

Middle Fork Crow River Watershed District

Audited Financial Statements

December 31, 2021

**SCHLENNER
WENNER & Co.**
CPAs

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
DISTRICT MANAGERS AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2021**

BOARD OF MANAGERS

		<u>Term Expires</u>
Ruth Schaefer	President	4/26/2022
Jay Hedtke	Vice President	4/26/2024
Kelsey Olson	Secretary	4/26/2023
Shane Braegelman	Treasurer	4/26/2022
Jeff Gertgen	Co-Treasurer	4/26/2024

DISTRICT OFFICIALS

Scott Henderson	Administrator
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**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Middle Fork Crow River Watershed District as of December 31, 2021, and their respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Middle Fork Crow River Watershed District's basic financial statements. The accompanying budgetary comparison schedule for all funds and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2022 on our consideration of Middle Fork Crow River Watershed 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 Middle Fork Crow River Watershed 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 Middle Fork Crow River Watershed District's internal control over financial reporting and compliance.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

June 8, 2022

BASIC FINANCIAL STATEMENTS

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 802,227
Property Taxes Receivable	23,117
Assessments Receivable	114,275
Accounts Receivable	9,012
Grants Receivable	104,375
Prepays	8,851
Noncurrent Assets:	
Capital Assets Not Being Depreciated	105,783
Capital Assets Being Depreciated (Net)	508,711
TOTAL ASSETS	1,676,351
 DEFERRED OUTFLOWS OF RESOURCES	
Pensions	165,266
 LIABILITIES	
Accounts Payable	26,392
Salaries Payable	10,539
Accrued Interest Payable	3,962
Accrued Vacation	16,705
Noncurrent Liabilities:	
Amount Due Within One Year	58,774
Amount Due After One Year	601,363
Net Pension Liability	170,818
TOTAL LIABILITIES	888,553
 DEFERRED INFLOWS OF RESOURCES	
Pensions	166,651
 NET POSITION	
Net Investment in Capital Assets	349,494
Unrestricted	436,919
TOTAL NET POSITION	\$ 786,413

