

**North Fork Crow River
Watershed District
Brooten, Minnesota**

Financial Statements

December 31, 2018

**North Fork Crow River Watershed District
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**North Fork Crow River Watershed District
Board of Managers
December 31, 2018**

| <u>Elected Officials</u> | <u>Position</u> | <u>Term Expires</u> |
|--------------------------|-----------------|---------------------|
| James Wuertz | President | May 9, 2019 |
| Robert Brauchler | Vice President | May 5, 2019 |
| John Hanson | Secretary | May 9, 2021 |
| James Barchenger | Treasurer | May 31, 2021 |
| Gary Berndt | Manager | May 9, 2020 |

Independent Auditor's Report

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2018, and the related notes to 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the North Fork Crow River Watershed District, Brooten, Minnesota, as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the Administrative Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information 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 (GASB), 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 the District's basic financial statements. The accompanying supplementary information, as identified in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
May 16, 2019

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

As management of North Fork Crow River Watershed District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2018.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$692,495 (net position). Realizing \$158,382 of net investment in capital assets and restricted net position of \$657,984 results in a negative unrestricted net position of \$123,871.
- The District's total net position decreased by \$255,558 which is primarily due to the reporting of taxes and special assessments deferred and delinquent.
- As of the close of the current year, the District's governmental funds reported combined ending fund balance of \$366,678 compared to \$511,597 in the previous year.
- The survey and data acquisition fund balance was \$17,566 at the end of the current year which was all restricted.
- At the end of the current year, the District had debt outstanding of \$301,453 compared to \$380,961 the previous year.
- BWSR Funded Grants: In 2018, the District managed three BWSR funded grants. The District expended \$54,864. The active grants assist targeting Best Management Practice locations throughout two sub-watershed regions in the District and updating drainage records.
- Aquatic Invasive Species Inspection Project: In 2018, the District received a \$31,500 Stearns County AIS Prevention grant, along with \$39,966 in contributions from the City of Paynesville, Paynesville Twp., Koronis Lake Assoc., Grove Lake Lakeshore Assoc., and Rice Lake Assoc. to coordinate an inspection program. Project expenses totaled \$81,412.
- State Revolving Funds (SRF): Interest totaling \$6,012 accrued on the already loaned portion of SRF loan funds, while \$81,653 of SRF loan principal was paid off in 2018.
- The Koronis Lake Association contributed \$15,000 in 2016 allowing the District to staff an intern water quality position until funds have been expended. Intern expenses totaled \$4,922 in 2018.

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the District's net position changed during the most recent 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).

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are 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 spend-able resources, as well as on balances of spend-able resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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 statement. By doing so, readers may better understand the long-term impact of the District's near-term financial decisions. Both the governmental fund Balance Sheet and 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 District maintains three individual major governmental funds. 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 Administrative Fund, Survey and Data Acquisition Fund and the Special Projects Fund, which are considered to be major funds.

The District adopts an annual appropriated budget for its Administrative Fund.

A budgetary comparison statement has been provided for this Fund to demonstrate compliance with this budget.

Notes to Financial Statements

The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$692,495 at the close of the most recent year.

A portion of the District's net position, \$158,382 reflects its investment in capital assets (building, land, land improvements, vehicle, and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. There is no debt related to these assets.

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position (Continued)

Following is a comparison of current and previous year net position.

| | 2018 | 2017 |
|---|--------------|--------------|
| Current and other assets | \$ 1,378,398 | \$ 1,694,856 |
| Capital assets | 158,382 | 170,833 |
| Total assets | \$ 1,536,780 | \$ 1,865,689 |
| Deferred outflows related to pensions | \$ 28,876 | \$ 46,867 |
| Long-term liabilities | \$ 291,364 | \$ 353,913 |
| Other liabilities | 532,255 | 564,229 |
| Total liabilities | \$ 823,619 | \$ 918,142 |
| Unavailable revenue-grant/project revenue | \$ 9,588 | \$ 16,891 |
| Deferred inflows related to pensions | 39,954 | 29,470 |
| Total deferred inflows of resources | \$ 49,542 | \$ 46,361 |
| Net position | | |
| Net investment in capital assets | \$ 158,382 | \$ 170,833 |
| Restricted | 657,984 | 792,224 |
| Unrestricted | (123,871) | (15,004) |
| Total net position | \$ 692,495 | \$ 948,053 |

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

Changes in Net Position

Governmental activities resulted in an decrease of the District's net position by \$255,558. The details of the increase are as listed on the following page.

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position (Continued)

| | 2018 | 2017 |
|--|------------|--------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 288,261 | \$ 1,051,504 |
| Operating grants and contributions | 97,835 | 116,710 |
| Capital grants and contributions | - | 6,613 |
| General revenues | | |
| Property taxes | 254,243 | 252,671 |
| State aids | 45,110 | 48,614 |
| Investment earnings | 26,861 | 26,892 |
| Other general revenues | 57,238 | 30,863 |
| Total revenues | 769,548 | 1,533,867 |
| Expenses | | |
| General | 251,595 | 234,023 |
| Projects | 734,244 | 1,060,472 |
| Interest on long-term debt | 39,267 | 37,514 |
| Total expenses | 1,025,106 | 1,332,009 |
| Change in net position | (255,558) | 201,858 |
| Net position, beginning | 948,053 | 146,195 |
| Prior period adjustment - debt reduction | - | 600,000 |
| Net position - beginning as restated | 948,053 | 746,195 |
| Net position, ending | \$ 692,495 | \$ 948,053 |

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

The Administrative Fund balance increased to \$925,563 in 2018 from \$834,976 the previous year.

**North Fork Crow River Watershed District
Management's Discussion and Analysis
December 31, 2018**

BUDGETARY HIGHLIGHTS

Administrative Fund

The original budget for the Administrative Fund adopted by the Board of Managers was not amended in 2018 and reflects the final 2018 budget. The Administrative Fund revenues of \$476,427 exceeded budgeted revenues of \$260,000 due to intergovernmental revenues, interest income, contributions, and agricultural market value credits received, which were not budgeted. Actual expenditures of \$385,840 exceeded the \$260,000 budgeted expenditures, once again mainly due to grant administration and other reimbursed projects. Due to the fact that the possible award of grant funds and project contributions during the year cannot be predicted and accurately budgeted, grant funds and project contributions received and expended resulted in overages in both revenues and expenditures of \$216,427 and \$125,840 respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2018 amounts to \$158,382. This investment in capital assets is in land, building, vehicle, land improvement, and equipment. Accumulated depreciation was \$112,059 with current depreciation charges of \$12,451. Additional information on the District's capital assets can be found in Note 4 of the financial statements.

