

**CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

GOVERNANCE AND ADMINISTRATION
December 31, 2021

APPOINTED OFFICIALS

<u>Board of Managers</u>	<u>Position</u>	<u>Term Expires</u>
Robert Schiefelbein	President	August 2024
Chris Uecker	Vice President	August 2022
Dawn Cole	Secretary	August 2023
Dale Homuth	Treasurer	August 2023
Paul DeGree	Member	August 2022

ADMINISTRATION

Rebecca Carlson	Administrator
JASS Administrative Services	Bookkeeping



Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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Annandale, MN 55302
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F: 320.274.2260

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430 S. Broad St., Ste. 100
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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Clearwater River Watershed District (the 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof 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). 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, which 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.

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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 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, 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, which 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 budgetary comparison schedules, listed under required supplemental information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 evidence sufficient to express an opinion or provide any assurance.

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

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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as listed in the table of contents under supplemental section 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the District's 2020 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated July 19, 2021. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Mankato, Minnesota
June 15, 2022

BASIC FINANCIAL STATEMENTS

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2021

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 202,168	\$ 3,999	\$ 206,167
Investments	1,924,539	311,973	2,236,512
Receivables:			
Accounts	0	40,600	40,600
Property Taxes	9,052	0	9,052
Special Assessments	376,949	0	376,949
Prepaid Expenses	5,721	4,473	10,194
Capital Assets	2,337,209	4,293,550	6,630,759
Accumulated Depreciation	(580,469)	(1,491,529)	(2,071,998)
TOTAL ASSETS	\$ 4,275,169	\$ 3,163,066	\$ 7,438,235
LIABILITIES AND NET POSITION			
Liabilities			
Deficit Cash Balances	\$ 0	\$ 96,776	\$ 96,776
Accounts Payable	88,919	8,350	97,269
Accrued Expenses	8,493	0	8,493
Unearned Revenue	0	3,808	3,808
Current Portion of Long-Term Debt	44,586	0	44,586
Long-Term Debt, Net of Current Portion	397,059	0	397,059
Total Liabilities	539,057	108,934	647,991
Net Position			
Net Investment in Capital Assets	1,315,094	2,802,020	4,117,114
Restricted	488,210	0	488,210
Unrestricted	1,932,808	252,112	2,184,920
Total Net Position	3,736,112	3,054,132	6,790,244
TOTAL LIABILITIES AND NET POSITION	\$ 4,275,169	\$ 3,163,066	\$ 7,438,235

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 269,867	\$ 0	\$ 0	\$ 0	\$ (269,867)	\$ 0	\$ (269,867)
Special Revenue	277,835	400,198	0	45,715	168,078	0	168,078
Capital Projects	121,061	0	0	33,871	(87,190)	0	(87,190)
Interest on Long-term Debt	18,385	0	0	0	(18,385)	0	18,385
Total Governmental Activities	<u>687,148</u>	<u>400,198</u>	<u>0</u>	<u>79,586</u>	<u>(207,364)</u>	<u>0</u>	<u>(170,594)</u>
BUSINESS-TYPE ACTIVITIES:							
Sanitary Sewer System	<u>184,355</u>	<u>97,046</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(87,309)</u>	<u>(87,309)</u>
Total Primary Government	<u>\$ 871,503</u>	<u>\$ 497,244</u>	<u>\$ 0</u>	<u>\$ 79,586</u>	<u>(207,364)</u>	<u>(87,309)</u>	<u>(257,903)</u>
General Revenues:							
Property Taxes, Levied for General Purposes					298,124	0	298,124
Intergovernmental					12,391	0	12,391
Interest and Investments Earnings					194	34	228
Other Revenues					7,076	832	7,908
Total General Revenues					<u>317,785</u>	<u>866</u>	<u>318,651</u>
Changes in Net Position					110,421	(86,443)	23,978
Net Position - January 1					<u>3,625,691</u>	<u>3,140,575</u>	<u>6,766,266</u>
Net Position - December 31					<u>\$ 3,736,112</u>	<u>\$ 3,054,132</u>	<u>\$ 6,790,244</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2021

	General	Chain of Lakes Operations & Maintenance	Cedar #06-1 Maintenance
ASSETS			
Cash and Cash Equivalents	\$ 73,646	\$ 17,242	\$ 60,953
Investments	700,923	409,608	0
Property Taxes Receivable	7,871	0	0
Special Assessments Receivable	224	2,699	417
Prepaid Expenses	5,721	0	0
Due From Other Funds	49,627	68,863	0
TOTAL ASSETS	\$ 838,012	\$ 498,412	\$ 61,370
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 11,621	\$ 1,050	\$ 17,028
Accrued Expenses	2,556	0	0
Due to Other Funds	0	0	16,685
Total Liabilities	14,177	1,050	33,713
Deferred Inflows of Resources			
Unavailable Revenue	3,929	0	0
Fund Balances			
Nonspendable	5,721	0	0
Restricted	0	0	0
Committed	0	497,362	27,657
Unassigned	814,185	0	0
Total Fund Balances	819,906	497,362	27,657
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 838,012	\$ 498,412	\$ 61,370

The Notes to the Financial Statements are an Integral Part of this Statement.