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Meetings and Seminars	\$ 99	\$ -	\$ -	\$ -	\$ (99)
Contract Labor	107,948	-	-	107,205	(743)
Administrative	2,387	8,561	-	-	6,174
BMP Implementation Expense	157,539	-	-	68,324	(89,215)
Professional Services	66,322	-	-	-	(66,322)
Dues and Subscriptions	7,486	-	-	-	(7,486)
Employee Wages	365,759	-	-	-	(365,759)
Employee Benefits	43,908	-	-	-	(43,908)
Insurance	14,935	-	-	-	(14,935)
Utilities	9,708	-	-	-	(9,708)
Equipment and Maintenance	3,966	-	-	-	(3,966)
Monitoring	3,848	-	-	-	(3,848)
Public Education	4,429	-	-	-	(4,429)
Office Expense	2,079	-	-	-	(2,079)
Miscellaneous	873	-	-	-	(873)
Debt Service	12,379	-	-	-	(12,379)
Unallocated Depreciation	28,375	-	-	-	(28,375)
TOTALS	<u>\$ 832,040</u>	<u>\$ 8,561</u>	<u>\$ -</u>	<u>\$ 175,529</u>	(647,950)
General Revenues:					
Property Taxes					716,714
Unallocated Grants					213,082
Investment Income					711
Gain (Loss) on Sale of Assets					7,000
Miscellaneous					4,769
Total General Revenues					<u>942,276</u>
CHANGE IN NET POSITION					294,326
NET POSITION - BEGINNING OF YEAR					<u>492,087</u>
NET POSITION - END OF YEAR					<u>\$ 786,413</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General Fund	Basic Water Management Fund	Debt Service Fund	Lake Associations Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 482,008	\$ 269,453	\$ 50,766	\$ 802,227
Property Taxes Receivable	12,916	8,512	1,689	-	23,117
Assessments Receivable	110,400	-	-	3,875	114,275
Accounts Receivable	6,012	3,000	-	-	9,012
Due from Other Funds	-	16,678	-	-	16,678
Grants Receivable	104,375	-	-	-	104,375
Prepays	8,851	-	-	-	8,851
TOTAL ASSETS	<u>\$ 242,554</u>	<u>\$ 510,198</u>	<u>\$ 271,142</u>	<u>\$ 54,641</u>	<u>\$ 1,078,535</u>
LIABILITIES					
Accounts Payable	\$ 16,809	\$ 9,583	\$ -	\$ -	\$ 26,392
Salaries Payable	10,539	-	-	-	10,539
Due to Other Funds	16,678	-	-	-	16,678
Accrued Vacation	16,705	-	-	-	16,705
Total Liabilities	60,731	9,583	-	-	70,314
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	4,301	2,666	785	-	7,752
Special Assessments	109,549	-	-	-	109,549
Grants Receivable	103,551	-	-	-	103,551
Total Deferred Inflows of Resources	217,401	2,666	785	-	220,852
FUND BALANCES					
Nonspendable	8,851	-	-	-	8,851
Restricted	-	-	270,357	-	270,357
Assigned	-	497,949	-	54,641	552,590
Unassigned	(44,429)	-	-	-	(44,429)
Total Fund Balances	<u>(35,578)</u>	<u>497,949</u>	<u>270,357</u>	<u>54,641</u>	<u>787,369</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 242,554</u>	<u>\$ 510,198</u>	<u>\$ 271,142</u>	<u>\$ 54,641</u>	<u>\$ 1,078,535</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds		\$ 787,369
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:		
Capital Assets	\$ 808,358	
Accumulated Depreciation	<u>(193,864)</u>	
Capital Assets (Net)		614,494
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds Balance Sheet:		
Bond Principal Payable		(660,137)
The net pension asset/liability and related deferred outflows/inflows represent the allocation of pension obligations to the District. Such balances are not reported in the funds:		
Net Pension Liability	(170,818)	
Deferred Outflows - Pensions	165,266	
Deferred Inflows - Pensions	<u>(166,651)</u>	
		(172,203)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		
		(3,962)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Property Taxes Receivable		7,752
Special Assessments Receivable		109,549
Grants Receivable		<u>103,551</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 786,413</u>

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Basic Water Management Fund	Debt Service Fund	Lake Associations Fund	Total Governmental Funds
REVENUES					
Property Taxes	\$ 397,649	\$ 276,161	\$ 40,802	\$ -	\$ 714,612
Special Assessments	10,417	-	-	107,205	117,622
Intergovernmental	304,837	-	-	-	304,837
Charges for Services	5,561	3,000	-	-	8,561
Investment Income	711	-	-	-	711
Miscellaneous	4,350	-	-	-	4,350
TOTAL REVENUES	<u>723,525</u>	<u>279,161</u>	<u>40,802</u>	<u>107,205</u>	<u>1,150,693</u>
EXPENDITURES					
Current:					
Meetings and Seminars	99	-	-	-	99
Contract Labor	3,036	-	-	104,912	107,948
Administrative	2,387	-	-	-	2,387
BMP Implementation Expense	95,187	62,352	-	-	157,539
Professional Services	66,322	-	-	-	66,322
Dues and Subscriptions	7,486	-	-	-	7,486
Employee Wages	360,765	3,426	66	1,502	365,759
Employee Benefits	35,635	-	-	-	35,635
Insurance	14,935	-	-	-	14,935
Utilities	9,708	-	-	-	9,708
Equipment and Maintenance	3,966	-	-	-	3,966
Monitoring	3,848	-	-	-	3,848
Public Education	4,429	-	-	-	4,429
Office Expense	2,079	-	-	-	2,079
Miscellaneous	873	-	-	-	873
Capital Outlay	65,558	-	-	-	65,558
Debt Service:					
Principal	35,000	-	30,462	-	65,462
Interest and Other Charges	10,283	-	2,632	-	12,915
TOTAL EXPENDITURES	<u>721,596</u>	<u>65,778</u>	<u>33,160</u>	<u>106,414</u>	<u>926,948</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,929	213,383	7,642	791	223,745
OTHER FINANCING SOURCES (USES)					
Issuance of Debt	38,450	-	-	-	38,450
NET CHANGE IN FUND BALANCES	40,379	213,383	7,642	791	262,195
FUND BALANCES - BEGINNING (As Previously Reported)	119,349	284,566	262,715	53,850	720,480
PRIOR PERIOD ADJUSTMENT (See Note 4.C.)	<u>(195,306)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(195,306)</u>
FUND BALANCES - BEGINNING (As Restated)	<u>(75,957)</u>	<u>284,566</u>	<u>262,715</u>	<u>53,850</u>	<u>525,174</u>
FUND BALANCES - ENDING	<u>\$ (35,578)</u>	<u>\$ 497,949</u>	<u>\$ 270,357</u>	<u>\$ 54,641</u>	<u>\$ 787,369</u>

