

**MIDDLE FORK CROW RIVER
WATERSHED DISTRICT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

**SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
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**INTRODUCTORY
SECTION**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
DISTRICT MANAGERS AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2019**

BOARD OF MANAGERS

Term Expires

| | | |
|------------------|----------------|-----------|
| Robert Hodapp | President | 4/26/2021 |
| Shane Braegelman | Vice President | 4/27/2022 |
| Ruth Schaefer | Secretary | 4/26/2022 |
| Gordy Behm | Treasurer | 4/26/2020 |
| Jay Hedtke | Co-Treasurer | 4/26/2021 |

DISTRICT OFFICIALS

| | |
|------------------|----------------------------|
| Margaret Johnson | Administrator |
| Kala Kaehler | Office and Finance Manager |

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

April 28, 2020

Board of Managers
Middle Fork Crow River Watershed District
Spicer, MN

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Middle Fork Crow River Watershed District as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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St. Cloud
320.251.0286

Little Falls
320.632.6311

Albany
320.845.2940

Maple Lake
320.963.5414

Monticello
763.295.5070

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of District's Proportionate Share of the Net Pension Liability and Schedule of District Pension Contributions, as shown 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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and schedule of indebtedness, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020 on our consideration of Middle Fork Crow River Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Fork Crow River Watershed District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated April 28, 2020 on our consideration of Middle Fork Crow River Watershed District's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 912,706 |
| Property Taxes Receivable | 14,912 |
| Assessments Receivable | 49,509 |
| Grants Receivable | 71,470 |
| Prepays | 7,494 |
| Capital Assets: | |
| Capital Assets not Being Depreciated | 105,783 |
| Capital Assets Being Depreciated (Net) | 489,747 |
| TOTAL ASSETS | 1,651,621 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions | 34,643 |
| LIABILITIES | |
| Accounts Payable | 80,183 |
| Salaries Payable | 21,525 |
| Accrued Interest | 4,969 |
| Accrued Vacation | 11,712 |
| Unearned Revenue | 291,860 |
| Noncurrent Liabilities: | |
| Debt Due Within One Year | 66,948 |
| Debt Due After One Year | 440,937 |
| Net Pension Liability | 143,748 |
| TOTAL LIABILITIES | 1,061,882 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions | 53,242 |
| NET POSITION | |
| Net Investment in Capital Assets | 265,530 |
| Restricted | 187,132 |
| Unrestricted | 118,478 |
| TOTAL NET POSITION | \$ 571,140 |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Functions/Programs | Expenses | Program Revenues | | Net (Expense)/ Revenue |
|--------------------------------------|--------------------------|-------------------------|--|--|
| | | Charges for Services | Capital Grants and Contributions | |
| Governmental Activities: | | | | |
| Meetings and Seminars | \$ 7,317 | \$ - | \$ - | \$ (7,317) |
| Contract Labor | 42,312 | - | 61,086 | 18,774 |
| Administrative Expense | 11,909 | 4,218 | - | (7,691) |
| BMP Implementation Expense | 334,443 | - | 9,845 | (324,598) |
| Professional Services | 90,810 | - | - | (90,810) |
| Dues | 10,313 | - | - | (10,313) |
| Insurance | 12,265 | - | - | (12,265) |
| Employee Wages | 236,197 | - | - | (236,197) |
| Employee Benefits | 42,880 | - | - | (42,880) |
| Payroll Tax Expense | 28,397 | - | - | (28,397) |
| Utilities | 9,093 | - | - | (9,093) |
| Equipment and Maintenance | 3,713 | - | - | (3,713) |
| Monitoring | 7,510 | - | - | (7,510) |
| Public Education | 5,350 | - | - | (5,350) |
| Office Expense | 13,627 | - | - | (13,627) |
| Miscellaneous | 1,375 | - | - | (1,375) |
| Unallocated Depreciation | 26,493 | - | - | (26,493) |
| Debt Interest and Other Charges | 16,083 | - | - | (16,083) |
| Total Governmental Activities | <u>\$ 900,087</u> | <u>\$ 4,218</u> | <u>\$ 70,931</u> | (824,938) |
| General Revenues: | | | | |
| Property Taxes | | | | 472,924 |
| Intergovernmental | | | | 5,607 |
| Unallocated Grants | | | | 316,730 |
| Investment Income | | | | 9,116 |
| Miscellaneous Revenues | | | | 900 |
| Total General Revenues | | | | <u>805,277</u> |
| | | | | CHANGE IN NET POSITION (19,661) |
| | | | | NET POSITION - BEGINNING OF YEAR <u>590,801</u> |
| | | | | NET POSITION - END OF YEAR <u>\$ 571,140</u> |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | General Fund | Basic Water Management Fund | Debt Service Fund | Nonmajor Lake Associations Fund | Total Governmental Funds |
|---|-------------------|-----------------------------------|----------------------|--|--------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 517,586 | \$ 144,216 | \$ 184,741 | \$ 66,163 | \$ 912,706 |
| Property Taxes Receivable | 8,518 | 1,698 | 2,547 | 2,149 | 14,912 |
| Assessments Receivable | 47,851 | - | - | 1,658 | 49,509 |
| Grants Receivable | 71,470 | - | - | - | 71,470 |
| Prepays | 7,494 | - | - | - | 7,494 |
| | <u>\$ 652,919</u> | <u>\$ 145,914</u> | <u>\$ 187,288</u> | <u>\$ 69,970</u> | <u>\$ 1,056,091</u> |
| TOTAL ASSETS | | | | | |
| LIABILITIES | | | | | |
| Accounts Payable | \$ 79,938 | \$ 245 | \$ - | \$ - | \$ 80,183 |
| Salaries Payable | 21,525 | - | - | - | 21,525 |
| Accrued Vacation | 11,712 | - | - | - | 11,712 |
| Unearned Revenue | 291,860 | - | - | - | 291,860 |
| Total Liabilities | <u>405,035</u> | <u>245</u> | <u>-</u> | <u>-</u> | <u>405,280</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable Revenue | | | | | |
| Property Taxes | 4,064 | 1,698 | 1,226 | - | 6,988 |
| Special Assessments | 46,946 | - | - | 760 | 47,706 |
| Total Deferred Inflows of Resources | <u>51,010</u> | <u>1,698</u> | <u>1,226</u> | <u>760</u> | <u>54,694</u> |
| FUND BALANCES | | | | | |
| Nonspendable | 7,494 | - | - | - | 7,494 |
| Restricted | - | - | 186,062 | - | 186,062 |
| Assigned | - | 143,971 | - | 69,210 | 213,181 |
| Unassigned | 189,380 | - | - | - | 189,380 |
| Total Fund Balances | <u>196,874</u> | <u>143,971</u> | <u>186,062</u> | <u>69,210</u> | <u>596,117</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| | <u>\$ 652,919</u> | <u>\$ 145,914</u> | <u>\$ 187,288</u> | <u>\$ 69,970</u> | <u>\$ 1,056,091</u> |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