Debt Service	Clearwater Harbor/ Hidden River Nitrogen Mitigation	Nonmajor Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 50,327	\$ 202,168
149,271	140,711	524,026	1,924,539
0	0	1,181	9,052
371,881	0	1,728	376,949
0	0	0	5,721
<u>0</u>	<u>0</u>	<u>0</u>	<u>118,490</u>
<u>\$ 521,152</u>	<u>\$ 140,711</u>	<u>\$ 577,262</u>	<u>\$ 2,636,919</u>

\$ 0	\$ 50,421	\$ 8,798	\$ 88,918
0	0	0	2,556
<u>32,942</u>	<u>68,863</u>	<u>0</u>	<u>118,490</u>
<u>32,942</u>	<u>119,284</u>	<u>8,798</u>	<u>209,964</u>

<u>370,803</u>	<u>0</u>	<u>430</u>	<u>375,162</u>
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0	0	0	5,721
117,407	0	0	117,407
0	21,427	588,789	1,135,235
0	0	(20,755)	793,430
<u>117,407</u>	<u>21,427</u>	<u>568,034</u>	<u>2,051,793</u>

<u>\$ 521,152</u>	<u>\$ 140,711</u>	<u>\$ 577,262</u>	<u>\$ 2,636,919</u>
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The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2021

Total Fund Balances - Governmental Funds	\$ 2,051,793
Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Capital assets used in Governmental Activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of Capital Assets	2,337,209
Less: Accumulated Depreciation	(580,469)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Note payable	(441,645)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Delinquent property taxes	4,359
Special Assessments	370,803
Governmental funds do not report a liability for accrued interest payable until due and payable.	<u>(5,937)</u>
Total Net Position - Governmental Activities	<u>\$ 3,736,112</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	General	Chain of Lakes Operations & Maintenance	Cedar #06-1 Maintenance
Revenues:			
Property Taxes	\$ 248,163	\$ 0	\$ 0
Intergovernmental	3,793	0	2,250
Special Assessments	6,907	181,188	57,123
Other Revenues	783	90	107
Interest Earnings	81	46	5
Total Revenues	259,727	181,324	59,485
Expenditures:			
Current:			
Governance	6,000	0	0
Administration & General	149,173	14,716	7,836
Technical & Engineering	0	0	0
Operation & Maintenance	2,923	33,007	4,536
Water Quality Monitoring	7,335	34,771	351
Other Special Projects	623	0	0
Capital Outlay	0	0	68,581
Debt Service:			
Principal	0	0	0
Interest and Fiscal Fees	0	0	0
Total Expenditures	166,054	82,494	81,304
Excess of Revenues Over (Under) Expenditures	93,673	98,830	(21,819)
Other Financing Sources (Uses):			
Transfers In	0	0	0
Transfers Out	(50,000)	0	0
Total Other Financing Sources (Uses)	(50,000)	0	0
Change in Fund Balance	43,673	98,830	(21,819)
Fund Balance - January 1	776,233	398,532	49,476
Fund Balance - December 31	\$ 819,906	\$ 497,362	\$ 27,657

The Notes to the Financial Statements are an Integral Part of this Statement.

Debt Service	Clearwater Harbor/ Hidden River Nitrogen Mitigation	Nonmajor Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 49,163	\$ 297,326
0	33,871	6,348	46,262
96,758	0	155,005	496,981
0	0	6,071	7,051
0	10	52	194
<u>96,758</u>	<u>33,881</u>	<u>216,639</u>	<u>847,814</u>
0	0	0	6,000
0	1,637	17,472	190,834
0	3,603	220	3,823
0	8,756	69,492	118,714
0	0	33,075	75,532
0	0	0	623
0	100,843	0	169,424
42,854	0	0	42,854
18,961	0	0	18,961
<u>61,815</u>	<u>114,839</u>	<u>120,259</u>	<u>626,765</u>
<u>34,943</u>	<u>(80,958)</u>	<u>96,380</u>	<u>221,049</u>
0	0	50,000	50,000
0	0	0	(50,000)
<u>0</u>	<u>0</u>	<u>50,000</u>	<u>0</u>
34,943	(80,958)	146,380	221,049
<u>82,464</u>	<u>102,385</u>	<u>421,654</u>	<u>1,830,744</u>
<u>\$ 117,407</u>	<u>\$ 21,427</u>	<u>\$ 568,034</u>	<u>\$ 2,051,793</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ 221,049
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation	(103,813)
The issuance of long-term debt provides current financial resources to Governmental fund, while the repayment of principal of long-term debt consumes the current financial resources. Neither transaction, however, has any effect on net position.	
Principal payments	42,854
Interest on long-term debt in the Statement of Activities differ from the amount reported in the Governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	
	576
Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Delinquent property taxes	798
Special Assessments	<u>(51,044)</u>
Change in Net Position - Governmental Activities	<u>\$ 110,421</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2021

