to the City of Richfield repayments	172,404	174,905
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Changes in these expense accruals are as follows:		
Change in accrued interest payable	(23,445)	11,407
Amortization of bond premium	33,826	33,827
Change in compensated absences payable	18,629	10,829
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities. This is the amount by which pension expense differed from pension contributions:		
Pension contributions	121,394	
Pension expense	(109,385)	
	<u>12,009</u>	<u>(28,309)</u>
Change in net position of governmental activities (Statement 2)	<u>\$6,479,742</u>	<u>\$2,843,018</u>

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

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. FINANCIAL REPORTING ENTITY**

Minnehaha Creek Watershed District (the District) was created in 1967 under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District is operated by a seven member Board of Managers appointed by the Hennepin and Carver County Boards of Commissioners for three year terms. Approximately 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

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

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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.

**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.

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

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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 District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) are classified as due from County. Taxes not collected by the County by December 31 are classified as delinquent taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

**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 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.

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

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

**I. COMPENSATED ABSENCES**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and accumulated sick leave benefits that 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 OBLIGATIONS

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. In the fund financial 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 net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources expense 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 net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods 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 delinquent property taxes and mortgage receivable.

**O. STATE-WIDE PENSION PLANS**

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**

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The detail of this (\$22,851,847) difference is as follows:

Loans payable	(\$18,575,000)
Unamortized loan premium	(414,015)
Accrued interest payable	(93,912)
Compensated absences	(160,468)
Due to the City of Richfield	(2,392,121)
Net pension liability	<u>(1,216,331)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>(\$22,851,847)</u></u>

**Q. RECLASSIFICATIONS**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**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.

Custodial Credit Risk- Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State Statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. At December 31, 2019, the carrying amount of the District's deposits was \$17,896,199 and the bank balance was \$18,091,497. 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 2019.

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 institution 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.



**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

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 3<sup>rd</sup> 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, 2019 are as follows:

	<u>Management Planning</u>
Delinquent property taxes	\$61,820
Mortgage receivable	<u>289,245</u>
Total	<u>\$351,065</u>

**Note 4 UNAVAILABLE REVENUES**

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

	<u>Property Taxes</u>	<u>Mortgage Receivable</u>	<u>Total</u>
Management Planning Fund	<u>\$89,119</u>	<u>\$296,079</u>	<u>\$385,198</u>

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$28,944,552	\$ -	\$ -	\$28,944,552
Permanent Easements	1,383,620	3,950,000	-	5,333,620
Construction in progress	-	116,458	-	116,458
Total capital assets, not being depreciated	<u>30,328,172</u>	<u>4,066,458</u>	<u>0</u>	<u>34,394,630</u>
Capital assets, being depreciated:				
Buildings and improvements	1,874,912	-	-	1,874,912
Land improvements	1,447,040	47,793	-	1,494,833
Furniture	122,917	14,919	-	137,836
Equipment	265,057	83,833	-	348,890
Vehicle	230,446	27,059	(21,600)	235,905
Total capital assets, being depreciated	<u>3,940,372</u>	<u>173,604</u>	<u>(21,600)</u>	<u>4,092,376</u>
Less accumulated depreciation for:				
Buildings and improvements	346,441	62,497	-	408,938
Land improvements	168,476	45,669	-	214,145
Furniture	122,917	1,989	-	124,906
Equipment	211,337	21,785	-	233,122
Vehicle	127,278	28,284	(21,600)	133,962
Total accumulated depreciation	<u>976,449</u>	<u>160,224</u>	<u>(21,600)</u>	<u>1,115,073</u>
Total capital assets being depreciated - net	<u>2,963,923</u>	<u>13,380</u>	<u>0</u>	<u>2,977,303</u>
Governmental activities capital assets - net	<u>\$33,292,095</u>	<u>\$4,079,838</u>	<u>\$0</u>	<u>\$37,371,933</u>

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

Governmental activities:	
General government	\$76,162
Program	37,093
Projects	46,969
Total	<u>\$160,224</u>