**The District's Capital Assets
(Net of Depreciation)**

December 31, 2018

| | |
|---|------------------|
| Land, building, vehicles, land improvement, and equipment | <u>\$158,382</u> |
|---|------------------|

Long-Term Debt

At the end of the current year, the District had long-term debt outstanding of \$301,453. The debt decreased overall by \$79,508 from 2017. The noted decrease is due to repayment of the SRF loans.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

North Fork Crow River Watershed District
P.O. Box 40
Brooten, Minnesota 56316

BASIC FINANCIAL STATEMENTS

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North Fork Crow River Watershed District
Statement of Net Position
December 31, 2018

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and investments | \$ 715,050 |
| Property taxes receivable | 10,096 |
| Special assessments receivable | 632,415 |
| Due from other governments | 5,468 |
| Inventory | 12,786 |
| Prepaid items | 2,583 |
| Capital assets | |
| Land | 24,500 |
| Buildings | 93,233 |
| Equipment | 121,629 |
| Vehicles | 18,531 |
| Land Improvements | 12,548 |
| Less accumulated depreciation | <u>(112,059)</u> |
| Total assets | <u>1,536,780</u> |
| Deferred Outflows of Resources | |
| Deferred outflows of resources related to pensions | <u>28,876</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 1,565,656</u></u> |
| Liabilities | |
| Accounts payable | \$ 41,719 |
| Interest payable | 165 |
| Line of Credit | 328,918 |
| Loans payable | |
| Payable within one year | 148,779 |
| Payable after one year | 152,674 |
| Compensated absences payable | |
| Payable within one year | 12,674 |
| Net pension liability | <u>138,690</u> |
| Total liabilities | <u>823,619</u> |
| Deferred Inflows of Resources | |
| Unavailable revenue - grant revenue | 7,702 |
| Unavailable revenue - project revenue | 1,886 |
| Deferred inflows of resources related to pensions | <u>39,954</u> |
| Total deferred inflows of resources | <u>49,542</u> |
| Net Position | |
| Net investment in capital assets | 158,382 |
| Restricted for special projects | 657,984 |
| Unrestricted | <u>(123,871)</u> |
| Total net position | <u>692,495</u> |
| Total liabilities, deferred inflows of resources, and net position | <u><u>\$ 1,565,656</u></u> |

North Fork Crow River Watershed District
Statement of Activities
Year Ended December 31, 2018

| Functions/Programs | Expenses | Program Revenues | | Capital Grants and Contributions | Net (Expense) |
|-------------------------------|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | | Revenues and Changes in Net Position |
| Governmental activities | | | | | Governmental Activities |
| General government | \$ 251,595 | \$ - | \$ 86,364 | \$ - | \$ (165,231) |
| Projects | 734,244 | 288,261 | 11,471 | - | (434,512) |
| Interest on long-term debt | 39,267 | - | - | - | (39,267) |
| Total governmental activities | <u>\$ 1,025,106</u> | <u>\$ 288,261</u> | <u>\$ 97,835</u> | <u>\$ -</u> | (639,010) |
| General revenues | | | | | |
| | | | | | 254,243 |
| | | | | | 45,110 |
| | | | | | 57,238 |
| | | | | | 26,861 |
| | | | | | <u>383,452</u> |
| | | | | | (255,558) |
| | | | | | <u>948,053</u> |
| | | | | | <u>\$ 692,495</u> |

14 See notes to financial statements.

North Fork Crow River Watershed District
Balance Sheet - Governmental Funds
December 31, 2018

| | Administrative (100) | Special Revenue Survey and Data Acquisition (200) | Capital Projects Special Projects | Total Governmental Funds |
|--|-------------------------|--|--|--------------------------------|
| Assets | | | | |
| Cash | \$ 380,663 | \$ 17,618 | \$ 316,769 | \$ 715,050 |
| Taxes receivable | | | | |
| Current | 4,796 | 2 | 14 | 4,812 |
| Delinquent | 5,163 | 74 | 47 | 5,284 |
| Special assessments receivable | | | | |
| Current | - | - | 6,204 | 6,204 |
| Delinquent | - | - | 11,658 | 11,658 |
| Deferred | - | - | 614,553 | 614,553 |
| Due from other governments | 5,468 | - | - | 5,468 |
| Due from other funds | 531,561 | - | - | 531,561 |
| Prepaid items | 2,583 | - | - | 2,583 |
| Inventory | 12,786 | - | - | 12,786 |
| Total assets | \$ 943,020 | \$ 17,694 | \$ 949,245 | \$ 1,909,959 |
| Liabilities | | | | |
| Accounts payable | \$ 2,706 | \$ - | \$ 39,013 | \$ 41,719 |
| Due to other funds | - | 54 | 531,507 | 531,561 |
| Line of Credit | - | - | 328,918 | 328,918 |
| Total liabilities | 2,706 | 54 | 899,438 | 902,198 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - taxes and assessments | 5,163 | 74 | 626,258 | 631,495 |
| Unavailable revenue - project revenue | 1,886 | - | - | 1,886 |
| Unavailable revenue - grant revenue | 7,702 | - | - | 7,702 |
| Total deferred inflows of resources | 14,751 | 74 | 626,258 | 641,083 |
| Fund Balances | | | | |
| Nonspendable | 15,369 | - | - | 15,369 |
| Restricted | - | 17,566 | 315,704 | 333,270 |
| Assigned | 65,578 | - | - | 65,578 |
| Unassigned | 844,616 | - | (892,155) | (47,539) |
| Total fund balances | 925,563 | 17,566 | (576,451) | 366,678 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 943,020 | \$ 17,694 | \$ 949,245 | \$ 1,909,959 |

**North Fork Crow River Watershed District
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2018**

| | |
|--|------------|
| Total fund balances - governmental funds | \$ 366,678 |
|--|------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

| | |
|-------------------------------|-----------|
| Cost of capital assets | 270,441 |
| Less accumulated depreciation | (112,059) |

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

| | |
|------------------------------|-----------|
| Loans payable | (301,453) |
| Compensated absences payable | (12,674) |
| Net pension liability | (138,690) |

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

| | |
|--|----------|
| Deferred inflows of resources related to pensions | (39,954) |
| Deferred outflows of resources related to pensions | 28,876 |

Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.

| | |
|---------------------|---------|
| Property taxes | 5,284 |
| Special assessments | 626,211 |

Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.