| | | |
|---|------------------|-----------------------|
| Total Fund Balance for Governmental Funds | \$ | 596,117 |
| 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: | | |
| Land and Non-Depreciable Assets | \$ 105,783 | |
| Depreciable Assets (Net of Accumulated Depreciation of \$171,171) | <u>489,747</u> | |
| | | 595,530 |
| The net pension liability and related inflows/outflows represent the allocation of the pension obligations of the Statewide plans to the District. Such balances are not reported in the funds: | | |
| Net Pension Liability | (143,748) | |
| Deferred Outflows - Pensions | 34,643 | |
| Deferred Inflows - Pensions | <u>(53,242)</u> | |
| | | (162,347) |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds: | | |
| Property Taxes Receivable | 6,988 | |
| Assessments Receivable | <u>47,706</u> | |
| | | 54,694 |
| Interest payable on long-term debt does not require current financial resources and, therefore, is not reported as a liability in the governmental funds Balance Sheet. | | |
| | | (4,969) |
| Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds Balance Sheet: | | |
| Bonds and Notes Due Within One Year | (66,948) | |
| Bonds and Notes Due In More Than One Year | <u>(440,937)</u> | |
| | | <u>(507,885)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ | <u>571,140</u> |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | General Fund | Basic Water Management Fund | Debt Service Fund | Nonmajor Lake Associations Fund | Total Governmental Funds |
|--|-------------------|-----------------------------------|----------------------|--|--------------------------------|
| REVENUES | | | | | |
| Property Taxes | \$ 259,730 | \$ 127,767 | \$ 78,439 | \$ - | \$ 465,936 |
| Special Assessments | 9,845 | - | - | 60,326 | 70,171 |
| Intergovernmental | 5,607 | - | - | - | 5,607 |
| Grants | 316,730 | - | - | - | 316,730 |
| Licenses and Permits | 4,218 | - | - | - | 4,218 |
| Miscellaneous | 563 | - | - | - | 563 |
| Investment Income | 9,116 | - | - | - | 9,116 |
| TOTAL REVENUES | <u>605,809</u> | <u>127,767</u> | <u>78,439</u> | <u>60,326</u> | <u>872,341</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Meetings and Seminars | 7,317 | - | - | - | 7,317 |
| Contract Labor | 1,755 | - | - | 40,557 | 42,312 |
| Administrative Expense | 11,660 | 245 | - | 4 | 11,909 |
| BMP Implementation Expense | 291,485 | 33,857 | - | - | 325,342 |
| Professional Services | 90,724 | 86 | - | - | 90,810 |
| Dues | 10,313 | - | - | - | 10,313 |
| Insurance | 12,265 | - | - | - | 12,265 |
| Employee Wages | 231,194 | 4,284 | - | 719 | 236,197 |
| Employee Benefits | 29,466 | - | - | - | 29,466 |
| Payroll Tax Expense | 28,397 | - | - | - | 28,397 |
| Utilities | 9,093 | - | - | - | 9,093 |
| Equipment and Maintenance | 3,713 | - | - | - | 3,713 |
| Monitoring | 7,510 | - | - | - | 7,510 |
| Public Education | 5,350 | - | - | - | 5,350 |
| Office Expense | 13,627 | - | - | - | 13,627 |
| Miscellaneous | 1,347 | 28 | - | - | 1,375 |
| Debt Service: | | | | | |
| Principal | - | - | 36,220 | - | 36,220 |
| Interest and Other Charges | 12,450 | - | 4,102 | - | 16,552 |
| Capital Outlay | 6,738 | - | - | - | 6,738 |
| TOTAL EXPENDITURES | <u>774,404</u> | <u>38,500</u> | <u>40,322</u> | <u>41,280</u> | <u>894,506</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (168,595) | 89,267 | 38,117 | 19,046 | (22,165) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating Transfers In | 1,430 | - | - | 2,086 | 3,516 |
| Operating Transfers Out | - | (3,516) | - | - | (3,516) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>1,430</u> | <u>(3,516)</u> | <u>-</u> | <u>2,086</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (167,165) | 85,751 | 38,117 | 21,132 | (22,165) |
| FUND BALANCES - BEGINNING | <u>364,039</u> | <u>58,220</u> | <u>147,945</u> | <u>48,078</u> | <u>618,282</u> |
| FUND BALANCES - ENDING | <u>\$ 196,874</u> | <u>\$ 143,971</u> | <u>\$ 186,062</u> | <u>\$ 69,210</u> | <u>\$ 596,117</u> |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change In Fund Balances - Total Governmental Funds \$ (22,165)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