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**Note 6 LONG-TERM DEBT**

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

GOVERNMENTAL ACTIVITIES

As of December 31, 2019, the long-term debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/19
Direct borrowings:					
Loans and notes payable:					
2010B loan	2.00 - 3.50%	09/15/2010	12/1/2030	\$3,190,000	\$1,995,000
2011A loan	2.00 - 4.00%	11/15/2011	12/1/2031	4,715,000	3,245,000
2013B loan	2.00 - 3.00%	06/01/2013	12/1/2032	7,075,000	5,035,000
2018 Wells Fargo note	3.74%	10/1/2018	10/1/2023	8,000,000	7,000,000
2019 Bremer Bank note	2.56%	11/1/2019	11/1/2034	1,300,000	1,300,000
Due to the City of Richfield	N/A	3/20/2013	2/1/2033	3,455,258	2,392,121
				<u>27,735,258</u>	<u>20,967,121</u>
Compensated absences payable					<u>160,468</u>
Total District indebtedness - governmental activities				<u>\$27,735,258</u>	<u>\$21,127,589</u>

	2010B Loan		2011A Loan		2013B Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$155,000	\$63,464	\$220,000	\$117,169	\$335,000	\$127,638
2021	160,000	57,262	230,000	108,369	345,000	117,588
2022	165,000	52,464	240,000	99,169	355,000	107,237
2023	170,000	47,512	250,000	89,569	360,000	100,137
2024	175,000	42,414	255,000	82,069	370,000	92,937
2025-2029	960,000	129,660	1,410,000	283,107	1,960,000	345,150
2030-2034	210,000	7,350	640,000	38,600	1,310,000	79,350
Total	<u>\$1,995,000</u>	<u>\$400,126</u>	<u>\$3,245,000</u>	<u>\$818,052</u>	<u>\$5,035,000</u>	<u>\$970,037</u>

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

	<u>2018 Wells Fargo Note</u>		<u>2019 Bremer Bank Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$1,000,000	\$261,800	\$72,094	\$32,822
2021	1,500,000	224,400	73,952	30,964
2022	1,500,000	168,300	75,857	29,059
2023	3,000,000	112,200	77,811	27,104
2024	-	-	79,816	25,100
2025-2029	-	-	431,006	93,572
2030-2034	-	-	489,464	35,116
Total	<u>\$7,000,000</u>	<u>\$766,700</u>	<u>\$1,300,000</u>	<u>\$273,737</u>

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

During 2013, the District entered into a cooperative agreement with the City of Richfield. The agreement called for the City to finance and design a regional storm water treatment facility. The City issued bonds in the amount of \$2,770,000 to finance the construction, which per the agreement, the District agreed to service. The agreement requires the District to cover the annual debt service payments, both principal and interest. Total amount due to the City of Richfield at December 31, 2019 was as follows:

<u>Due to the City of Richfield</u>	
2020	\$169,906
2021	172,355
2022	169,755
2023	172,105
2024	169,405
2025-2029	852,296
2030-2033	<u>686,299</u>
Total	<u>\$2,392,121</u>

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

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2019 was as follows:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/19	Due Within One Year
Governmental activities:					
Direct borrowings:					
2010B loan	\$2,145,000	\$ -	(\$150,000)	\$1,995,000	\$155,000
2011A loan	3,460,000	-	(215,000)	3,245,000	220,000
2012 Wells Fargo note	1,400,000	-	(1,400,000)	-	-
2013B loan	5,360,000	-	(325,000)	5,035,000	335,000
2018 Wells Fargo note	8,000,000	-	(1,000,000)	7,000,000	1,000,000
2019 Bremer Bank note	-	1,300,000	-	1,300,000	72,094
Due to the City of Richfield	2,564,525	-	(172,404)	2,392,121	169,906
Compensated absences	137,023	93,648	(70,203)	160,468	10,345
Total governmental activities	<u>\$23,066,548</u>	<u>\$1,393,648</u>	<u>(\$3,332,607)</u>	<u>\$21,127,589</u>	<u>\$1,962,345</u>

During 2019, the District paid \$100,000 of the principal on the 2012 Wells Fargo note. In addition, the District replaced the remaining \$1,300,000 of outstanding principal with a new 2019 loan through a non-cash transaction with Bremer Bank.