| | |
|--|-------|
| | (165) |
|--|-------|

| | |
|--|-------------------|
| Total net position - governmental activities | <u>\$ 692,495</u> |
|--|-------------------|

**North Fork Crow River Watershed District
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2018**

| | Administrative (100) | Special Revenue Survey and Data Acquisition (200) | Capital Projects Special Projects | Total Governmental Funds |
|-----------------------------|-------------------------|--|--|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 254,167 | \$ 92 | \$ 51 | \$ 254,310 |
| Special assessments | - | - | 461,834 | 461,834 |
| Intergovernmental | 153,351 | - | - | 153,351 |
| Miscellaneous | | | | |
| Investment income | 23,928 | 150 | 2,783 | 26,861 |
| Other | 44,981 | - | - | 44,981 |
| Total revenues | <u>476,427</u> | <u>242</u> | <u>464,668</u> | <u>941,337</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 230,389 | - | - | 230,389 |
| Projects | 155,451 | 4,186 | 577,383 | 737,020 |
| Debt service | | | | |
| Principal | - | - | 81,653 | 81,653 |
| Interest and fiscal charges | - | - | 37,194 | 37,194 |
| Capital outlay | | | | |
| General government | - | - | - | - |
| Projects | - | - | - | - |
| Total expenditures | <u>385,840</u> | <u>4,186</u> | <u>696,230</u> | <u>1,086,256</u> |
| Net change in fund balances | 90,587 | (3,944) | (231,562) | (144,919) |
| Fund Balances | | | | |
| Beginning of year | <u>834,976</u> | <u>21,510</u> | <u>(344,889)</u> | <u>511,597</u> |
| End of year | <u>\$ 925,563</u> | <u>\$ 17,566</u> | <u>\$ (576,451)</u> | <u>\$ 366,678</u> |

**North Fork Crow River Watershed District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities -
Governmental Funds
Year Ended December 31, 2018**

Net change in fund balances - total governmental funds \$ (144,919)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over the estimated
useful lives as depreciation expense.

| | |
|----------------------|----------|
| Capital outlays | - |
| Depreciation expense | (12,451) |
| Capital Contribution | - |

Compensated absences are recognize as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (4,796)

Governmental funds recognized pension contributions as expenditures at the time of
payment whereas the Statement of Activities factors in items related to pensions on a
full accrual perspective.

| | |
|-----------------|---------|
| Pension expense | (1,183) |
|-----------------|---------|

Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in net position in the Statement of Activities. 81,653

Interest on long-term debt in the Statement of Activities differs from the amount
reported in the governmental funds because interest is recognized as an expenditure
in the funds when it is due and thus requires use of current financial resources. In
the Statement of Activities, however, interest expense is recognized as the interest
accrues, regardless of when it is due. 72

Proceeds and other additions to long-term debt are recognized as revenue in the
governmental funds but as a decrease in net position in the Statement of Activities.

| | |
|---------------|---------|
| Loan proceeds | (2,145) |
|---------------|---------|

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

| | |
|---|------------------|
| Taxes and special assessments deferred and delinquent | <u>(171,789)</u> |
|---|------------------|

Change in net position - governmental activities \$ (255,558)

**North Fork Crow River Watershed District
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Administrative Fund
Year Ended December 31, 2018**

| | Budgeted Amounts Original and Final | Actual Amounts | Variance with Final Budget - Over (Under) |
|-----------------------------------|--|-------------------|---|
| Revenues | | | |
| Property taxes | \$ 260,000 | \$ 254,167 | \$ (5,833) |
| Intergovernmental | - | 153,351 | 153,351 |
| Miscellaneous | | | |
| Investment income | - | 23,928 | 23,928 |
| Other | - | 44,981 | 44,981 |
| Total revenues | 260,000 | 476,427 | 216,427 |
| Expenditures | | | |
| Current | | | |
| General government | | | |
| Employee expenses | 211,748 | 179,872 | (31,876) |
| Managers and administrative | 12,652 | 11,037 | (1,615) |
| Mileage and expenses | 1,850 | 1,378 | (472) |
| Professional fees | 21,300 | 24,707 | 3,407 |
| Office expenses | 1,550 | 1,404 | (146) |
| Public and professional education | 10,300 | 8,654 | (1,646) |
| Other | 100 | 3,337 | 3,237 |
| Projects | | | |
| Grant administration | - | 86,366 | 86,366 |
| Other | - | 69,085 | 69,085 |
| Capital Outlay | | | |
| General government | 500 | - | (500) |
| Total expenditures | 260,000 | 385,840 | 125,840 |
| | | | |
| Net change in fund balances | \$ - | 90,587 | \$ 90,587 |
| Fund Balances | | | |
| Beginning of year | | 834,976 | |
| End of year | | \$ 925,563 | |

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North Fork River Watershed District Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Fork Crow River Watershed District (the "District") is a watershed district created under the provisions of *Minnesota Statutes*. The District is governed by five managers appointed by Stearns, Kandiyohi, Meeker, and Pope Counties' Boards of Commissioners for three year terms. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The financial statements present the District and its component units. The District includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

Blended Component Units – Reported as if they were part of the District.

Joint Ventures and Jointly Governed Organizations – The relationship of the District with the entity is disclosed.

Related Organization – The relationship of the District with the entity is disclosed.

As a result of applying the component unit definition criteria above, we have not identified any organizations that are considered to be component units of the District.

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 activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Fund 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 revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Description of Funds

Major Governmental Funds

Administrative Fund – This fund is the District's primary operating fund. It accounts for all financial resources of the general District, except those required to be accounted for in another fund.

Survey and Data Acquisition Special Revenue Fund – This fund accounts for costs of performing surveys and acquiring data. The Fund is financed by an ad valorem levy, which can be levied once every five years.

Special Projects Capital Projects Fund – This fund accounts for the maintenance and repair of any water course or water body lying wholly or partially within the District.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures, or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported in the various functions.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Deposits and Investments

The District's cash and investments are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, and repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

2. Receivables and Payables

The District levies its property tax for the subsequent year during the month of August. December 28 is the last day the District can certify a tax levy to the County Auditors for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. The property tax is recorded as revenue when it becomes measurable and available. Stearns, Kandiyohi, Meeker, and Pope Counties are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditors prepare the tax list for all taxable property in the District, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the District.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

3. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of projects in accordance with *Minnesota Statutes*. These assessments are collectible by the District over a term of years usually consistent with the term of the related note payable. Collection of annual installments (including interest) is handled by the County Auditors in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance
(Continued)**

3. Special Assessment Revenue Recognition (Continued)

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the Board of Managers or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are allocated first to the County's costs of administering all tax forfeited properties. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

a. Government-Wide Financial Statements

The District recognizes special assessment revenue in the period the assessment roll was adopted by the Board of Managers. Uncollectible special assessments are not material and have not been reported.

b. Governmental Fund Financial Statements

Revenue from special assessments is recognized by the District when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the District are recognized as revenue for the current year. Special assessments that are collected by the Counties by December 31 and remitted to the District within 60 days of December 31 are also recognized as revenue for the current year. All remaining delinquent, deferred, and special deferred assessments receivable in governmental funds are completely offset by deferred inflows of resources for unavailable revenue.