| | | |
|----------------------------|-----------------|----------|
| Capital Outlay Capitalized | \$ 6,738 | |
| Depreciation Expense | <u>(26,493)</u> | |
| | | (19,755) |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

| | |
|---------------------------------|---------|
| Change in Long-Term Receivables | (1,353) |
|---------------------------------|---------|

Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

| | |
|-------------------------|--------|
| Debt Principal Payments | 36,220 |
|-------------------------|--------|

Net change in accrued interest on long-term debt is not reported as an expenditure in the funds.

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Net pension liability does not represent the impending use of current resources. Therefore, the change in this liability and the related deferrals is not reported in the governmental funds.

(13,077)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ (19,661)

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Middle Fork Crow River Watershed District (the District) was established on April 27, 2005 to benefit the public welfare and public interest, and advance the purpose of Minnesota Statutes Chapter 103D. The District includes approximately 271 square miles in Kandiyohi, Meeker, Pope, and Stearns Counties.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1.A. FINANCIAL REPORTING ENTITY

The District was established in 2005 pursuant to applicable Minnesota laws and statutes. The District is governed by an elected board of five managers with three managers from Kandiyohi County, one manager from Meeker County, and one manager from Stearns County. Board elections are held annually at the first regular meeting of the fiscal year.

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the District appointed a voting majority of the units' board; the District is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's Board of Managers or the component unit provides services entirely to the District. These component units' funds are blended into those of the District's by appropriate activity type to compose the primary government presentation. Currently, the District does not have any blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the District has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. Funds of the District are all in the governmental category. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type; and

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least five percent of the corresponding total for all governmental and proprietary funds combined.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund and is always classified as a major fund. It accounts for all financial resources of the general government, except those legally or administratively required to be accounted for in other funds.

The *Basic Water Management Fund* is a special revenue fund used to account for proceeds of specific revenue sources that are assigned for expenditures for Basic Water Management projects.

The *Debt Service Fund* is used to account for the accumulation of financial resources for the payment of principal and interest on the long-term debt of the District, other than the Limited Tax Bonds for which it cannot specifically levy. The District annually levies ad valorem taxes restricted for the retirement of such debt.