**Note 7 DEFINED BENEFIT PENSION PLANS**

**A. PLAN DESCRIPTION**

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

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

**B. BENEFITS PROVIDED**

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% of average salary for all years of service. For members hired prior to

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. CONTRIBUTIONS**

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2019. The District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the GERF for the year ended December 31, 2019 were \$121,394. The District's contributions were equal to the required contributions as set by state statute.

**D. PENSION COSTS**

At December 31, 2019, the District reported a liability of \$1,216,331 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 \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$37,832. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was .0220% which was a decrease of .0008% from its proportionate share measured as of June 30, 2018.

District's proportionate share of the net pension liability	\$1,216,331
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>37,832</u>
Total	<u>\$1,254,163</u>

For the year ended December 31, 2019, the District recognized pension expense of \$109,385 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$2,833 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

At December 31, 2019, the District reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$33,429	\$ -
Changes in actuarial assumptions	-	94,752
Net collective difference between projected and actual investment earnings	-	125,655
Changes in proportion	-	133,668
Contributions paid to PERA subsequent to the measurement date	60,211	-
Total	<u>\$93,640</u>	<u>\$354,075</u>

\$60,211 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2020	(\$142,619)
2021	(143,238)
2022	(36,749)
2023	1,960
2024	-
Thereafter	-

**E. ACTUARIAL ASSUMPTIONS**

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

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

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

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019.

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

The following changes in actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100%	

**F. DISCOUNT RATE**

The discount rate used to measure the total pension liability in 2019 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.



**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**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:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the net pension liability	\$1,999,582	\$1,216,331	\$569,601

**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](http://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, 2019, fund balance classifications are as follows:

	<u>Nonspendable Prepaid Item</u>	<u>Assigned for Water Management</u>	<u>Total</u>
Management Planning Fund	<u>\$93,411</u>	<u>\$15,127,309</u>	<u>\$15,220,720</u>

**Note 10 FEDERAL AND STATE ASSISTED PROGRAMS - COMPLIANCE AUDITS**

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2019.

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

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**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. Deductibles are considered immaterial to the financial statements.

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

**Note 12 COMMITTED CONTRACTS**

At December 31, 2019, the District had commitments of \$348,405 for uncompleted construction contracts.

**Note 13 RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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

**Statement No. 91 *Conduit Debt Obligations*.** The provisions of this Statement are effective for reporting periods beginning after December 15, 2020.

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.

**Note 14 SUBSEQUENT EVENTS AND UNCERTAINTIES**

The COVID-19 pandemic continues to cause rapidly changing disruptions world-wide. Management has evaluated these conditions and believes that it is not possible to reasonably estimate the financial impact, if any, of COVID-19 on the District's financial statements at December 31, 2019.

Draft 4/20/2020

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**REQUIRED SUPPLEMENTARY INFORMATION**

Draft 4/20/2020

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND**  
For The Year Ended December 31, 2019  
With Comparative Actual Amounts For The Year Ended December 31, 2018

**Statement 6**

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes	\$9,675,993	\$9,675,993	\$9,623,618	(\$52,375)	\$9,621,996
Intergovernmental - cost share	1,918,920	1,288,920	1,466,888	177,968	299,355
Intergovernmental - other	379,340	361,151	580,090	218,939	1,667,067
Permits	75,000	75,000	70,875	(4,125)	98,005
Investment income	60,000	60,000	159,170	99,170	83,844
Rental income	-	-	-	-	20,103
Easement revenue	-	-	-	-	575,677
Other	-	-	100,435	100,435	57,539
<b>Total revenues</b>	<b>12,109,253</b>	<b>11,461,064</b>	<b>12,001,076</b>	<b>540,012</b>	<b>12,423,586</b>
<b>Expenditures:</b>					
District operations and personnel	3,335,206	3,367,206	3,032,900	334,306	2,982,759
Programs	1,118,850	1,076,850	939,416	137,434	1,003,981
Project implementation	1,630,918	1,725,918	4,686,525	(2,960,607)	4,589,864
Debt service	3,345,338	2,644,538	2,649,483	(4,945)	3,701,401
Capital outlay - land/buildings/easements	5,686,456	5,178,438	290,062	4,888,376	550,671
<b>Total expenditures</b>	<b>15,116,768</b>	<b>13,992,950</b>	<b>11,598,386</b>	<b>2,394,564</b>	<b>12,828,676</b>
<b>Revenues over (under) expenditures</b>	<b>(3,007,515)</b>	<b>(2,531,886)</b>	<b>402,690</b>	<b>2,934,576</b>	<b>(405,090)</b>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	1,228,074	1,228,074	3,868,540
Transfers out	-	-	(1,228,074)	(1,228,074)	(3,868,540)
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in fund balance</b>	<b>(\$3,007,515)</b>	<b>(\$2,531,886)</b>	<b>402,690</b>	<b>\$2,934,576</b>	<b>(405,090)</b>
Fund balance - January 1			14,818,030		15,223,120
Fund balance - December 31			<b>\$15,220,720</b>		<b>\$14,818,030</b>