4. Inventory and 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 recorded as an expenditure at the time of consumption.

Inventories of materials and supplies are maintained for District use and occasional sale at cost to other governmental units. Inventories are valued at cost which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column 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 two years. 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.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance
(Continued)**

5. Capital Assets (Continued)

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------------|--------------|
| Buildings | 7-40 |
| Land improvements | 5-30 |
| Machinery, equipment, and radios | 5-40 |
| Vehicles | 3-50 |

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The District presents deferred inflows of resources on the Balance Sheet - Governmental Funds as unavailable revenue. The governmental funds report unavailable revenues from three sources: property taxes, special assessments, and grant revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years, and grant and project revenues unavailable in the current year.

7. Compensated Absences

Full-time permanent employees earn paid time off (PTO) at a rate based on their years of service. The District compensates employees who resign or retire for unused PTO.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance
(Continued)**

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

In the fund financial statements, governmental fund types recognize issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Pensions

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

10. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision making authority, which is the Board of Managers, and that remain binding unless removed by subsequent formal action of the Board of Managers.
- **Assigned Fund Balance** – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the Administrative Fund, that are not classified as nonspendable, restricted, or committed. Assignments are made by the District's Administrator based on the Board of Manager's direction.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance
(Continued)**

10. Fund Balance (Continued)

a. Classification (Continued)

- Unassigned Fund Balance – These are residual amounts in the Administrative Fund not reported in any other classification. The Administrative Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources and use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order; committed, assigned, and unassigned.

b. Minimum Fund Balance

The District will maintain an unrestricted fund balance in the Administrative Fund of an amount not less than 35% of the next year's budgeted expenditures.

11. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

12. State Revolving Funds

State revolving funds is money received through clean water partnership as a loan to individuals participating in land and septic improvements that affect water quality. Landowners whose applications are approved by the Board of Managers are eligible for loans not to exceed the actual cost of the project. Loans are repaid through special assessments.

E. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Information

1. In August of each year, the District submits to the Board of Managers, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. A budget for the Administrative and Survey and Acquisition Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
4. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without Board of Manager's approval. The Board of Managers may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
5. Budgeted amounts are as originally adopted or as amended by the Board of Managers. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balances

The Funds listed below had negative fund balances at December 31, 2018:

Special Projects Funds:

| | |
|----------------------------|------------|
| Judicial Ditch No. 1 | \$ 300,302 |
| Judicial Ditch No. 2 | 18,642 |
| County Ditch No. 7 | 334,718 |
| County Ditch No. 21 | 7,419 |
| County Ditch No. 29 | 62,079 |
| County Ditch No. 32 | 41,228 |
| County Ditch No. 36 | 20,080 |
| County Ditch No. 37 | 25,882 |
| Meeker County Ditch No. 4 | 57,583 |
| Meeker County Ditch No. 43 | 24,222 |

The District has implemented plans to eliminate these deficits by future grants, loans, and special assessments.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. As of December 31, 2018, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

The District did not have formal policies in place as of December 31, 2018, to address custodial credit risk for deposits. The District also did not have policies in place to address credit risk, concentration of credit risk, interest rate risk and custodial credit risk for investments.

At December 31, 2018, cash and investments were comprised of deposits, including savings accounts at a commercial bank.

Total deposits at December 31, 2018, were as follows:

| | |
|----------------|--------------------------|
| Checking | \$ 5,234 |
| Savings | <u>709,816</u> |
| Total deposits | <u><u>\$ 715,050</u></u> |

Deposits are presented in the December 31, 2018, basic financial statements as follows:

| | |
|---------------------------|--------------------------|
| Statement of Net Position | <u><u>\$ 715,050</u></u> |
|---------------------------|--------------------------|

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 24,500 | \$ - | \$ - | \$ 24,500 |
| Capital assets being depreciated | | | | |
| Buildings | 93,233 | - | - | 93,233 |
| Equipment | 121,629 | - | - | 121,629 |
| Vehicles | 18,531 | - | - | 18,531 |
| Land improvements | 12,548 | - | - | 12,548 |
| Total capital assets being depreciated | <u>245,941</u> | <u>-</u> | <u>-</u> | <u>245,941</u> |
| Less accumulated depreciation for | | | | |
| Buildings | 7,090 | 2,331 | - | 9,421 |
| Equipment | 74,903 | 6,636 | - | 81,539 |
| Vehicles | 15,662 | 2,647 | - | 18,309 |
| Land improvements | 1,953 | 837 | - | 2,790 |
| Total accumulated depreciation | <u>99,608</u> | <u>12,451</u> | <u>-</u> | <u>112,059</u> |
| Total capital assets being depreciated, net | <u>146,333</u> | <u>(12,451)</u> | <u>-</u> | <u>133,882</u> |
| Governmental activities, capital assets, net | <u>\$ 170,833</u> | <u>\$ (12,451)</u> | <u>\$ -</u> | <u>\$ 158,382</u> |

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

| | |
|-------------------------|------------------|
| Governmental activities | |
| General government | <u>\$ 12,451</u> |

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Due to/from Other Funds

The composition of interfund balances as of December 31, 2018, was as follows:

| | Amounts Due to Other Funds | | |
|------------------------------|----------------------------|---|----------------|
| | <u>Special Projects</u> | <u>Survey and Data Acquisition Fund</u> | <u>Total</u> |
| Amounts due from other funds | | | |
| Administrative | <u>\$ 531,507</u> | <u>54</u> | <u>531,561</u> |

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS (CONTINUED)

A. Due to/from Other Funds (Continued)

The amounts due to the Administrative Fund represent accruals to account for short-term borrowing for cash flow purposes.

B. Transfers

There were no transfers in 2018.