Additionally, the District reports the following nonmajor fund type:

The *Lake Associations Fund* is a special revenue fund used to account for proceeds of specific revenue sources that are assigned for expenditures for the Lake Associations' projects.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the *economic resources* measurement focus as defined in the second bullet point below.

In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery) and financial position. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the *accrual basis of accounting*. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the *modified accrual basis of accounting*. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred inflows, and disclosure of contingencies related to these balances at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY

Cash and Cash Equivalents

For the purpose of the Statement of Net Position, “cash and cash equivalents” includes all checking and savings accounts of the District. See Note 2.A. for additional information related to Cash and Cash Equivalents.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include taxes, special assessments, and grants.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes and other similar intergovernmental revenues since they are usually both measurable and available. Revenues collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but are not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. No allowances are deemed necessary at year end.

Prepaid Expenditures/Expenses

Prepays represent expenditures/expenses paid during the current year to be recognized in future periods.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are defined by the District as purchases made for items with an individual cost of \$2,500 or more and must have an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The range of estimated useful lives by type of asset is as follows:

| | |
|------------------------------|----------|
| Computer Equipment | 5 years |
| Furniture | 7 years |
| Monitoring Equipment | 10 years |
| Educational Tools (exhibits) | 15 years |
| Property | 40 years |

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated acquisition value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an unallocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

Capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Compensated Absences

Under the District's policies, employees are granted vacation leave based on their length of services. Unused accumulated vacation time is paid to employees upon termination. An employee cannot carry a balance of more than 240 hours of vacation time at any time. Compensated absences are accrued when incurred and a liability for these amounts is reported in the government funds.

Noncurrent Liabilities

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of limited tax bonds payable and notes payable for the MN Clean Water Partnership Project.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Net Pension Liability

The net pension liability represents the District's allocation of its pro-rata share of the Statewide General Employees Retirement Fund net pension liability.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PERA

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and, therefore, will not be recognized as an outflow of resources (expense) until then. The District reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension fund in which District employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable revenues as deferred inflows of resources. Unavailable revenues consist of property taxes and special assessments. Accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available, in accordance with the modified accrual basis of accounting. In addition, the District reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension fund in which District employees participate.

See Note 3 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the District's policy to consider restricted net position to its depletion before unrestricted net position is applied.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Statements

In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned or unassigned. When the District incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the District incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2019 consists of prepaid expenditures.

Restricted – The portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Managers, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the District's Board modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority to assign fund balance has not been formally delegated by the Board of Managers.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The District has not adopted a formal policy regarding the minimum unassigned fund balance to be maintained in the General Fund.

See Note 2.E. for additional disclosures.

1.F. REVENUES AND EXPENDITURES

Property Tax

An ad valorem property tax may be levied against all properties in the District with levy limits prescribed by State Statute. Property tax levies must be approved by the District Board and certified by the Kandiyohi, Meeker, Pope, and Stearns County Auditors during the month of October of each year for collection in the following year. Taxes are payable to the counties in two installments by May 15 and October 15. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

Special assessment levies may be approved by the District Board for maintenance and construction purposes in accordance with State statutes. These assessments are charged against those properties benefiting from the maintenance and construction. Special assessments must be certified to the County Auditors in a manner similar to property taxes.

Property taxes and special assessments receivable consist of amounts certified to Kandiyohi, Meeker, Pope, and Stearns Counties but not yet collected. Special assessments receivable are recorded when the full levy amount is submitted to the County, though actual assessment against property owners may occur over several years.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

| | |
|-----------------------------------|----------------|
| Governmental Funds - By Character | Current |
| | Debt Service |
| | Capital Outlay |

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. See Note 2.D. for additional information.

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, revenues and expenditures/expenses.

2.A. CASH AND CASH EQUIVALENTS

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's Board of Managers. Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100 percent if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The District complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Board of Managers.

At December 31, 2019, the District's deposits were not exposed to custodial credit risk. The District's deposits were sufficiently covered by federal depository insurance or by collateral held by the District's agent in the District's name.