See accompanying notes.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ 262,195

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

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 Outlay Capitalized	\$ 65,558	
Depreciation Expense	(28,375)	
Capital Assets Acquired via Trade-in	<u>7,000</u>	44,183

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long term debt and related items:

Debt Principal Repayments	65,462	
Debt Issuance	<u>(38,450)</u>	27,012

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 only when it is due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:

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Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	2,102	
Special Revenues	57,907	
Grants Receivable	<u>(91,755)</u>	(31,746)

Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Liability and Deferred Outflows/Inflows of Resources	<u>(7,854)</u>	
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 294,326

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1.A. FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

Discretely Presented Component Units

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

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

Fund Financial Statements

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

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

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

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

The District reports the following major governmental funds:

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

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

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Basis of Accounting

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

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

1.D. USE OF ESTIMATES

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

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

Cash and Cash Equivalents

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

Receivables

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

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

Prepaid Expenditures/Expenses

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets

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

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

Computer Equipment	3-5 years
Furniture	10-15 years
Monitoring Equipment	5-10 years
Educational Tools (exhibits)	15 years
Property	40 years

Government-wide Statements

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

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

Fund Financial Statements

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

Compensated Absences

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

Noncurrent Liabilities

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

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

Net Pension Liability

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

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

PERA

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

Deferred Outflows/Inflows of Resources

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

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

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

Equity Classifications

Government-wide Statements

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

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

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

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

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2021 consists of prepaid expenditures.

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

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

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

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

See Note 2.E. for additional disclosures.

1.F. REVENUES AND EXPENDITURES

Property Tax

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

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

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES AND EXPENDITURES (Continued)

Expenditures/Expenses

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

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

Governmental Funds - By Character	Current
	Debt Service
	Capital Outlay

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

Interfund Transfers

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

2.A. CASH AND CASH EQUIVALENTS

Deposits

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

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.A. CASH AND CASH EQUIVALENTS (Continued)

- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

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

At December 31, 2021, the District’s deposits were not exposed to custodial credit risk. The District’s deposits were sufficiently covered by federal depository insurance or by collateral held by the District’s agent in the District’s name.

2.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 is as follows:

	<u>Balance at 01/01/21</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at 12/31/21</u>
Capital Assets not Being Depreciated					
Land	\$ 105,783	\$ -	\$ -	\$ -	\$ 105,783
Capital Assets Being Depreciated					
Equipment	660,918	72,558	(30,901)	-	702,575
Less: Accumulated Depreciation					
Equipment	<u>(196,390)</u>	<u>(28,375)</u>	<u>30,901</u>	<u>-</u>	<u>(193,864)</u>
Total Capital Assets Being Depreciated, Net	<u>464,528</u>	<u>44,183</u>	<u>-</u>	<u>-</u>	<u>508,711</u>
Capital Assets, Net	<u>\$ 570,311</u>	<u>\$ 44,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 614,494</u>

All depreciation expense is unallocated as of December 31, 2021.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.C. NONCURRENT LIABILITIES

Debt Detail

As of December 31, 2021, the long-term debt of the financial reporting entity consists of the following:

Notes Payable - MN Clean Water Partnership Project					
Issue Dates	Original Amounts	Annual Principal Payments	Interest Rates	Maturity Dates	Remaining Amounts
06/11	\$ 200,000	\$12,071 - \$14,439	2.00%	12/24	\$ 42,467
07/15	100,000	\$9,325 - \$10,934	2.00%	06/28	68,008
10/18	375,000	\$18,750	0.00%	12/32	284,662
					395,137
Limited Tax Bonds					
Issue Date	Original Amounts	Annual Principal Payments	Interest Rates	Maturity Date	Remaining Amounts
10/12	\$ 495,000	\$20,000 - \$40,000	3.50%	02/28	\$ 265,000
Total Governmental Activities Long Term Debt					660,137
Due Within One Year					58,774
Due After One Year					\$ 601,363

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities, excluding net pension liability, for the year ended December 31, 2021:

Type of Debt	01/01/21	Additions	Reductions	12/31/21	One Year
MN Clean Water Partnership Project	\$ 7,157	\$ -	\$ (7,157)	\$ -	\$ -
MN Clean Water Partnership Project	56,069	-	(13,602)	42,467	13,875
MN Clean Water Partnership Project	77,711	-	(9,703)	68,008	9,899
MN Clean Water Partnership Project	246,212	38,450	-	284,662	-
Limited Tax Bonds	300,000	-	(35,000)	265,000	35,000
Total	\$ 687,149	\$ 38,450	\$ (65,462)	\$ 660,137	\$ 58,774

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.C. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2021, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Year Ended December 31,	Governmental Activities		
	Principal	Interest	Total
2022	\$ 58,774	\$ 10,754	\$ 69,528
2023	96,752	9,051	105,803
2024	97,239	7,339	104,578
2025	88,008	5,602	93,610
2026	88,219	3,991	92,210
2027-2030	<u>231,145</u>	<u>3,131</u>	<u>234,276</u>
Totals	<u>\$ 660,137</u>	<u>\$ 39,868</u>	<u>\$ 700,005</u>

Interest expense totals \$12,379 for the Statement of Activities. Interest expenditures are \$12,915 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

2.D. INTERFUND TRANSACTIONS AND BALANCES

The interfund balances consist of the following for the year ended December 31, 2021:

Short-Term Balances		Amount	Reason
Due To Fund	Due From Fund		
Basic Water Management	General	<u>\$ 16,678</u>	Eliminate negative cash

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

2.E. FUND EQUITY

At December 31, 2021, fund equity consists of the following:

General Fund	
Nonspendable - Prepays	\$ 8,851
Unassigned	<u> (44,429)</u>
Total General Fund Balance	<u><u> \$ (35,578)</u></u>
Basic Water Management Fund	
Assigned for Basic Water Management Projects	<u><u> \$ 497,949</u></u>
Debt Service Fund	
Restricted for Debt Service	<u><u> \$ 270,357</u></u>
Lake Associations Fund	
Assigned for Lake Associations Projects	<u><u> \$ 54,641</u></u>

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

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

General Employees Retirement Plan

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature. Vested, terminated employees who are 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.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2021 were \$20,789. The District's contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the District reported a liability of \$170,818 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$5,188.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0040 percent at the end of the measurement period and 0.0033 percent for the beginning of the period.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

District’s proportionate share of the net pension liability:	\$170,818
State of Minnesota’s proportionate share of the net pension liability associated with the District	<u>5,188</u>
Total	<u>\$176,006</u>

For the year ended December 31, 2021, the District recognized pension expense of \$24,843 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$419 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the District reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 682	\$ 5,122
Changes in Actuarial Assumptions	104,298	2,907
Difference Between Projected and Actual Investment Earnings	-	150,300
Changes in Proportionate Share	50,827	8,322
Contributions Paid to PERA Subsequent to the Measurement Date	<u>9,459</u>	<u>-</u>
Total Township Deferred Outflows/Inflows	<u>\$ 165,266</u>	<u>\$ 166,651</u>

The \$9,459 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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense
2022	\$ 4,616
2023	\$ 16,742
2024	\$ 8,148
2025	\$ (40,350)

Total Pension Expense

The total pension expense for all plans recognized by the District for the year ended December 31, 2021 was \$24,843.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA’s experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net 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.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.50%)	Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
Net Pension Liability	\$ 348,381	\$ 170,818	\$ 25,116

Pension Plan Fiduciary Net Position

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

NOTE 4 OTHER NOTES

4.A. RELATED PARTY TRANSACTIONS

During fiscal year 2020, a Board member entered into several agreements with the District for financial assistance associated with the Board member’s business, which resulted in amounts to be repaid to the District via assessments. At December 31, 2021, the outstanding balance due from the related party was \$49,000.