NOTE 6 – LONG-TERM DEBT

A. Loans Payable

The District enters into loan agreements with the State of Minnesota to provide financing for watershed projects and improvements. Debt service is covered respectively by special assessments against benefited properties with any shortfalls being paid from general taxes.

These loans generally are issued with a 10 to 15 year term with equal debt service payments each year.

B. Components of Long-Term Liabilities

| | <u>Issue Date</u> | <u>Interest Rates</u> | <u>Original Issue</u> | <u>Final Maturity</u> | <u>Principal Outstanding</u> | <u>Due Within One Year</u> |
|---|-----------------------|---------------------------|---------------------------|---------------------------|----------------------------------|--------------------------------|
| Long-term liabilities | | | | | | |
| Governmental activities | | | | | | |
| State of Minnesota Project loans payable | | | | | | |
| SRF0218 - North Fork Crow Septic System/ Feedlot upgrades | 03/19/10 | 2% | \$ 294,766 | 06/15/23 | \$ 139,922 | \$ 30,020 |
| SRF0268 - North Fork Crow Septic System/ Feedlot upgrades continuation project | 02/11/13 | 2% | <u>500,000</u> | 06/15/27 | <u>48,008</u> | <u>5,236</u> |
| Total State of Minnesota Project loans payable | | | <u>794,766</u> | | <u>187,930</u> | <u>35,256</u> |
| Stearns County Project loans payable | | | | | | |
| Stearns County Judicial Ditch #1 Loan | 08/02/16 | 2% | <u>600,000</u> | * | <u>113,523</u> | <u>113,523</u> |
| Compensated absences | | | | | <u>12,674</u> | <u>12,674</u> |
| Total all long-term liabilities | | | | | <u>\$ 314,127</u> | <u>\$ 161,453</u> |

* The District is still currently drawing down on the balance of this loan. Final payment schedules indicating the final maturity of the loan will not be available until the loan is fully drawn and the State finalizes the loan documentation. The balance of this loan is excluded from the debt service requirements to maturity schedules as shown on the following page.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Minimum Debt Payments

Annual debt service requirements to maturity for all outstanding debt are as follows:

| <u>Year Ended December 31,</u> | <u>State of Minnesota Project Loans</u> | | |
|------------------------------------|---|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2019 | \$ 35,256 | \$ 3,583 | \$ 38,839 |
| 2020 | 35,964 | 2,875 | 38,839 |
| 2021 | 36,687 | 2,152 | 38,839 |
| 2022 | 37,425 | 1,414 | 38,839 |
| 2023 | 21,843 | 662 | 22,505 |
| 2024-2028 | 20,755 | 839 | 21,594 |
| Total | <u>\$ 187,930</u> | <u>\$ 11,525</u> | <u>\$ 199,455</u> |

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

| | <u>Beginning Balance, Restated</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------------|--|------------------|-------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| State of Minnesota Project | | | | | |
| Loans payable | \$ 269,583 | \$ - | \$ 81,653 | \$ 187,930 | \$ 35,256 |
| Stearns County Project | | | | | |
| Loans payable | 111,377 | 2,146 | - | 113,523 | 113,523 |
| Compensated absences | 7,878 | 16,230 | 11,434 | 12,674 | 12,674 |
| Total governmental activities | <u>\$ 388,838</u> | <u>\$ 18,376</u> | <u>\$ 93,087</u> | <u>\$ 314,127</u> | <u>\$ 161,453</u> |

The beginning balance was restated to account for the prior period adjustment related to a Stearns County loan.

The Administrative Fund typically liquidates the liability related to compensated absences.

NOTE 7 – SHORT-TERM DEBT

On July 19, 2017, the District obtained a line for credit for \$500,000 with an interest rate of 4.25% through Bonanza Valley State Bank. This agreement was set to expire on October 19, 2018, but was extended until January 30, 2019. As of December 31, 2018, the District had drawn \$500,000 on the line of credit and the outstanding balance was \$328,918.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 8 – FUND BALANCE/NET POSITION

A. Fund Balance

Fund balances are classified as follows to reflect the limitations and restrictions of the respective funds.

| | <u>Administrative</u> | <u>Survey and Data Acquisition</u> | <u>Special Projects</u> | <u>Total</u> |
|-----------------------------|-----------------------|--|-----------------------------|-------------------|
| Nonspendable | | | | |
| Prepaid items | \$ 2,583 | \$ - | \$ - | \$ 2,583 |
| Inventory | 12,786 | - | - | 12,786 |
| Restricted | | | | |
| Survey and data acquisition | - | 17,566 | - | 17,566 |
| Projects | - | - | 315,704 | 315,704 |
| Assigned | | | | |
| Riparian aid | 65,578 | - | - | 65,578 |
| Unassigned | 844,616 | - | (892,155) | (47,539) |
| | <u>\$ 925,563</u> | <u>\$ 17,566</u> | <u>\$ (576,451)</u> | <u>\$ 366,678</u> |
| Total | <u>\$ 925,563</u> | <u>\$ 17,566</u> | <u>\$ (576,451)</u> | <u>\$ 366,678</u> |

B. Net Position

Restricted net position is comprised of the total restricted fund balance in the governmental funds plus the effect of the conversion to the government-wide net position.

NOTE 9 – RISK MANAGEMENT

The District purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state, which is a public entity risk pool currently operating as a common risk management and insurance program. The District pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining, through commercial companies, for excess claims. The District is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is 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 years.

The District's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2018 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 9 – RISK MANAGEMENT

At December 31, 2018, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan, accounted for in the General Employees Fund)

All full-time and certain part-time employees of the 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.

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.

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 a Coordinated members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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 6.5% of their annual covered salary in calendar year 2018. The District was required to contribute 7.50% for Coordinated Plan members in calendar year 2018. The District's contributions to the General Employees Fund for the year ended December 31, 2018, were \$12,922. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2018, the District reported a liability of \$138,690 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 2018. 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 \$4,581. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportionate share was 0.0025%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2017.

| | |
|--|------------|
| District's proportionate share of the net pension liability | \$ 138,690 |
| State of Minnesota's proportionate share of the net pension liability associated with the District | 4,581 |
| Total | \$ 143,271 |

For the year ended December 31, 2018, the District recognized pension expense of \$15,173 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the District recognized \$1,068 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.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At December 31, 2018, 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:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience | \$ 3,811 | \$ 4,045 |
| Changes in actuarial assumptions | 13,248 | 16,011 |
| Difference between projected and actual investment earnings | - | 15,110 |
| Changes in proportion | 5,356 | 4,788 |
| Contributions paid to PERA subsequent to the measurement date | <u>6,461</u> | <u>-</u> |
| Total | <u><u>\$ 28,876</u></u> | <u><u>\$ 39,954</u></u> |