2.B. CAPITAL ASSETS

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

| | Balance at 01/01/19 | Additions | Disposals | Transfers | Balance at 12/31/19 |
|---|------------------------|-------------|-----------|-----------|------------------------|
| Capital Assets not Being Depreciated | | | | | |
| Land | \$ 105,783 | \$ - | \$ - | \$ - | \$ 105,783 |
| Capital Assets Being Depreciated | | | | | |
| Equipment | 660,656 | 6,738 | (6,476) | - | 660,918 |
| Less: Accumulated Depreciation | | | | | |
| Equipment | (151,154) | (26,493) | 6,476 | - | (171,171) |
| Total Capital Assets Being Depreciated, Net | 509,502 | (19,755) | - | - | 489,747 |
| Capital Assets, Net | \$ 615,285 | \$ (19,755) | \$ - | \$ - | \$ 595,530 |

All depreciation expense is unallocated as of December 31, 2019.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES

Debt Detail

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

| Notes Payable - MN Clean Water Partnership Project | | | | | |
|--|-----------------|--------------------------|------------------|---------------|------------------|
| Issue Date | Original Amount | Annual Principal Payment | Interest Rate(s) | Maturity Date | Remaining Amount |
| 06/08 | \$ 200,000 | \$12,026 - \$14,101 | 2.00% | 06/21 | \$ 21,258 |
| 06/11 | 200,000 | \$12,071 - \$14,439 | 2.00% | 12/24 | 69,403 |
| 07/15 | 100,000 | \$9,325 - \$10,934 | 2.00% | 06/28 | 87,224 |
| | | | | | 177,885 |
| Limited Tax Bonds | | | | | |
| Issue Date | Original Amount | Annual Principal Payment | Interest Rate(s) | Maturity Date | Remaining Amount |
| 10/12 | \$ 495,000 | \$20,000 - \$40,000 | 3.50% | 02/28 | \$ 330,000 |
| Total Governmental Activities Long Term Debt | | | | | 507,885 |
| Due Within One Year | | | | | 66,948 |
| Due After One Year | | | | | \$ 440,937 |

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2019:

| Type of Debt | Balance 1/1/19 | Additions | Reductions | Balance 12/31/19 | Due Within One Year |
|------------------------------------|-------------------|-----------|-------------|---------------------|------------------------|
| MN Clean Water Partnership Project | \$ 35,082 | \$ - | \$ (13,824) | \$ 21,258 | \$ 14,101 |
| MN Clean Water Partnership Project | 82,474 | - | (13,071) | 69,403 | 13,334 |
| MN Clean Water Partnership Project | 96,549 | - | (9,325) | 87,224 | 9,513 |
| Limited Tax Bonds | 330,000 | - | - | 330,000 | 30,000 |
| Total | \$ 544,105 | \$ - | \$ (36,220) | \$ 507,885 | \$ 66,948 |

Debt service requirements are financed by the General fund and the Debt Service fund.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

Annual Debt Service Requirements

At December 31, 2019, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

| Year Ended December 31, | Governmental Activities | | |
|----------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2020 | \$ 66,948 | \$ 14,398 | \$ 81,346 |
| 2021 | 65,462 | 12,519 | 77,981 |
| 2022 | 58,774 | 10,754 | 69,528 |
| 2023 | 59,252 | 9,051 | 68,303 |
| 2024 | 59,739 | 7,339 | 67,078 |
| 2025-2028 | <u>197,710</u> | <u>12,725</u> | <u>210,435</u> |
| Totals | <u>\$ 507,885</u> | <u>\$ 66,786</u> | <u>\$ 574,671</u> |

Interest expense totals \$15,708 for the Statement of Activities. Interest expenditures are \$16,177 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2019:

| Fund | Transfers Out | Transfers In | | Total |
|------------------------|------------------|-----------------|---------------------|-----------------|
| | | Major Fund | Nonmajor Fund | |
| | | General | Lake Association | |
| Basic Water Management | <u>\$ 3,516</u> | <u>\$ 1,430</u> | <u>\$ 2,086</u> | <u>\$ 3,516</u> |

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

2.E. FUND EQUITY

At December 31, 2019, fund equity consists of the following:

| | |
|--|-------------------|
| General Fund | |
| Nonspendable - Prepaids | \$ 7,494 |
| Unassigned | <u>189,380</u> |
| Total General Fund Balance | <u>\$ 196,874</u> |
| Basic Water Management Fund | |
| Assigned for Basic Water Management Projects | <u>\$ 143,971</u> |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

| | |
|---|-----------------------------|
| Debt Service Fund | |
| Restricted for Debt Service | <u>\$ 186,062</u> |
| | |
| Nonmajor Governmental Fund | |
| Assigned for Lake Associations Projects | <u>\$ 69,210</u> |

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

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

General Employees Retirement Plan

All full-time and certain part-time employees of Middle Fork Crow River Watershed District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA’s Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2019 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District’s contributions to the General Employees Fund for the year ended December 31, 2019 total \$15,305. The District’s contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the District reported a liability of \$143,748 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million 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 \$4,500. 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 0.0026 percent which was a decrease of 0.0006 from its proportionate share measured as of June 30, 2018.