See accompanying notes to the required supplementary information.

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

Measurement Date June 30	Fiscal Year Ending December 31	District's Proportionate (Percentage) of the Net Pension Liability	District's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)	Covered Payroll (c)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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%
2018	2018	0.0228%	1,264,851	41,581	1,306,432	1,533,239	85.2%	79.5%
2019	2019	0.0220%	1,216,331	37,832	1,254,163	1,554,991	80.7%	80.2%

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**  
**SCHEDULE OF PENSION CONTRIBUTIONS - GENERAL EMPLOYEES RETIREMENT FUND**  
For The Last Ten Years

Fiscal Year Ending December 31	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$114,171	\$114,171	\$ -	\$1,522,278	7.5%
2016	121,071	121,071	-	1,614,270	7.5%
2017	118,539	118,539	-	1,580,527	7.5%
2018	114,075	114,075	-	1,521,002	7.5%
2019	121,394	121,394	-	1,618,594	7.5%

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, 2019

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**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**

*2019 Changes*

Changes in Actuarial Assumptions:

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

Changes in the Plan Provisions:

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

*2018 Changes*

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

*2017 Changes*

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% 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**

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**MINNEHAHA CREEK WATERSHED DISTRICT**  
**MANAGEMENT PLANNING FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT**  
For The Year Ended December 31, 2019

	1002 General	1003 Information Technology	2001 Permit Administration	2002 Planning & Projects
<b>Revenues:</b>				
General property taxes	\$1,148,210	\$265,000	\$530,252	\$955,563
Intergovernmental - cost share	-	-	-	-
Intergovernmental - other	628	-	-	21,054
Permits	-	-	70,875	-
Investment income	159,170	-	-	-
Other	49,682	-	198	-
Total revenues	<u>1,357,690</u>	<u>265,000</u>	<u>601,325</u>	<u>976,617</u>
<b>Expenditures:</b>				
General government:				
District operations and personnel	898,305	218,443	416,344	579,046
Programs	-	-	258,056	-
Projects	-	-	-	396,114
Debt service:				
Principal	100,000	-	-	-
Interest	58,261	-	-	-
Capital outlay	41,978	83,833	-	-
Total expenditures	<u>1,098,544</u>	<u>302,276</u>	<u>674,400</u>	<u>975,160</u>
Revenues over (under) expenditures	<u>259,146</u>	<u>(37,276)</u>	<u>(73,075)</u>	<u>1,457</u>
<b>Other financing sources (uses):</b>				
Transfers in	34,988	108,853	25,107	-
Transfers out	(91,321)	-	(2,768)	(175,964)
Total other financing sources (uses)	<u>(56,333)</u>	<u>108,853</u>	<u>22,339</u>	<u>(175,964)</u>
Net change in fund balance	202,813	71,577	(50,736)	(174,507)
Fund balance (deficit) - January 1	<u>1,040,094</u>	<u>11,136</u>	<u>50,736</u>	<u>191,994</u>
Fund balance (deficit) - December 31	<u>\$1,242,907</u>	<u>\$82,713</u>	<u>\$0</u>	<u>\$17,487</u>