\$6,461 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:

| <u>Year Ending December 31,</u> | <u>Pension Expense Amount</u> |
|-------------------------------------|-----------------------------------|
| 2019 | \$ 5,960 |
| 2020 | (7,483) |
| 2021 | (13,121) |
| 2022 | <u>(2,895)</u> |
| Total | <u><u>\$ (17,539)</u></u> |

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

| | |
|------------------------------|-----------------|
| Inflation | 2.50 % Per year |
| Active member payroll growth | 3.25 % Per year |
| Investment rate of return | 7.50 % |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants 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% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- 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 2.5% per year thereafter to 1.25% per year.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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 | 36% | 5.10% |
| International stocks | 17 | 5.30 |
| Bonds | 20 | 0.75 |
| Alternative assets | 25 | 5.90 |
| Cash | 2 | 0.00 |
| Total | <u>100%</u> | |

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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 those assumptions, the fiduciary net position 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.

G. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate (6.5%) | Discount Rate (7.5%) | 1% Increase in Discount Rate (8.5%) |
|--|---|-------------------------|---|
| District's proportionate share of the General Employees Fund net pension liability | \$ 225,389 | \$ 138,690 | \$ 67,122 |

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 11 – COMMITMENTS

As of December 31, 2018, the District has the following commitments:

| Project | Approved Contract | Completed to Date | Commitment |
|----------------------------------|----------------------|----------------------|------------|
| CD32 Ditch Repair Contract - SBC | \$ 130,118 | \$ 113,541 | \$ 16,577 |
| CD32 Ditch Repair Contract - MBC | 79,053 | 50,609 | 28,444 |
| CD7 Ditch Repair Contract | 588,757 | 566,408 | 22,349 |

NOTE 12 – CONTINGENCY

As of December 31, 2018, the final payment amount of a contract was in dispute between the District and a contractor for services. The resolution of these matters should not have a material adverse effect on the financial condition of the District.

NOTE 13 – SUBSEQUENT EVENT

On February 12, 2019, the District entered into a loan agreement with Bonanza Valley State Bank in the amount of \$330,000.

NOTE 14 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 83, Certain Asset Retirement Obligations establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending December 31, 2019.

**North Fork River Watershed District
Notes to Financial Statements**

NOTE 14 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 85, Omnibus 2017 addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 90, Majority Equity Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be effective for the year ending December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

**North Fork Crow River Watershed District
Schedule of District's Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years***

| For Fiscal Year Ended June 30, | District's Proportionate Share (Percentage) of the Net Pension Liability (Asset) | District's Proportionate Share (Amount) of the Net Pension Liability (Asset) | State's Proportionate Share (Amount) of the Net Pension Liability Associated with the District | District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------------|---|---|--|--|-------------------------------|--|--|
| 2018 | 0.0025% | \$ 138,690 | \$ 4,581 | \$ 143,271 | \$ 168,200 | 82.46% | 79.53% |
| 2017 | 0.0026% | 165,982 | 2,058 | 168,040 | 165,187 | 100.48% | 75.90% |
| 2016 | 0.0025% | 202,988 | 2,722 | 205,710 | 156,387 | 129.80% | 68.91% |
| 2015 | 0.0024% | 124,380 | - | 124,380 | 136,760 | 90.95% | 78.19% |

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**North Fork Crow River Watershed District
Schedule of District Contributions -
General Employees Retirement Fund
Last Ten Years***

| <u>Fiscal Year Ending December 31,</u> | <u>Statutorily Required Contribution</u> | <u>Contributions in Relation to the Statutorily Required Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>District's Covered Payroll</u> | <u>Contributions as a Percentage of Covered Payroll</u> |
|--|--|--|---|---------------------------------------|---|
| 2018 | \$ 12,922 | \$ 12,922 | \$ - | \$ 172,293 | 7.50% |
| 2017 | 12,440 | 12,440 | - | 165,867 | 7.50% |
| 2016 | 12,228 | 12,228 | - | 163,040 | 7.50% |
| 2015 | 11,038 | 11,038 | - | 147,173 | 7.50% |

*This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

North Fork Crow River Watershed District Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

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 2.5% per year thereafter to 1.25% per year.

2017 Changes

Changes in Actuarial Assumptions

- The 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, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

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 increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

**North Fork Crow River Watershed District
Combining Balance Sheet -
Special Projects Funds
December 31, 2018**

| | Judicial Ditch No. 1 (301) | Judicial Ditch No. 2 (302) | County Ditch No. 5 (303) | County Ditch No. 7 (304) |
|--|----------------------------------|----------------------------------|-----------------------------|-----------------------------|
| Assets | | | | |
| Cash | \$ 103 | \$ 100 | \$ 6,672 | \$ 102 |
| Property taxes receivable | | | | |
| Current | - | - | - | - |
| Delinquent | - | - | - | - |
| Special assessments receivable | | | | |
| Current | 4,925 | - | 15 | 241 |
| Delinquent | 1,398 | - | - | 47 |
| Deferred | 60,528 | 15,800 | - | 408,164 |
| Prepaid Items | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 66,954</u> | <u>\$ 15,900</u> | <u>\$ 6,687</u> | <u>\$ 408,554</u> |
| Liabilities | | | | |
| Accounts payable | \$ 100 | \$ - | \$ - | \$ 13,543 |
| Due to other funds | 294,880 | 18,742 | - | 14,796 |
| Line of Credit | 10,350 | - | - | 306,722 |
| Total liabilities | <u>305,330</u> | <u>18,742</u> | <u>-</u> | <u>335,061</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - taxes and assessments | <u>61,926</u> | <u>15,800</u> | <u>-</u> | <u>408,211</u> |
| Fund Balances | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | - | 6,687 | - |
| Unassigned | (300,302) | (18,642) | - | (334,718) |
| Total fund balances | <u>(300,302)</u> | <u>(18,642)</u> | <u>6,687</u> | <u>(334,718)</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 66,954</u> | <u>\$ 15,900</u> | <u>\$ 6,687</u> | <u>\$ 408,554</u> |