	Business-type Activities - Enterprise Funds				Totals
	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 0	\$ 1,842	\$ 0	\$ 2,157	\$ 3,999
Investments	47,434	15,964	174,804	73,771	311,973
Accounts Receivable	9,957	2,187	21,765	6,691	40,600
Prepaid Expenses	1,121	347	2,603	402	4,473
Total Current Assets	<u>58,512</u>	<u>20,340</u>	<u>199,172</u>	<u>83,021</u>	<u>361,045</u>
Noncurrent Assets:					
Capital Assets	1,078,432	141,138	3,002,480	71,500	4,293,550
Less: Accumulated Depreciation	<u>(277,402)</u>	<u>(48,243)</u>	<u>(1,131,513)</u>	<u>(34,371)</u>	<u>(1,491,529)</u>
Net Capital Assets	<u>801,030</u>	<u>92,895</u>	<u>1,870,967</u>	<u>37,129</u>	<u>2,802,021</u>
TOTAL ASSETS	<u>\$ 859,542</u>	<u>\$ 113,235</u>	<u>\$ 2,070,139</u>	<u>\$ 120,150</u>	<u>\$ 3,163,066</u>
LIABILITIES AND NET POSITION					
Current Liabilities:					
Deficit Cash Balances	\$ 46,516	\$ 0	\$ 50,260	\$ 0	\$ 96,776
Accounts Payable	2,776	0	2,774	2,800	8,350
Unearned Revenue	1,120	368	1,951	369	3,808
Total Current Liabilities	<u>50,412</u>	<u>368</u>	<u>54,985</u>	<u>3,169</u>	<u>108,934</u>
Net Position:					
Net Investment in Capital Assets	801,030	92,895	1,870,966	37,129	2,802,020
Unrestricted	8,100	19,972	144,188	79,852	252,112
Total Net Position	<u>809,130</u>	<u>112,867</u>	<u>2,015,154</u>	<u>116,981</u>	<u>3,054,132</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 859,542</u>	<u>\$ 113,235</u>	<u>\$ 2,070,139</u>	<u>\$ 120,150</u>	<u>\$ 3,163,066</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				Totals
	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	
Operating Revenues:					
Charges for Services	\$ 25,404	\$ 7,177	\$ 54,744	\$ 9,721	\$ 97,046
Operating Expenses:					
Administration & General	5,763	2,813	8,420	2,352	19,348
Routine Maintenance	14,203	770	18,035	5,600	38,608
Depreciation	27,046	2,643	94,260	2,450	126,399
Total Operating Expenses	<u>47,012</u>	<u>6,226</u>	<u>120,715</u>	<u>10,402</u>	<u>184,355</u>
Income (Loss) from Operations	(21,608)	951	(65,971)	(681)	(87,309)
Nonoperating Revenues (Expenses):					
Interest Earnings	3	2	21	8	34
Other Revenues	336	69	348	79	832
Total Nonoperating Revenues (Expenses)	<u>339</u>	<u>71</u>	<u>369</u>	<u>87</u>	<u>866</u>
Change in Net Position	(21,269)	1,022	(65,602)	(594)	(86,443)
Net Position - January 1	<u>830,399</u>	<u>111,845</u>	<u>2,080,756</u>	<u>117,575</u>	<u>3,140,575</u>
Net Position - December 31	<u>\$ 809,130</u>	<u>\$ 112,867</u>	<u>\$ 2,015,154</u>	<u>\$ 116,981</u>	<u>\$ 3,054,132</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				Totals
	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 25,024	\$ 7,068	\$ 51,313	\$ 9,624	\$ 93,029
Payments to Suppliers	(21,027)	(4,834)	(26,298)	(5,174)	(57,333)
Other Receipts	336	69	348	79	832
Net Cash from Operating Activities	<u>4,333</u>	<u>2,303</u>	<u>25,363</u>	<u>4,529</u>	<u>36,528</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Purchases of Investments	<u>(12,923)</u>	<u>(5,141)</u>	<u>(32,726)</u>	<u>(7,884)</u>	<u>(58,674)</u>
Change in Cash and Cash Equivalents	(8,590)	(2,838)	(7,363)	(3,355)	(22,146)
Cash and Cash Equivalents - January 1	<u>(37,926)</u>	<u>4,680</u>	<u>(42,897)</u>	<u>5,512</u>	<u>(70,631)</u>
Cash and Cash Equivalents - December 31	<u>\$ (46,516)</u>	<u>\$ 1,842</u>	<u>\$ (50,260)</u>	<u>\$ 2,157</u>	<u>\$ (92,777)</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:					
Income (Loss) from Operations	\$ (21,608)	\$ 951	\$ (65,971)	\$ (681)	\$ (87,309)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:					
Other Receipts	336	69	348	79	832
Depreciation Expense	27,046	2,643	94,260	2,450	126,399
(Increase) Decrease in:					
Accounts Receivable	(380)	(109)	(3,431)	(97)	(4,017)
Prepaid Expenses	711	39	(708)	37	79
Increase (Decrease) in:					
Accounts Payable	(1,560)	(1,290)	1,244	2,727	1,121
Unearned Revenue	(212)	0	(379)	14	(577)
Net Cash from Operating Activities	<u>\$ 4,333</u>	<u>\$ 2,303</u>	<u>\$ 25,363</u>	<u>\$ 4,529</u>	<u>\$ 36,528</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Clearwater River Watershed District (the District) was organized under provisions of Minnesota Statutes Chapter 103D. The District is governed by a Board of Managers (the Board) composed of five members appointed by the counties within the area of the Watershed District boundaries. The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the District.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and its component units, entities for which the District is financially accountable.