2003 Maintenance	2004 Land Conservation	2006 Habitat Restoration Initiative	2007 Rules Revision	3106 Halstads Six-Mile Creek	3140 Taft/Legion Feasibility Study	3145 Blake Road Stormwater Management
\$811,844	\$3,019,618	\$11,817	\$40,000	\$ -	\$172,304	\$550,000
197,888	-	-	-	-	-	-
-	-	-	-	-	-	6,117
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	22,135	-	-	-	-	3,425
<u>1,009,732</u>	<u>3,041,753</u>	<u>11,817</u>	<u>40,000</u>	<u>0</u>	<u>172,304</u>	<u>559,542</u>
205,279	-	-	-	-	-	-
-	-	-	-	-	-	-
419,485	2,726	11,817	17,953	-	1,262	112,234
-	1,689,999	-	-	-	172,405	-
-	628,818	-	-	-	-	-
-	-	-	-	-	-	-
<u>624,764</u>	<u>2,321,543</u>	<u>11,817</u>	<u>17,953</u>	<u>0</u>	<u>173,667</u>	<u>112,234</u>
<u>384,968</u>	<u>720,210</u>	<u>0</u>	<u>22,047</u>	<u>0</u>	<u>(1,363)</u>	<u>447,308</u>
-	-	-	-	-	962	654,182
(245,514)	-	-	-	-	-	-
<u>(245,514)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>962</u>	<u>654,182</u>
139,454	720,210	0	22,047	0	(401)	1,101,490
40,222	7,776,677	-	-	125,000	4,638	1,545,818
<u>\$179,676</u>	<u>\$8,496,887</u>	<u>\$0</u>	<u>\$22,047</u>	<u>\$125,000</u>	<u>\$4,237</u>	<u>\$2,647,308</u>

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**MANAGEMENT PLANNING FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT**  
For The Year Ended December 31, 2019

	3146 Cottageville Park	3147 54th St Stream Restoration	3148 FEMA Flood Repair	3149 Highway 101 Causeway	3150 Meadowbrook Golf Course
<b>Revenues:</b>					
General property taxes	\$ -	\$329,767	\$ -	\$ -	\$ -
Intergovernmental - cost share	-	1,269,000	-	-	-
Intergovernmental - other	6,582	124,151	127,991	-	-
Permits	-	-	-	-	-
Investment income	-	-	-	-	-
Other	8,208	-	-	-	-
Total revenues	<u>14,790</u>	<u>1,722,918</u>	<u>127,991</u>	<u>0</u>	<u>0</u>
<b>Expenditures:</b>					
General government:					
District operations and personnel	-	-	-	-	-
Programs	-	-	-	-	-
Projects	-	3,250,432	194,774	3,001	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>0</u>	<u>3,250,432</u>	<u>194,774</u>	<u>3,001</u>	<u>0</u>
Revenues over (under) expenditures	<u>14,790</u>	<u>(1,527,514)</u>	<u>(66,783)</u>	<u>(3,001)</u>	<u>0</u>
<b>Other financing sources (uses):</b>					
Transfers in	12,237	173,957	-	-	-
Transfers out	-	-	(47,790)	(33,147)	-
Total other financing sources (uses)	<u>12,237</u>	<u>173,957</u>	<u>(47,790)</u>	<u>(33,147)</u>	<u>0</u>
Net change in fund balance	27,027	(1,353,557)	(114,573)	(36,148)	0
Fund balance (deficit) - January 1	<u>28,827</u>	<u>1,598,847</u>	<u>317,204</u>	<u>36,148</u>	<u>513,353</u>
Fund balance (deficit) - December 31	<u>\$55,854</u>	<u>\$245,290</u>	<u>\$202,631</u>	<u>\$0</u>	<u>\$513,353</u>