| County Ditch No. 21 (305) | County Ditch No. 29 (306) | County Ditch No. 32 (307) | County Ditch No. 36 (308) | County Ditch No. 37 (309) | County Ditch No. 38 (310) | Meeker County Ditch No. 4 (311) |
|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---------------------------------------|
| \$ 100 | \$ 100 | \$ 100 | \$ 403 | \$ 101 | \$ 311 | \$ 100 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 97 | - | - | - | - | - | 554 |
| 4,034 | - | - | 762 | 1,918 | - | 1,330 |
| - | - | - | - | - | - | 52,162 |
| <u>\$ 4,231</u> | <u>\$ 100</u> | <u>\$ 100</u> | <u>\$ 1,165</u> | <u>\$ 2,019</u> | <u>\$ 311</u> | <u>\$ 54,146</u> |
| \$ - | \$ - | \$ 25,035 | \$ - | \$ 335 | \$ - | \$ - |
| 7,519 | 56,464 | 16,293 | 17,694 | 22,306 | - | 58,237 |
| - | 5,715 | - | 2,789 | 3,342 | - | - |
| <u>7,519</u> | <u>62,179</u> | <u>41,328</u> | <u>20,483</u> | <u>25,983</u> | <u>-</u> | <u>58,237</u> |
| <u>4,131</u> | <u>-</u> | <u>-</u> | <u>762</u> | <u>1,918</u> | <u>-</u> | <u>53,492</u> |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 311 | - |
| <u>(7,419)</u> | <u>(62,079)</u> | <u>(41,228)</u> | <u>(20,080)</u> | <u>(25,882)</u> | <u>-</u> | <u>(57,583)</u> |
| <u>(7,419)</u> | <u>(62,079)</u> | <u>(41,228)</u> | <u>(20,080)</u> | <u>(25,882)</u> | <u>311</u> | <u>(57,583)</u> |
| <u>\$ 4,231</u> | <u>\$ 100</u> | <u>\$ 100</u> | <u>\$ 1,165</u> | <u>\$ 2,019</u> | <u>\$ 311</u> | <u>\$ 54,146</u> |

**North Fork Crow River Watershed District
Combining Balance Sheet -
Special Projects Funds
December 31, 2018**

| | Meeker County Ditch No. 40 (312) | Meeker County Ditch No. 43 (313) | North Fork Crow River Watershed Wide Projects (314) |
|---|--|--|---|
| Assets | | | |
| Cash | \$ 160 | \$ 100 | \$ 43,456 |
| Property taxes receivable | | | |
| Current | - | - | 13 |
| Delinquent | - | - | 43 |
| Special assessments receivable | | | |
| Current | - | 254 | - |
| Delinquent | - | 22 | - |
| Deferred | - | 30,046 | - |
| Prepaid Items | - | - | - |
| | <u>160</u> | <u>30,422</u> | <u>43,512</u> |
| Total assets | <u>\$ 160</u> | <u>\$ 30,422</u> | <u>\$ 43,512</u> |
| Liabilities | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Due to other funds | - | 24,576 | - |
| Line of Credit | - | - | - |
| Total liabilities | <u>-</u> | <u>24,576</u> | <u>-</u> |
| Deferred Inflows of Resources | | | |
| Unavailable revenue - taxes and assessments | - | 30,068 | 43 |
| Fund Balances | | | |
| Nonspendable | - | - | - |
| Restricted | 160 | - | 43,469 |
| Unassigned | - | (24,222) | - |
| Total fund balances | <u>160</u> | <u>(24,222)</u> | <u>43,469</u> |
| | <u>\$ 160</u> | <u>\$ 30,422</u> | <u>\$ 43,512</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 160</u> | <u>\$ 30,422</u> | <u>\$ 43,512</u> |

| Lake Koronis and Rice Lake (315) | WW/Mid SRF (317) | SRF 0218 (318) | SRF 0268 (321) | Total Special Projects Funds |
|--|---------------------|-------------------|-------------------|---------------------------------|
| \$ 96,085 | \$ 5,152 | \$ 132,319 | \$ 31,305 | \$ 316,769 |
| 1 | - | - | - | 14 |
| 4 | - | - | - | 47 |
| - | 215 | - | - | 6,204 |
| - | 4,909 | 3,529 | 326 | 11,658 |
| - | 3,538 | 18,748 | 18,853 | 614,553 |
| - | - | - | - | - |
| <u>\$ 96,090</u> | <u>\$ 13,814</u> | <u>\$ 154,596</u> | <u>\$ 50,484</u> | <u>\$ 949,245</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 39,013 |
| - | - | - | - | 531,507 |
| - | - | - | - | 328,918 |
| - | - | - | - | 899,438 |
| <u>4</u> | <u>8,447</u> | <u>22,277</u> | <u>19,179</u> | <u>626,258</u> |
| - | - | - | - | - |
| 96,086 | 5,367 | 132,319 | 31,305 | 315,704 |
| - | - | - | - | (892,155) |
| <u>96,086</u> | <u>5,367</u> | <u>132,319</u> | <u>31,305</u> | <u>(576,451)</u> |
| <u>\$ 96,090</u> | <u>\$ 13,814</u> | <u>\$ 154,596</u> | <u>\$ 50,484</u> | <u>\$ 949,245</u> |

**North Fork Crow River Watershed District
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Special Projects Funds
Year Ended December 31, 2018**

| | Judicial Ditch No. 1 (301) | Judicial Ditch No. 2 (302) | County Ditch No. 5 (303) | County Ditch No. 7 (304) |
|---|----------------------------------|----------------------------------|-----------------------------|-----------------------------|
| Revenues | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Special assessments | 188,105 | 9,320 | 8,618 | 89,512 |
| Miscellaneous | | | | |
| Investment income | 19 | 1 | 15 | 41 |
| Other | - | - | - | - |
| Total revenues | <u>188,124</u> | <u>9,321</u> | <u>8,633</u> | <u>89,553</u> |
| Expenditures | | | | |
| Current | | | | |
| Projects | | | | |
| Wages | 11,680 | 1,285 | 466 | 5,492 |
| Managers and administrative | 550 | - | - | - |
| Maintenance and repair | 127,906 | - | - | 211,678 |
| Mileage and expense | 1,439 | 87 | 14 | 241 |
| Professional fees | 55,360 | 9,239 | 200 | 10,253 |
| Office expense | 7,122 | 842 | 578 | 3,623 |
| Other | 31 | - | - | 108 |
| Debt Service | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | 12,997 | 745 | 22 | 9,850 |
| Capital Outlay | | | | |
| Project expenditures | - | - | - | - |
| Total expenditures | <u>217,085</u> | <u>12,198</u> | <u>1,280</u> | <u>241,245</u> |
| Excess of revenues over (under) expenditures | (28,961) | (2,877) | 7,353 | (151,692) |
| Other Financing Uses | | | | |
| Transfers out | - | - | - | - |
| Net change in fund balances | (28,961) | (2,877) | 7,353 | (151,692) |
| Fund Balances | | | | |
| Beginning of year | <u>(271,341)</u> | <u>(15,765)</u> | <u>(666)</u> | <u>(183,026)</u> |
| End of year | <u>\$ (300,302)</u> | <u>\$ (18,642)</u> | <u>\$ 6,687</u> | <u>\$ (334,718)</u> |