4.B. RISK MANAGEMENT

Claims and Judgements

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

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 OTHER NOTES (Continued)

4.B. RISK MANAGEMENT (Continued)

Public Health Emergency

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

4.C. CORRECTION OF AN ERROR

During the year ended December 31, 2021, the District determined an adjustment to beginning equity was necessary to correct an error identified in the District’s prior year financial statements. An adjustment was recorded to correct a misstatement related to the overstatement of 2020 grant revenues, since such revenues were considered unavailable as of December 31, 2020 under the modified accrual basis of accounting. The table below displays the impact of this adjustment on the prior year financial statements:

	General Fund
December 31, 2020 Fund Balance, as Previously Stated	\$ 119,349
Deferred Inflow of Resources Correction	(195,306)
December 31, 2020 Fund Balance, as Restated	\$ (75,957)
Net Change in Fund Balance for the Year	
Ended December 31, 2020, as Previously Stated	\$ (77,525)
Deferred Inflow of Resources Correction	(195,306)
Net Change in Fund Balance for the Year Ended December 31, 2020, as Restated	\$ (272,831)

4.D. NEW ACCOUNTING STANDARD

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. GASB Statement No. 87 (GASB 87) increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. GASB 87 replaces the previous lease accounting methodology and establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset. GASB 87 will be effective for the District’s fiscal year ended December 31, 2022. The effect on net position will likely be significant.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

For the Measurement Year Ended <u>June 30</u>	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Pension Plan</i>							
2021	0.0040%	\$ 170,818	\$ 5,188	\$ 176,006	\$ 290,765	60.53%	87.0%
2020	0.0033%	\$ 197,850	\$ 6,098	\$ 203,948	\$ 237,724	85.79%	79.1%
2019	0.0026%	\$ 143,748	\$ 4,500	\$ 148,248	\$ 183,379	80.84%	80.2%
2018	0.0032%	\$ 177,523	\$ 5,814	\$ 183,337	\$ 216,733	84.59%	79.5%
2017	0.0025%	\$ 159,598	\$ 2,045	\$ 161,643	\$ 164,147	98.47%	75.9%
2016	0.0025%	\$ 202,988	\$ 2,617	\$ 205,605	\$ 154,096	133.43%	68.9%
2015	0.0017%	\$ 88,103	\$ -	\$ 88,103	\$ 102,262	86.15%	78.2%

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

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

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>General Employees Retirement Pension Plan</i>					
2021	\$ 20,789	\$ 20,789	\$ -	\$ 277,184	7.50%
2020	\$ 19,948	\$ 19,948	\$ -	\$ 265,977	7.50%
2019	\$ 15,305	\$ 15,305	\$ -	\$ 204,072	7.50%
2018	\$ 15,007	\$ 15,007	\$ -	\$ 200,093	7.50%
2017	\$ 15,080	\$ 15,080	\$ -	\$ 201,071	7.50%
2016	\$ 11,458	\$ 11,458	\$ -	\$ 152,780	7.50%
2015	\$ 9,855	\$ 9,855	\$ -	\$ 131,398	7.50%