3151 Minnehaha Preserve Enhancement	3153 Wassermann West Project	3155 Minneapolis Stormwater Mgmt	3500 Grant Program / Responsive CIP	4001 Stewardship Grant Program	4002 Education	4003 Communications
\$ -	\$199,112	\$ -	\$ -	\$ -	\$359,081	\$403,533
-	-	-	-	-	-	-
-	47,364	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	900	-
<u>0</u>	<u>246,476</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>359,981</u>	<u>403,533</u>
-	-	-	-	-	109,572	192,277
-	-	-	-	1,000	73,957	82,832
-	276,727	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>0</u>	<u>276,727</u>	<u>0</u>	<u>0</u>	<u>1,000</u>	<u>183,529</u>	<u>275,109</u>
<u>0</u>	<u>(30,251)</u>	<u>0</u>	<u>0</u>	<u>(1,000)</u>	<u>176,452</u>	<u>128,424</u>
-	147,838	-	-	-	-	-
(9,410)	-	-	-	-	(168,325)	(128,424)
<u>(9,410)</u>	<u>147,838</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(168,325)</u>	<u>(128,424)</u>
(9,410)	117,587	0	0	(1,000)	8,127	0
9,410	91,307	250,000	250,000	6,721	81,864	-
<u>\$0</u>	<u>\$208,894</u>	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$5,721</u>	<u>\$89,991</u>	<u>\$0</u>

**MINNEHAHA CREEK WATERSHED DISTRICT**  
**MANAGEMENT PLANNING FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT**  
For The Year Ended December 31, 2019

	4005 Cost Share Program	5001 Water Quality	5005 AIS Program	5007 SMCHB- Carp Management	Total All Projects
<b>Revenues:</b>					
General property taxes	\$ -	\$705,517	\$122,000	\$ -	\$9,623,618
Intergovernmental - cost share	-	-	-	-	1,466,888
Intergovernmental - other	10,668	56,000	-	179,535	580,090
Permits	-	-	-	-	70,875
Investment income	-	-	-	-	159,170
Other	-	15,887	-	-	100,435
<b>Total revenues</b>	<b>10,668</b>	<b>777,404</b>	<b>122,000</b>	<b>179,535</b>	<b>12,001,076</b>
<b>Expenditures:</b>					
<b>General government:</b>					
District operations and personnel	-	413,634	-	-	3,032,900
Programs	119,966	248,544	69,827	85,234	939,416
Projects	-	-	-	-	4,686,525
<b>Debt service:</b>					
Principal	-	-	-	-	1,962,404
Interest	-	-	-	-	687,079
Capital outlay	-	-	-	164,251	290,062
<b>Total expenditures</b>	<b>119,966</b>	<b>662,178</b>	<b>69,827</b>	<b>249,485</b>	<b>11,598,386</b>
<b>Revenues over (under) expenditures</b>	<b>(109,298)</b>	<b>115,226</b>	<b>52,173</b>	<b>(69,950)</b>	<b>402,690</b>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	69,950	1,228,074
Transfers out	(21,983)	(231,081)	(72,347)	-	(1,228,074)
<b>Total other financing sources (uses)</b>	<b>(21,983)</b>	<b>(231,081)</b>	<b>(72,347)</b>	<b>69,950</b>	<b>0</b>
<b>Net change in fund balance</b>	<b>(131,281)</b>	<b>(115,855)</b>	<b>(20,174)</b>	<b>0</b>	<b>402,690</b>
<b>Fund balance (deficit) - January 1</b>	<b>627,983</b>	<b>189,704</b>	<b>30,347</b>	<b>-</b>	<b>14,818,030</b>
<b>Fund balance (deficit) - December 31</b>	<b>\$496,702</b>	<b>\$73,849</b>	<b>\$10,173</b>	<b>\$0</b>	<b>\$15,220,720</b>

**OTHER INFORMATION SECTION - UNAUDITED**

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**MINNEHAHA CREEK WATERSHED DISTRICT**  
**MARKET VALUES BY WATERSHED - UNAUDITED**

**For Taxes Payable in 2019**

Watershed	Estimated Market Value		
	Personal	Real	Total
1 Nine Mile Creek	\$104,021,100	\$20,696,049,900	\$20,800,071,000
2 Elm Creek WMO	150,861,300	13,387,919,300	13,538,780,600
3 Lower MN River	599,848,400	3,706,580,600	4,306,429,000
4 Minnehaha Creek	287,182,200	51,732,599,000	52,019,781,200
5 Riley Purgatory	104,548,600	11,384,283,800	11,488,832,400
6 Rice Creek	802,000	168,447,100	169,249,100
7 Middle Mississippi	234,499,600	31,978,715,600	32,213,215,200
8 Bassett Creek	108,524,800	14,573,026,300	14,681,551,100
9 Shingle Creek	101,106,900	13,921,253,100	14,022,360,000
10 West Mississippi Watershed	2,868,500	6,810,412,900	6,813,281,400
County total	<u>\$1,694,263,400</u>	<u>\$168,359,287,600</u>	<u>\$170,053,551,000</u>