Component units for which the District has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. Blended component units, although legally separate entities are in substance, part of the District's operations and so data from these units are combined with data of the District. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally from the District. Based on the foregoing criteria as of December 31, the District had no blended or discretely presented component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred inflows of resources in the fund financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The District reports the following major governmental funds:

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Operations and Maintenance fund* accounts for revenues and accumulated resources necessary for the maintenance of the original Clearwater Chain of Lakes Restoration Project.

The *Cedar #06-1 Maintenance fund* accounts for revenues and accumulated resources necessary for the maintenance of Cedar Lake.

The *Debt Service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The *Clearwater Harbor/Hidden River Nitrogen Mitigation fund* accounts for resources and accumulated costs related to construction of infrastructure for the Clearwater Harbor/Hidden River nitrogen mitigation capital project.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The District reports the following major proprietary funds:

The *Hidden River Sanitary Sewer Maintenance fund* accounts for the costs associated with the District’s sanitary sewer system of Hidden River and ensures that user charges are sufficient to meet those costs.

The *Rest a While Sanitary Sewer Maintenance fund* accounts for the costs associated with the District’s sanitary sewer system of Rest a While and ensures that user charges are sufficient to meet those costs.

The *Clearwater Harbor Sanitary Sewer Maintenance fund* accounts for the costs associated with the District’s sanitary sewer system of Clearwater Harbor and ensures that user charges are sufficient to meet those costs.

The *Wandering Ponds Sanitary Sewer Maintenance fund* accounts for the costs associated with the District’s sanitary sewer system of Wandering Ponds and ensures that user charges are sufficient to meet those costs.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the District’s sewer functions and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The District’s cash and cash equivalents are cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated based on applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated “A” or better; revenue obligations rated “AA” or better.
4. General obligations of the Minnesota Housing Finance Agency rated “A” or better.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment earnings are accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

See Note 3 for the District's recurring fair value measurements as of December 31, 2021

Property taxes

The District Board annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the District during January, June and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the District by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Delinquent taxes receivable includes the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2021. The District annually certifies delinquent accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivables are offset by a deferred inflow of resources in the fund financial statements.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Unearned revenue

Unearned revenues are reported as a liability in the governmental funds Balance Sheet and Statement of Net Position. The District recognizes revenues when earned and amounts received in advance of the period in which services are rendered are recorded as a liability. Unearned revenue arises from two sources: prepayment of service-type special assessments by property owners and grant receipts in excess of grant expenditures.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than the thresholds below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Assets	Capitalization Threshold
Land improvements	\$ 10,000
Buildings and improvements	25,000
Infrastructure	100,000
Machinery and equipment	5,000

As the District constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the District values these capital assets at the estimated fair value of the item at the date of its donation.

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

Assets	Useful Lives in Years
Buildings and improvements	15 to 75
Infrastructure	20 to 60
Machinery and equipment	3 to 15

Deferred outflows/inflows of resources

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

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

Net position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the District Council, which is the District’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the District Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the District Board itself or by an official to which the governing body delegates the authority. The District Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the District Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has formally adopted a fund balance policy for the General fund. The District’s policy is to maintain a minimum unassigned fund balance of 20-25 percent of budgeted operating expenditures for cash-flow timing needs.

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The District does not use encumbrance accounting.

On or before July 1 of each year, District staff compiles the budget into an overall preliminary District budget. Before September 15, the proposed budget is presented to the District Board for review. The District Board holds public hearings, and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The District’s staff may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the District Board. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the District Board. There were no budget amendments during the year.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (Continued)

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2021, Cedar #06-1 Maintenance had expenditures over appropriations of \$26,304. Excess expenditures over appropriations was funded by additional revenues and available fund balance.