| | |
|--|-----------|
| District’s proportionate share of the net pension liability: | \$143,748 |
| State of Minnesota’s proportionate share of the net pension liability associated with the District | 4,500 |
| Total | \$148,248 |

For the year ended December 31, 2019, the District recognized pension expense of \$4,377 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$337 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.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 3,940 | \$ - |
| Changes in Actuarial Assumptions | - | 11,872 |
| Difference Between Projected and Actual Investment Earnings | - | 16,406 |
| Changes in Proportionate Share | 22,344 | 24,964 |
| Contributions Paid to PERA Subsequent to the Measurement Date | 8,359 | - |
| Total Township Deferred Outflows/Inflows | \$ 34,643 | \$ 53,242 |

The \$8,359 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense |
|----------------------------|-----------------|
| 2020 | \$ (5,772) |
| 2021 | \$ (9,524) |
| 2022 | \$ (11,894) |
| 2023 | \$ 232 |

Total Pension Expense

The total pension expense for all plans recognized by the District for the year ended December 31, 2019 was \$4,377.

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:

| Assumptions | Rates |
|------------------------------|-----------------------|
| 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.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

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

General Employees Fund

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 Stocks | 35.5% | 5.10% |
| Private Markets | 25.0% | 5.90% |
| Fixed Income | 20.0% | 0.75% |
| International Equity | 17.5% | 5.90% |
| Cash Equivalents | <u>2.0%</u> | 0.00% |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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 one percentage point lower or one percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate (6.50%) | Discount Rate (7.50%) | 1% Increase in Discount Rate (8.50%) |
|-----------------------|---|-----------------------|---|
| Net Pension Liability | \$ 236,314 | \$ 143,748 | \$ 67,316 |

Pension Plan Fiduciary Net Position

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

NOTE 4 OTHER NOTES

4.A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the purchases commercial insurance. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The District’s management is not aware of any incurred but not reported claims.

4.B. SUBSEQUENT EVENTS

Public Health Emergency

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the District, to date, the District has not experienced any significant negative effects on its operations.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budget Amounts- Original and Final | Actual Amounts Budgetary Basis | Variance with Budget Over (Under) |
|--|---|---|--|
| REVENUES | | | |
| Taxes | | | |
| Property Taxes | \$ 262,000 | \$ 259,730 | \$ (2,270) |
| Special Assessments | 15,000 | 9,845 | (5,155) |
| Licenses and Permits | - | 4,218 | 4,218 |
| Intergovernmental Revenue | | | |
| State Grants | | | |
| Market Value Credit | - | 5,607 | 5,607 |
| Other State Grants and Aids | 63,800 | 316,730 | 252,930 |
| Total Intergovernmental Revenue | 63,800 | 322,337 | 258,537 |
| Miscellaneous Revenue | | | |
| Investment Earnings | 1,700 | 9,116 | 7,416 |
| Contributions and Donations | - | 563 | 563 |
| Total Miscellaneous Revenue | 1,700 | 9,679 | 7,979 |
| TOTAL REVENUES | 342,500 | 605,809 | 263,309 |
| EXPENDITURES | | | |
| Conservation of Natural Resources | | | |
| Current | | | |
| Meetings and Seminars | 5,100 | 7,317 | 2,217 |
| Contract Labor | 9,000 | 1,755 | (7,245) |
| Administrative Expense | 12,500 | 11,660 | (840) |
| BMP Implementation Expense | 200,500 | 291,485 | 90,985 |
| Professional Services | 28,000 | 90,724 | 62,724 |
| Dues | 4,000 | 10,313 | 6,313 |
| Salaries and Wages | 247,937 | 289,057 | 41,120 |
| Equipment and Maintenance | - | 3,713 | 3,713 |
| Monitoring | 4,500 | 7,510 | 3,010 |
| Public Education | 1,650 | 5,350 | 3,700 |
| Utilities and Office Expense | 17,350 | 22,720 | 5,370 |
| Capital Outlay | - | 6,738 | 6,738 |
| Total Conservation of Natural Resources | 530,537 | 748,342 | 217,805 |
| Miscellaneous Expenditures | | | |
| Other Expenditures | | | |
| Unallocated Insurance | 12,000 | 12,265 | 265 |
| Other Miscellaneous | - | 1,347 | 1,347 |
| Total Miscellaneous Expenditures | 12,000 | 13,612 | 1,612 |