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

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
\$104,021,100	\$20,327,579,669	\$20,431,600,769	\$104,021,100	\$20,592,443,375	\$20,696,464,475
150,861,300	13,084,134,621	13,234,995,921	150,861,300	12,994,834,975	13,145,696,275
599,848,400	3,603,147,369	4,202,995,769	595,770,200	3,665,955,050	4,261,725,250
287,182,200	50,939,515,742	51,226,697,942	287,182,200	50,666,880,075	50,954,062,275
104,548,600	11,184,435,647	11,288,984,247	104,548,600	11,320,565,025	11,425,113,625
802,000	162,979,472	163,781,472	802,000	167,418,100	168,220,100
233,837,646	31,404,295,037	31,638,132,683	230,372,100	31,637,607,203	31,867,979,303
108,524,800	14,181,017,119	14,289,541,919	108,524,800	14,460,194,025	14,568,718,825
101,106,900	13,221,009,848	13,322,116,748	101,106,900	13,783,172,660	13,884,279,560
2,868,500	6,479,059,773	6,481,928,273	2,868,500	6,706,413,500	6,709,282,000
<u>\$1,693,601,446</u>	<u>\$164,587,174,297</u>	<u>\$166,280,775,743</u>	<u>\$1,686,057,700</u>	<u>\$165,995,483,988</u>	<u>\$167,681,541,688</u>

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

	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
<b>Land Conservation and Cold Storage</b>						
Expenses:						
Operations and projects	\$159,018	\$123,978	\$238,229	\$598,187	\$1,038,972	\$1,511,286
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	-	-	-	-	-	2,278,518
1308 Lake Street	-	-	-	-	-	192,235
1312 Lake Street	-	-	-	-	-	182,436
Katy Hills Easement	-	-	-	-	-	56,774
Jane and James Hesse Easement	-	-	-	-	-	-
Farmhill Circle	-	-	-	-	-	-
Capitalized for audit	990,000	4,249,433	957,989	3,060,858	17,435,228	2,709,963
Building purchases not capitalized****	-	-	-	2,045,000	-	-
Total capital outlay	990,000	4,249,433	957,989	5,105,858	17,435,228	2,709,963
Total expenditures**	\$1,149,018	\$4,373,411	\$1,196,218	\$5,704,045	\$18,474,200	\$4,221,249

\*\* 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.

<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>Total</u>
<b>Land Conservation and Cold Storage</b>							
\$1,645,924	\$1,512,166	\$1,567,901	\$1,458,808	\$1,511,482	\$757,023	\$2,726	\$12,125,700
-	-	-	-	-	-	-	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
-	-	-	-	-	-	-	192,235
-	-	-	-	-	-	-	182,436
-	-	-	-	-	-	-	56,774
-	-	-	80,000	-	-	-	80,000
-	-	-	-	-	452,096	-	452,096
-	-	-	80,000	-	452,096	-	29,935,567
-	-	-	-	-	-	-	2,045,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>80,000</u>	<u>0</u>	<u>452,096</u>	<u>0</u>	<u>31,980,567</u>
<u>\$1,645,924</u>	<u>\$1,512,166</u>	<u>\$1,567,901</u>	<u>\$1,538,808</u>	<u>\$1,511,482</u>	<u>\$1,209,119</u>	<u>\$2,726</u>	<u>\$44,106,267</u>

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**OTHER REPORTS**

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## REPORT ON INTERNAL CONTROL

To the Honorable Managers and Management of  
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, 2019, 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 deficiency in internal control that we consider to be a material weakness.