C. Deficit Fund Equity

The following had fund equity deficits at year-end:

<u>Fund</u>	<u>Amount</u>
Governmental	
Nonmajor	
Augusta Channel Clean Out	\$ 6,034
School Section Lake Outlet	14,721

The fund deficits are planned to be eliminated with future interfund transfers and committed revenues.

Note 3 DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the District Board, the District maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

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

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;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

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

On December 31, 2021, the carrying amount of deposits was \$109,391 and the bank balance was \$128,930. Of the bank balance, \$250,000 was covered by federal depository insurance.

Investments

As of December 31, 2021, the District had the following investments that are insured or registered, or securities held by the District's agent in the District's name:

Type of Investments	Credit Risk		Fair Value Measurements Using	Interest Risk - Maturity Duration in Years		Total
	Rating	Agency		Less Than 1	1 to 5	
Pooled Investments at Amortized Cost: Minnesota Municipal Money Market Fund Liquid Class	N/R	N/R	NAV	\$ 2,236,512	-	<u>\$ 2,236,512</u>
Total investments						<u>\$ 2,236,512</u>

N/A - Not applicable

N/R - Not rated

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. The District does not have an investment policy to address this risk.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to those listed in footnote one. The District does not have an investment policy to address this risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District does not have an investment policy to address this risk.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. On December 31, 2021, the District's investment portfolio did not hold 5% or more of the total investment with any specific issuers. The District does not have an investment policy to address this risk.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

The Minnesota Municipal Money Market Fund (4M Fund) is regulated by Minnesota Statutes and is an external investment pools not registered with the Securities Exchange Commission (SEC). The District’s investment in the 4M Fund is measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For 4M Fund investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class.

A reconciliation of cash and investments as shown on the Statement of Net Position for the District follows:

	Governmental Funds	Proprietary Funds
Demand deposits	\$ 202,168	\$ (92,777)
Total cash and cash equivalents as shown on the Statement of Net Position	202,168	(92,777)
Investments	1,924,539	311,973
Total cash and investments	\$ 2,126,707	\$ 219,196

B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Position. There are no estimates for allowances for uncollectible receivables.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes - general fund	\$ 3,929	\$ -
Delinquent property taxes - data aquisition fund	430	-
Special assessments not yet due - debt service fund	370,803	-
Total unavailable/unearned revenue	\$ 375,162	\$ -

The only receivables not expected to be collectible within one year are the following: General Fund: \$2,000 of delinquent taxes and Debt Service Fund: \$274,394 of special assessments.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

C. Interfund receivables, payables, and transfers

Interfund transfers

Interfund transfers for the year ended December 31, 2021, consisted of the following:

	<u>Transfer From</u>	
Transferred To	General Fund	Total
Data Acquisition	\$ 50,000	\$ 50,000
Total	\$ 50,000	\$ 50,000

Transfers from the General fund to the Data Acquisition fund was to provide working capital and eliminate the cash deficit.

Interfund receivables and payables

Payable Fund	Receivable Fund	Amount
Debt Service	General fund	\$ 32,942
Cedar Maintenance #06-01	General fund	16,685
CW/HR Nitrogen Mitigation Project	Chain of Lakes Operations & Maintenance	68,863
Total		\$ 118,490

The internal balances between the Debt Service, Cedar Maintenance #06-1, and CW/HR Nitrogen Mitigation Project funds and the Chain of Lakes Operations & Maintenance and General funds were to remove deficit cash balances. These amounts are expected to be repaid in the subsequent year.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 235,853	\$ -	\$ -	\$ 235,853
Total capital assets not being depreciated	235,853	-	-	235,853
Capital assets being depreciated				
Distribution system	2,050,319	-	-	2,050,319
Machinery and equipment	51,037	-	-	51,037
Total capital assets being depreciated	2,101,356	-	-	2,101,356
Less accumulated depreciation for				
Distribution system	(438,748)	(102,516)	-	(541,264)
Machinery and equipment	(37,907)	(1,298)	-	(39,205)
Total accumulated depreciation	(476,655)	(103,814)	-	(580,469)
Total capital assets being depreciated, net	1,624,701	(103,814)	-	1,520,887
Governmental activities capital assets, net	<u>\$ 1,860,554</u>	<u>\$ (103,814)</u>	<u>\$ -</u>	<u>\$ 1,756,740</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 35,400	\$ -	\$ -	\$ 35,400
Capital assets being depreciated				
Sanitary system	4,249,480	-	-	4,249,480
Machinery and equipment	8,670	-	-	8,670
Total capital assets being depreciated	4,258,150	-	-	4,258,150
Less accumulated depreciation for				
Sanitary system	(1,359,446)	(125,821)	-	(1,485,267)
Machinery and equipment	(5,684)	(578)	-	(6,262)
Total accumulated depreciation	(1,365,130)	(126,399)	-	(1,491,529)
Total capital assets being depreciated, net	2,893,020	(126,399)	-	2,766,621
Business-type activities capital assets, net	\$ 2,928,420	\$ (126,399)	\$ -	\$ 2,802,021