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**SUPPLEMENTARY
INFORMATION**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 442,061	\$ 714,612	\$ 272,551
Special Assessments	410,000	117,622	(292,378)
Intergovernmental Revenue			
State Revenue			
Market Value Credit	-	7,702	7,702
Other State Grants and Aids	178,550	297,135	118,585
Total Intergovernmental Revenue	178,550	304,837	126,287
Charges for Services			
General Government	-	8,561	8,561
Miscellaneous Revenue			
Investment Earnings	2,400	711	(1,689)
Refunds and Reimbursements	2,550	4,350	1,800
Total Miscellaneous Revenue	4,950	5,061	111
TOTAL REVENUES	1,035,561	1,150,693	115,132
EXPENDITURES			
Conservation of Natural Resources			
Current			
Meetings and Seminars	8,500	99	(8,401)
Administrative Expense	10,000	2,387	(7,613)
BMP Implementation Expense	150,000	157,539	7,539
Professional Services	121,000	66,322	(54,678)
Dues and Subscriptions	6,400	7,486	1,086
Payroll Expense	311,033	365,759	54,726
Employee Benefits	90,464	35,635	(54,829)
Utilities	8,800	9,708	908
Equipment and Maintenance	53,500	3,966	(49,534)
Monitoring	7,500	3,848	(3,652)
Public Education	8,000	4,429	(3,571)
Contract Labor	130,000	107,948	(22,052)
Office Expense	10,500	2,079	(8,421)
Capital Outlay	-	65,558	65,558
Total Conservation of Natural Resources	915,697	832,763	(82,934)

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u> </u>	<u> </u>	<u> </u>
Miscellaneous Expenditures			
Other Expenditures			
Miscellaneous	2,000	873	(1,127)
Unallocated Insurance	13,000	14,935	1,935
Total Miscellaneous Expenditures	<u>15,000</u>	<u>15,808</u>	<u>808</u>
Debt Service			
Principal Payments	77,981	65,462	(12,519)
Interest and Other Fiscal Charges	16,500	12,915	(3,585)
Total Debt Service	<u>94,481</u>	<u>78,377</u>	<u>(16,104)</u>
TOTAL EXPENDITURES	<u>1,025,178</u>	<u>926,948</u>	<u>(98,230)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	10,383	223,745	213,362
OTHER FINANCING SOURCES (USES)			
Borrowing			
Other Long-Term Debt	<u>-</u>	<u>38,450</u>	<u>38,450</u>
NET CHANGE IN FUND BALANCES	<u>\$ 10,383</u>	262,195	<u>\$ 251,812</u>
FUND BALANCES - BEGINNING (As previously reported)		720,480	
PRIOR PERIOD ADJUSTMENT (See Note 4.C.)		<u>(195,306)</u>	
FUND BALANCES - BEGINNING (As restated)		<u>525,174</u>	
FUND BALANCES - ENDING		<u>\$ 787,369</u>	

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/21	Issued	Paid	Outstanding Balance 12/31/21	Principal Due Within One Year
GOVERNMENTAL INDEBTEDNESS									
Limited Tax Bonds, Series 2012A	10/1/2012	3.50%	2/1/2028	\$ 495,000	\$ 300,000	\$ -	\$ 35,000	\$ 265,000	\$ 35,000
MN Clean Water Partnership Project - SRF0169	6/19/2008	2.00%	6/15/2021	200,000	7,157	-	7,157	-	-
MN Clean Water Partnership Project - SRF0213	6/30/2011	2.00%	12/15/2024	200,000	56,069	-	13,602	42,467	13,875
MN Clean Water Partnership Project - SRF0294	7/29/2015	2.00%	6/15/2028	100,000	77,711		9,703	68,008	9,899
MN Clean Water Partnership Project - SRF0316	10/18/2018	0.00%	12/15/2032	375,000	246,212	38,450	-	284,662	-
TOTAL INDEBTEDNESS				<u>\$ 1,370,000</u>	<u>\$ 687,149</u>	<u>\$ 38,450</u>	<u>\$ 65,462</u>	<u>\$ 660,137</u>	<u>\$ 58,774</u>

**OTHER REQUIRED
REPORTS**

**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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Middle Fork Crow River Watershed District's basic financial statements, and have issued our report thereon dated June 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middle Fork Crow River Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2007-001, 2008-003, and 2021-004.

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

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 financial statements. 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*.

Minnesota Legal Compliance

In connection with our audit, we noted that Middle Fork Crow River Watershed District failed to comply with the provisions of the miscellaneous provisions and contracting – bid law sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the *Schedule of Findings and Responses* as items 2021-005 and 2021-006. Also, in connection with our audit, nothing came to our attention that caused us to believe that Middle Fork Crow River Watershed District failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, and claims and disbursements sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

District's Response to Findings

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

Purpose of this Report

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



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

June 8, 2022

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-003 Material Audit Adjustments

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

Criteria: The District is required to report accurate financial information, in accordance with Accounting Principles Generally Accepted in the United States of America.