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budget Amounts- Original and Final | Actual Amounts Budgetary Basis | Variance with Budget Over (Under) |
|--|---|---|--|
| Debt Service | | | |
| Interest and Other Charges | - | 12,450 | 12,450 |
| TOTAL EXPENDITURES | <u>542,537</u> | <u>774,404</u> | <u>231,867</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (200,037) | (168,595) | 31,442 |
| OTHER FINANCING SOURCES | | | |
| Transfers | | | |
| From Other Funds | - | 1,430 | 1,430 |
| NET CHANGE IN FUND BALANCE | <u>\$ (200,037)</u> | <u>(167,165)</u> | <u>\$ 32,872</u> |
| FUND BALANCE - BEGINNING | | <u>364,039</u> | |
| FUND BALANCE - ENDING | | <u>\$ 196,874</u> | |

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the General Fund of \$774,404 exceeded the final budgeted expenditures by \$231,867 for the current year. This is primarily due to the additional expenditures incurred for BMP implementation, related services and compensation in the current year.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – BASIC WATER MANAGEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budget Amounts- Original and Final | Actual Amounts Budgetary Basis | Variance with Budget Over (Under) |
|--|---|---|--|
| REVENUES | | | |
| Taxes | | | |
| Property Taxes | \$ 130,000 | \$ 127,767 | \$ (2,233) |
| EXPENDITURES | | | |
| Conservation of Natural Resources | | | |
| Current | | | |
| Administrative Expense | - | 245 | 245 |
| BMP Implementation Expense | - | 33,857 | 33,857 |
| Professional Services | - | 86 | 86 |
| Salaries and Wages | - | 4,284 | 4,284 |
| Total Conservation of Natural Resources | - | 38,472 | 38,472 |
| Miscellaneous Expenditures | | | |
| Other Expenditures | | | |
| Other Miscellaneous | - | 28 | 28 |
| TOTAL EXPENDITURES | - | 38,500 | 38,500 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 130,000 | 89,267 | (40,733) |
| OTHER FINANCING USES | | | |
| Transfers | | | |
| To Other Funds | - | (3,516) | (3,516) |
| NET CHANGE IN FUND BALANCE | \$ 130,000 | 85,751 | \$ (44,249) |
| FUND BALANCE - BEGINNING | | 58,220 | |
| FUND BALANCE - ENDING | | \$ 143,971 | |

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

The District does not separately budget for expenditures that are to be allocated to the Basic Water Management Fund. As a result, actual expenditures noted above have exceeded budgeted amounts as shown by \$38,500.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

| For the Measurement Year Ended June 30 | District's Proportion of the Net Pension Liability (Asset) | District's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b) | District's Covered Payroll (c) | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|--|--|--|--------------------------------------|---|--|
| <i>General Employees Retirement Pension Plan</i> | | | | | | | |
| 2019 | 0.0026% | \$ 143,748 | \$ 4,500 | \$ 148,248 | \$ 183,379 | 80.8% | 80.2% |
| 2018 | 0.0032% | \$ 177,523 | \$ 5,814 | \$ 183,337 | \$ 216,733 | 84.6% | 79.5% |
| 2017 | 0.0025% | \$ 159,598 | \$ 2,045 | \$ 161,643 | \$ 164,147 | 98.5% | 75.9% |
| 2016 | 0.0025% | \$ 202,988 | \$ 2,617 | \$ 205,605 | \$ 154,093 | 133.4% | 68.9% |
| 2015 | 0.0017% | \$ 88,103 | \$ - | \$ 88,103 | \$ 102,262 | 86.2% | 78.2% |

Note: The schedule is provided prospectively beginning with 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.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)**

| For the Year Ended December 31 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|--|----------------------------------|---|
| <i>General Employees Retirement Pension Plan</i> | | | | | |
| 2019 | \$ 15,305 | \$ 15,305 | \$ - | \$ 204,072 | 7.50% |
| 2018 | \$ 15,007 | \$ 15,007 | \$ - | \$ 200,093 | 7.50% |
| 2017 | \$ 15,080 | \$ 15,080 | \$ - | \$ 201,071 | 7.50% |
| 2016 | \$ 11,458 | \$ 11,458 | \$ - | \$ 152,780 | 7.50% |
| 2015 | \$ 9,855 | \$ 9,855 | \$ - | \$ 131,398 | 7.50% |

Note: The schedule is provided prospectively beginning with 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.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2019 Changes

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.