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

Governmental activities	
General government	\$ 103,814
Total depreciation expense - governmental activities	\$ 103,814
 Business-type activities	
Hidden River	\$ 27,046
Rest a While	2,643
Clearwater Harbor	94,260
Wandering Ponds	2,450
Total depreciation expense - business-type activities	\$ 126,399

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

E. Long-term debt

Note Payable

The District and the County of Stearns, Minnesota (the County) entered into an agreement under Minnesota Statute 103D.335 whereas the County agreed to finance part of a nitrogen mitigation project. This note is to be repaid from assessments certified to the benefiting property owners over a ten-year term commencing August 1, 2020, in twenty equal installments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Note Payable	\$ 616,323	4.00%	11/1/19	2/1/30	<u>\$ 441,645</u>

Annual debt service requirements to maturity for note payable are as follows:

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2022	\$ 44,586	\$ 17,229	\$ 61,815
2023	46,387	15,428	61,815
2024	48,222	13,593	61,815
2025	50,209	11,606	61,815
2026	52,238	9,577	61,815
2027-2030	<u>200,003</u>	<u>16,350</u>	<u>216,353</u>
Total	<u>\$ 441,645</u>	<u>\$ 83,783</u>	<u>\$ 525,428</u>

Changes in long-term liabilities

During the year ended December 31, 2021, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Note payable	\$ 484,500	\$ -	\$ (42,855)	\$ 441,645	\$ 44,586
Governmental activity long-term liabilities	<u>\$ 484,500</u>	<u>\$ -</u>	<u>\$ (42,855)</u>	<u>\$ 441,645</u>	<u>\$ 44,586</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

F. Net Position/Fund Balance

Governmental Fund Balances

Governmental fund balances reported on the fund financial statements on December 31, 2021, included the following:

Nonspendable:

Major Funds:

General Fund - prepaid expenses	\$ 5,721
---------------------------------	----------

Restricted:

Debt service	117,407
--------------	---------

Committed:

Major Funds:

Chain of lakes O&M	497,362
Cedar #06-01 maintenance	27,657
Clearwater harbor/hidden river nitrogen mitigation	21,427

Non-Major Funds:

Clearwater grass/bog removal	21,575
Data acquisition	47,950
Cedar lake AIS	27,165
Louisa & marie AIS	63,388
Bass lake AIS	23,026
Clearwater lake AIS	231,580
Lake augusta AIS	20,158
Watkins storm water	142,684
School section project	11,263

Total Committed	1,135,235
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Unassigned:

Major Funds:

General Fund	814,185
--------------	---------

Nonmajor Funds:

Augusta channel clean out	(6,034)
School section lake outlet	(14,721)

Total unassigned fund balance	793,430
-------------------------------	---------

Total Fund Balances	\$ 2,051,793
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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position on December 31, 2021, includes the following:

Net Investment in Capital Assets:	
Land	\$ 235,853
Distribution system	2,050,319
Machinery and equipment	51,037
Less: accumulated depreciation	(580,469)
Less: related debt	<u>(441,645)</u>
Total Net Investment in Capital Assets	1,315,094
Restricted:	
Debt service	488,210
Unrestricted	<u>1,932,808</u>
Total Governmental Activities Net Position	<u><u>\$ 3,736,112</u></u>

Business-type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position on December 31, 2021, includes the following:

Net Investment in Capital Assets:	
Land	\$ 35,400
Sanitary system	4,249,480
Machinery and equipment	8,670
Less: accumulated depreciation	<u>(1,491,530)</u>
Total Net Investment in Capital Assets	2,802,020
Unrestricted	<u>252,112</u>
Total Business-Type Activities Net Position	<u><u>\$ 3,054,132</u></u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Note 4 OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal 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 (IBNRs). The District's management is not aware of any incurred but not reported claims.

B. Contingencies

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2021

	Original And Final Budget	Actual Amount	Variance with Final Budget - Over (Under)
Revenues:			
Property Taxes	\$ 250,000	\$ 248,163	\$ (1,837)
Special Assessments	5,100	6,907	1,807
Intergovernmental	0	3,793	3,793
Other Revenues	0	783	783
Interest Earnings	0	81	81
Total Revenues	255,100	259,727	4,627
Expenditures:			
Current:			
Governance	0	6,000	6,000
Administrative & General	250,000	149,173	(100,827)
Technical & Engineering	0	0	0
Operations & Maintenance	0	2,923	2,923
Water Quality Monitoring	0	7,335	7,335
Other Special Projects	0	623	623
Total Expenditures	250,000	166,054	(83,946)
Excess of Revenues Over (Under) Expenditures	5,100	93,673	88,573
Other Financing Sources (Uses):			
Transfers Out	0	(50,000)	50,000
Change in Fund Balance	\$ 5,100	43,673	\$ 138,573
Fund Balance - January 1		776,233	
Fund Balance - December 31		\$ 819,906	