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

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

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

*Views of Responsible
Officials And Planned
Corrective Actions:*

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

Finding 2021-004 Prior Period Adjustment

Condition: The District’s prior year financial statements contained a material misstatement.

Criteria: The District is required to report financial information that is accurately presented in accordance with accounting principles generally accepted within the United States of America.

Cause: Under the modified accrual basis of accounting, which is applied to the governmental fund financial statements under GAAP, revenues cannot be recognized unless they are considered the be “available” at year-end. Available is defined as being received within 60 days of year-end. In the 2020 financial statements, the District improperly recognized revenues for grant proceeds that were due to the District (but unavailable) at year-end, rather than deferring such revenues until they became available in 2021. See further details described in Note 4.C. to the basic financial statements.

Effect: The misstatement in the prior year financial statements resulted in the need to restate beginning fund balance of the current year.

Recommendation: We recommend management perform a thorough review of the audited financial statements and year-end adjustments to ensure their accuracy and completeness.

*Views of Responsible
Officials And Planned
Corrective Actions:*

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

LEGAL COMPLIANCE FINDINGS

Finding 2021-005

Contract Compliance

Condition: The District failed to obtain and retain competing quotes for a contract in excess of \$25,000, for the purchase of a vehicle. Additionally, the District also did not consider the availability of such vehicle through the State’s cooperative purchasing venture.

Criteria: In accordance with Minnesota Statute 471.345, the District is required to obtain and retain at least two quotes for contracts in valuation between \$25,000 and \$175,000. Additionally, the District must consider the availability of any such equipment through the State’s cooperative purchasing venture.

Cause: The District purchased equipment with a cost greater than \$25,000 without obtaining more than one quote or considering the State-level contract availability.

Effect: The failure to obtain competing quotes for the contract resulted in the District’s noncompliance with Minnesota Statutes.

Recommendation: We recommend the District obtain at least two quotes for future contracts with estimated costs ranging from \$25,000 to \$175,000, and ensure the availability of such purchases via the State cooperative purchasing venture is considered. All individuals involved with the procurement process be familiar with the requirements of Minnesota Statutes.

*Views of Responsible
Officials And Planned
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan

Finding 2021-006

Sick Leave Payout

Condition: The District compensated a former employee for accumulated sick leave, despite this individual not being eligible for such compensation under District policies. Additionally, clear documentation supporting the calculation of the payout was unavailable.

Criteria: The District may not retroactively approve compensation for an employee that has already been compensated under a pre-existing employment agreement. After compensation has been paid in accordance with an employment agreement and/or District policies for services rendered, further compensation cannot be made for these same services.

Cause: The District paid out sick leave to a former employee that was not employed by the District for more than 10 years, which is the criteria that must be met for such payout to occur under the District’s existing policy.

Effect: The failure to adhere to existing policies for the payout of sick leave resulted in improper use of public funds.

Recommendation: We recommend the District ensure existing policies are thoroughly reviewed and followed, in the event that similar situations are encountered in the future.

*Views of Responsible
Officials And Planned
Corrective Actions:*

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS

Finding 2007-001 Limited Segregation of Duties

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

Finding 2007-002 Financial Statement Preparation

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-003 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors. The District will ensure fund accounting has been properly implemented in the new accounting system that the District has adopted subsequent to year-end.
3. Official Responsible
Scott Henderson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

Finding 2021-004 Prior Period Adjustment

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will thoroughly review the audited financial statements and year-end adjustments to ensure their accuracy and completeness.
3. Official Responsible
Scott Henderson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2022.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2021**

LEGAL COMPLIANCE FINDINGS

Finding 2021-005 Contract Compliance

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review current procedures and implement additional controls over contract compliance where possible.
3. Official Responsible
Scott Henderson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2022.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.

Finding 2021-006 Sick Leave Payout

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review current policies and procedures and implement additional controls where possible.
3. Official Responsible
Scott Henderson, Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2022.
5. Plan to Monitor Completion
The Board of Managers will be monitoring this Corrective Action Plan.