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

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

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

\_\_\_\_\_, 2020



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## MINNESOTA LEGAL COMPLIANCE REPORT

To the Honorable Managers of  
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, 2019, 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 \_\_\_\_\_, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that Minnehaha Creek Watershed District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings and Responses as item 2019-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Minnehaha Creek Watershed District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

\_\_\_\_\_, 2020

Draft 4/20/2020

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### **2019-001 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 our audit, we identified eight adjustments to the financial statements, all of which were corrected. The following adjustment was material:

- Project 3145 – intergovernmental revenue was overstated and unearned revenue was understated by \$185,000.

Seven additional adjustments were also proposed relating to property taxes, deposits payable, retainage payable and intergovernmental revenue.

*Cause:* Minnehaha Creek Watershed District's (the District) year-end closing process did not identify all adjustments necessary for its financial statements to conform with generally accepted accounting principles prior to the audit.

*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.

*Recommendation:* We recommend the District continue efforts to ensure that all adjustments are identified during the year-end closing process. Specifically, we recommend the District ensure all grant activity is appropriately captured in the financial accounting system in the correct period.

*Views of Responsible Officials and Corrective Action Plan:* The District is in the process of modifying the financial system chart of accounts to include project accounting. This action will serve to strengthen internal controls surrounding tracking grant activity. In addition, the contract accountant will work closely with the District Project Managers to ensure grant parameters are specified for each grant and reconcile grant activity on a quarterly basis.

### **2019-002 Lack of Compliance With Bid Requirements**

*Criteria:* Minnesota Statute 16C.285 subdivision 4 requires a governmental entity to obtain a signed statement under oath by an owner or officer of a contractor responding to a solicitation of document verifying compliance with the minimum criteria in subdivision 3, with the exception of clause (7), at the time that it responds to the solicitation document.

*Condition:* Prior to accepting the contractor's bid, the District did not obtain a signed statement under oath by a contractor responding to a solicitation of document verifying compliance with the minimum criteria in subdivision 3 of Minnesota Statute 16C.285, as required by Minnesota Statute 16C.285 subdivision 4.

*Cause:* The District did not request the documentation required by Minnesota Statute 16C.285 from the contractor until after the project was awarded.

*Effect:* The auditor is not in a position to determine the effect of noncompliance.

*Recommendation:* We recommend the District add internal control procedures to ensure contractors have included the required verification of compliance as part of their response to solicitations of documents.

*Management Response:* The District maintains internal procedures to ensure legal bid compliance is followed. These procedures include (a) use of a standard set of bid documents, and (b) counsel review of bid documents. In the case of the boardwalk contract, the failure occurred due to bid documents not being updated since Minnesota statute changed, and an inadvertent omission of counsel review once specifications were completed by the designer. The standard templates are being updated to reflect the statute changes and the review by legal counsel of all projects remains a District practice.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Honorable Managers of  
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, 2019. 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 December 4, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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 2019. 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, as well as the value of land held for resale. 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. Management's estimate of the value of land held is based on estimated recoverable costs. 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 disclosures most likely to be considered sensitive are Note 6 – Long-Term Debt and Note 14 – Subsequent Events and Uncertainties.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As described in the Schedule of Findings and Responses as item 2019-001 (page 71 of the Annual Financial Report), one material misstatement was detected as a result of audit procedures and was corrected by management. There were no uncorrected misstatements identified during our audit.

*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 [REDACTED], 2020.

*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.

*Expense Coding*

During our audit, it was noted that expenses are not consistently coded to the correct account within the chart of accounts. For example, we noted construction costs and engineering costs are sometimes coded to construction or engineering expense, respectively, but other times coded to contract services. The issue does not impact the audited financial statements as these expense accounts are grouped together. However, we recommend the District consistently code its expenses to the appropriate account for management and those charged with governance to have reliable and comparable financial data from its accounting system when reviewing interim financial statement reports.

*Amount Owed to City of Minneapolis*

The District has a payable recorded to the City of Minneapolis in the amount of \$1,006,382. The amount relates to work completed by the City in 2003. The District has been withholding payment until a final agreement is reached. We recommend management work to resolve this matter.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the budgetary comparison schedule, the 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.

#### 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

██████████, 2020