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CHAIN OF LAKES OPERATIONS & MAINTENANCE
For the Year Ended December 31, 2021

	Original And Final Budget	Actual Amount	Variance with Final Budget - Over (Under)
Revenues:			
Special Assessments	176,000	181,188	5,188
Other Revenues	0	90	90
Interest Earnings	0	46	46
Total Revenues	176,000	181,324	5,324
Expenditures:			
Current:			
Administrative & General	27,150	14,716	(12,434)
Technical & Engineering	0	0	0
Operations & Maintenance	4,500	33,007	28,507
Water Quality Monitoring	3,400	34,771	31,371
Other Special Projects	130,950	0	(130,950)
Capital Outlay	10,000	0	(10,000)
Total Expenditures	176,000	82,494	(93,506)
Excess of Revenues Over (Under) Expenditures	\$ 0	98,830	\$ 98,830
Fund Balance - January 1		398,532	
Fund Balance - December 31		\$ 497,362	

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CEDAR #06-1 MAINTENANCE
For the Year Ended December 31, 2021

	Original And Final Budget	Actual Amount	Variance with Final Budget - Over (Under)
Revenues			
Special Assessments	55,000	57,123	2,123
Intergovernmental	0	2,250	2,250
Other Revenues	0	107	107
Interest Earnings	0	5	5
Total Revenues	55,000	59,485	4,485
Expenditures			
Current:			
Administrative & General	5,300	7,836	2,536
Technical & Engineering	7,000	0	(7,000)
Operations & Maintenance	24,300	4,536	(19,764)
Water Quality Monitoring	2,000	351	(1,649)
Capital Outlay	16,400	68,581	52,181
Total Expenditures	55,000	81,304	26,304
Excess Revenue Over (Under) Expenditures	\$ 0	(21,819)	\$ (21,819)
Fund Balance - January 1		49,476	
Fund Balance - December 31		\$ 27,657	

SUPPLEMENTARY INFORMATION

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
December 31, 2021

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 55,949	\$ (5,622)	\$ 50,327
Investments	364,457	159,569	524,026
Property Taxes Receivable	1,181	0	1,181
Special Assessments Receivable	1,728	0	1,728
TOTAL ASSETS	\$ 423,315	\$ 153,947	\$ 577,262
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 8,798	\$ 0	\$ 8,798
Deferred Inflows of Resources			
Unavailable Revenue	430	0	430
Fund Balances			
Committed	434,842	153,947	588,789
Unassigned	(20,755)	0	(20,755)
Total Fund Balances	414,087	153,947	568,034
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 423,315	\$ 153,947	\$ 577,262

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND,
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	Special Revenue	Capital Project	Total Nonmajor Governmental Funds
Revenues:			
Property Taxes	\$ 49,163	\$ 0	\$ 49,163
Intergovernmental	6,348	0	6,348
Special Assessments	155,005	0	155,005
Other Revenues	6,027	44	6,071
Interest Earnings	35	17	52
Total Revenues	216,578	61	216,639
Expenditures:			
Current:			
Administration & General	11,605	5,867	17,472
Technical & Engineering	220	0	220
Operation & Maintenance	69,492	0	69,492
Water Quality Monitoring	32,720	355	33,075
Total Expenditures	114,037	6,222	120,259
Excess of Revenues Over (Under) Expenditures	102,541	(6,161)	96,380
Other Financing Sources (Uses):			
Transfers In	50,000	0	50,000
Change in Fund Balance	152,541	(6,161)	146,380
Fund Balance - January 1	261,546	160,108	421,654
Fund Balance - December 31	\$ 414,087	\$ 153,947	\$ 568,034

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2021

	Clearwater Grass/Bog Removal	Augusta Channel Clean Out	Data Acquisition	School Section Lake Outlet
ASSETS				
Cash and Cash Equivalents	\$ 1,178	\$ 5,968	\$ 13,505	\$ (12,546)
Investments	20,355	(12,002)	38,483	(2,175)
Property Taxes Receivable	0	0	1,181	0
Special Assessments Receivable	42	0	0	0
TOTAL ASSETS	<u>\$ 21,575</u>	<u>\$ (6,034)</u>	<u>\$ 53,169</u>	<u>\$ (14,721)</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$ 4,789	\$ 0
Deferred Inflows of Resources				
Unavailable Revenue	0	0	430	0
Fund Balances				
Committed	21,575	0	47,950	0
Unassigned	0	(6,034)	0	(14,721)
Total Fund Balances	<u>21,575</u>	<u>(6,034)</u>	<u>47,950</u>	<u>(14,721)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 21,575</u>	<u>\$ (6,034)</u>	<u>\$ 53,169</u>	<u>\$ (14,721)</u>