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 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**SUPPLEMENTARY
INFORMATION**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

| | Issue Date | Interest Rates | Maturity Dates | Initial Authorized Issue | Outstanding Balance 01/01/19 | Issued | Paid | Outstanding Balance 12/31/19 | Principal Due in 2020 |
|--|---------------|-------------------|-------------------|--------------------------------|------------------------------------|-------------|------------------|------------------------------------|-----------------------------|
| GOVERNMENTAL INDEBTEDNESS | | | | | | | | | |
| Limited Tax Bonds, Series 2012A | 10/1/2012 | 3.50% | 2/1/2028 | \$ 495,000 | \$ 330,000 | \$ - | \$ - | \$ 330,000 | \$ 30,000 |
| MN Clean Water Partnership Project - SRF0169 | 6/19/2008 | 2.00% | 6/15/2021 | 200,000 | 35,082 | - | 13,824 | 21,258 | 14,101 |
| MN Clean Water Partnership Project - SRF0213 | 6/30/2011 | 2.00% | 12/15/2024 | 200,000 | 82,474 | - | 13,071 | 69,403 | 13,334 |
| MN Clean Water Partnership Project - SRF0294 | 7/29/2015 | 2.00% | 6/15/2028 | 100,000 | 96,549 | - | 9,325 | 87,224 | 9,513 |
| TOTAL INDEBTEDNESS | | | | <u>\$ 995,000</u> | <u>\$ 544,105</u> | <u>\$ -</u> | <u>\$ 36,220</u> | <u>\$ 507,885</u> | <u>\$ 66,948</u> |

**OTHER REQUIRED
REPORTS**

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

April 28, 2020

Board of Managers
Middle Fork Crow River Watershed District
Spicer, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middle Fork Crow River Watershed District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2007-001 and 2008-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2007-002.

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320.632.6311

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Maple Lake
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Monticello
763.295.5070

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Middle Fork Crow River Watershed District's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

April 28, 2020

Board of Managers
Middle Fork Crow River Watershed District
Spicer, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2020.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains five categories of compliance to be tested: deposits and investments, conflicts of interest, claims and disbursements, contracting and bidding, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as reported in the accompanying *Schedule of Findings and Responses* as finding 2019-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

This report is intended for the information and use of the Board of Managers and management of Middle Fork Crow River Watershed District and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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

FINANCIAL STATEMENT FINDINGS

Finding 2007-001 Limited Segregation of Duties

Condition: During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the District to have limited segregation of duties over those transaction cycles. This has been a recurring finding since 2007.

Criteria: Internal control that supports the District’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person may have control over two or more of these responsibilities.

Cause: Limited number of staff members.

Effect: The existence of limited segregation of duties could adversely affect the District’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the District evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Board of Managers is aware of this condition and monitor all financial information.

*Views of Responsible
Officials And Planned
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2007-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the District. It is management’s responsibility to provide for the preparation of financial statements and the auditors’ responsibility to determine the fairness of the presentation. This deficiency could result in a material misstatement that could have been prevented or detected by management. This has been a recurring finding since 2007.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The District’s staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.

Effect: The inability to internally prepare the District’s financial statements can result in undetected errors in financial reporting.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review, we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the District should agree the financial statement numbers to their accounting software. The District may not have the ability to eliminate this finding.

*Views of Responsible
Officials And Planned
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan.

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

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-001 Material Audit Adjustments

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit. This has been a recurring finding since 2008.

Criteria: The District is required to report accurate financial information.

Cause: The District failed to record adjustments for various year-end entries, and fund accounting has not been properly applied in the District's accounting system.

Effect: The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit, ensure all transactions have been properly recorded, and ensure all funds are in balance.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

LEGAL COMPLIANCE FINDING

Finding 2019-001 District Contract Compliance

Condition: The District did not properly utilize and solicit sealed bids for a District contract.

Criteria: In accordance with MN Statute 471.345, subdivision 3, the District is required to solicit sealed bids by public notice for District contracts exceeding \$175,000.

Cause: The District's contract was obtained utilizing quotes, not by sealed bid and not through the use of public notice solicitation.

Effect: The failure to utilize sealed bids by public notice solicitation for a contract exceeding \$175,000 resulted in the District's noncompliance with Minnesota Statutes.

Recommendation: We recommend the District implement additional procurement procedures and conduct training with District employees to ensure sealed bids are solicited by public notice for all future municipal contracts with costs exceeding \$175,000.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2007-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review and make improvements to its internal controls on an ongoing basis, and attempt to maximize the segregation of duties in all areas within the limits of the staff available.
3. Official Responsible
Margaret Johnson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

Finding 2007-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The District will revisit this decision on an ongoing, annual basis.
3. Official Responsible
Margaret Johnson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-001 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors. The District will ensure all transactions have been assigned a class within QuickBooks and that the classes are in balance at year-end.
3. Official Responsible
Margaret Johnson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

LEGAL COMPLIANCE FINDING

Finding 2019-001 District Contract Compliance

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review current procedures and implement additional controls over contract compliance where possible.
3. Official Responsible
Margaret Johnson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2020
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.