| County Ditch No. 21 (305) | County Ditch No. 29 (306) | County Ditch No. 32 (307) | County Ditch No. 36 (308) | County Ditch No. 37 (309) | County Ditch No. 38 (310) | Meeker County Ditch No. 4 (311) |
|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---------------------------------|---------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 4,770 | - | - | 4,517 | 21,039 | - | 84,704 |
| 1 | 1 | 168 | 1 | 2 | 3 | 7 |
| - | - | - | - | - | - | - |
| <u>4,771</u> | <u>1</u> | <u>168</u> | <u>4,518</u> | <u>21,041</u> | <u>3</u> | <u>84,711</u> |
| 401 | 2,733 | 5,052 | 1,810 | 1,695 | 51 | 1,477 |
| - | 325 | 300 | 125 | 125 | - | 75 |
| - | 550 | 6,050 | 1,250 | 400 | - | 37,771 |
| 34 | 142 | 504 | 112 | 168 | - | 115 |
| 150 | 25,610 | 11,910 | 7,998 | 9,539 | - | 1,290 |
| 291 | 1,719 | 3,258 | 1,039 | 980 | 172 | 963 |
| - | 162 | 26 | - | - | - | - |
| - | - | - | - | - | - | - |
| 381 | 2,126 | 138 | 752 | 1,443 | - | 2,594 |
| - | - | - | - | - | - | - |
| <u>1,257</u> | <u>33,367</u> | <u>27,238</u> | <u>13,086</u> | <u>14,350</u> | <u>223</u> | <u>44,285</u> |
| 3,514 | (33,366) | (27,070) | (8,568) | 6,691 | (220) | 40,426 |
| - | - | - | - | - | - | - |
| 3,514 | (33,366) | (27,070) | (8,568) | 6,691 | (220) | 40,426 |
| (10,933) | (28,713) | (14,158) | (11,512) | (32,573) | 531 | (98,009) |
| <u>\$ (7,419)</u> | <u>\$ (62,079)</u> | <u>\$ (41,228)</u> | <u>\$ (20,080)</u> | <u>\$ (25,882)</u> | <u>\$ 311</u> | <u>\$ (57,583)</u> |

**North Fork Crow River Watershed District
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Special Projects Funds
Year Ended December 31, 2018**

| | Meeker County Ditch No. 40 (312) | Meeker County Ditch No. 43 (313) | North Fork Crow River Watershed Wide Projects (314) |
|---|--|--|---|
| Revenues | | | |
| Property taxes | \$ - | \$ - | \$ 43 |
| Special assessments | - | 9,893 | - |
| Miscellaneous | | | |
| Investment income | 1 | 1 | 337 |
| Other | - | - | - |
| Total revenues | <u>1</u> | <u>9,894</u> | <u>380</u> |
| Expenditures | | | |
| Current | | | |
| Projects | | | |
| Wages | - | 497 | - |
| Managers and administrative | - | - | - |
| Maintenance and repair | - | - | - |
| Mileage and expense | - | 19 | - |
| Professional fees | - | - | 1,858 |
| Office expense | - | 443 | - |
| Other | - | - | - |
| Debt Service | | | |
| Principal | - | - | - |
| Interest and fiscal charges | - | 1,162 | - |
| Capital Outlay | | | |
| Project expenditures | - | - | - |
| Total expenditures | <u>-</u> | <u>2,121</u> | <u>1,858</u> |
| Excess of revenues over (under) expenditures | 1 | 7,773 | (1,478) |
| Other Financing Uses | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 1 | 7,773 | (1,478) |
| Fund Balances | | | |
| Beginning of year | <u>159</u> | <u>(31,995)</u> | <u>44,947</u> |
| End of year | <u>\$ 160</u> | <u>\$ (24,222)</u> | <u>\$ 43,469</u> |

| Lake Koronis and Rice Lake (315) | WW/Mid SRF (317) | SRF 0218 (318) | SRF 0268 (321) | Total Special Projects Funds |
|--|---------------------|-------------------|-------------------|---------------------------------|
| \$ 8 | \$ - | \$ - | \$ - | \$ 51 |
| - | 7,993 | 24,705 | 8,658 | 461,834 |
| 717 | 235 | 1,015 | 218 | 2,783 |
| - | - | - | - | - |
| <u>725</u> | <u>8,228</u> | <u>25,720</u> | <u>8,876</u> | <u>464,668</u> |
| - | - | - | - | 32,639 |
| - | - | - | - | 1,500 |
| - | - | - | - | 385,605 |
| - | - | - | - | 2,875 |
| - | - | - | - | 133,407 |
| - | - | - | - | 21,030 |
| - | - | - | - | 327 |
| - | 47,092 | 29,428 | 5,133 | 81,653 |
| - | 707 | 3,241 | 1,036 | 37,194 |
| - | - | - | - | - |
| <u>-</u> | <u>47,799</u> | <u>32,669</u> | <u>6,169</u> | <u>696,230</u> |
| 725 | (39,571) | (6,949) | 2,707 | (231,562) |
| - | - | - | - | - |
| 725 | (39,571) | (6,949) | 2,707 | (231,562) |
| 95,361 | 44,938 | 139,268 | 28,598 | (344,889) |
| <u>\$ 96,086</u> | <u>\$ 5,367</u> | <u>\$ 132,319</u> | <u>\$ 31,305</u> | <u>\$ (576,451)</u> |

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**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***

Independent Auditor's Report

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Finding 2018-001 that we consider to be a material weakness.

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

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Control and Legal Compliance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
May 16, 2019

Minnesota Legal Compliance

Independent Auditor's Report

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 16, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that North Fork Crow River Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
May 16, 2019

**North Fork Crow River Watershed District
Schedule of Findings and Responses on
Internal Control**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING

Material Weakness

Audit Finding 2018-001 – Lack of Segregation of Accounting Duties

The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting 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. In order to have appropriate segregation of accounting duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information, and custody of assets.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Management's Response

Solutions to remedy this situation have been explored; it has been found that it would not be cost effective to hire additional staff to have greater segregation of duties.