Cedar Lake AIS	Louisa & Marie AIS	Bass Lake AIS	Clearwater Lake AIS	Lake Augusta AIS	Total Nonmajor Special Revenue Funds
\$ (5,965)	\$ 7,085	\$ 5,106	\$ 40,727	\$ 891	\$ 55,949
32,868	55,518	17,782	190,594	23,034	364,457
0	0	0	0	0	1,181
262	785	138	259	242	1,728
<u>\$ 27,165</u>	<u>\$ 63,388</u>	<u>\$ 23,026</u>	<u>\$ 231,580</u>	<u>\$ 24,167</u>	<u>\$ 423,315</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,009	\$ 8,798
0	0	0	0	0	430
27,165	63,388	23,026	231,580	20,158	434,842
0	0	0	0	0	(20,755)
<u>27,165</u>	<u>63,388</u>	<u>23,026</u>	<u>231,580</u>	<u>20,158</u>	<u>414,087</u>
<u>\$ 27,165</u>	<u>\$ 63,388</u>	<u>\$ 23,026</u>	<u>\$ 231,580</u>	<u>\$ 24,167</u>	<u>\$ 423,315</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND,
CHANGES IN FUND BALANCE - NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2021

	Clearwater Grass/Bog Removal	Augusta Channel Clean Out	Data Acquisition	School Section Lake Outlet
Revenues:				
Property Taxes	\$ 0	\$ 0	\$ 49,163	\$ 0
Intergovernmental	0	0	6,348	0
Special Assessments	3,816	4,090	34	4,354
Other Revenues	37	0	0	44
Interest Earnings	2	0	2	0
Total Revenues	<u>3,855</u>	<u>4,090</u>	<u>55,547</u>	<u>4,398</u>
Expenditures:				
Current:				
Administration & General	842	101	5,701	645
Technical & Engineering	0	0	0	220
Operation & Maintenance	953	0	0	374
Water Quality Monitoring	0	0	31,920	0
Capital Outlay	0	0	0	0
Total Expenditures	<u>1,795</u>	<u>101</u>	<u>37,621</u>	<u>1,239</u>
Excess of Revenues Over (Under) Expenditures	2,060	3,989	17,926	3,159
Other Financing Sources (Uses):				
Transfers In	<u>0</u>	<u>0</u>	<u>50,000</u>	<u>0</u>
Change in Fund Balance	2,060	3,989	67,926	3,159
Fund Balance - January 1	<u>19,515</u>	<u>(10,023)</u>	<u>(19,976)</u>	<u>(17,880)</u>
Fund Balance - December 31	<u>\$ 21,575</u>	<u>\$ (6,034)</u>	<u>\$ 47,950</u>	<u>\$ (14,721)</u>

Cedar Lake AIS	Louisa & Marie AIS	Bass Lake AIS	Clearwater Lake AIS	Lake Augusta AIS	Total Nonmajor Special Revenue Funds
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 49,163
0	0	0	0	0	6,348
22,901	32,175	30,593	51,919	5,123	155,005
5,889	19	0	20	18	6,027
2	5	1	21	2	35
<u>28,792</u>	<u>32,199</u>	<u>30,594</u>	<u>51,960</u>	<u>5,143</u>	<u>216,578</u>
551	839	1,008	961	957	11,605
0	0	0	0	0	220
33,217	13,184	15,010	2,600	4,154	69,492
800	0	0	0	0	32,720
0	0	0	0	0	0
<u>34,568</u>	<u>14,023</u>	<u>16,018</u>	<u>3,561</u>	<u>5,111</u>	<u>114,037</u>
(5,776)	18,176	14,576	48,399	32	102,541
0	0	0	0	0	50,000
(5,776)	18,176	14,576	48,399	32	152,541
<u>32,941</u>	<u>45,212</u>	<u>8,450</u>	<u>183,181</u>	<u>20,126</u>	<u>261,546</u>
<u>\$ 27,165</u>	<u>\$ 63,388</u>	<u>\$ 23,026</u>	<u>\$ 231,580</u>	<u>\$ 20,158</u>	<u>\$ 414,087</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
December 31, 2021

	Watkins Storm Water Treatment	School Section Lake Outlet	Total Nonmajor Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ (1,489)	\$ (4,133)	\$ (5,622)
Investments	144,173	15,396	159,569
TOTAL ASSETS	\$ 142,684	\$ 11,263	\$ 153,947
FUND BALANCE			
Committed	\$ 142,684	\$ 11,263	\$ 153,947

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND,
CHANGES IN FUND BALANCE - NONMAJOR CAPITAL PROJECT FUNDS
For the Year Ended December 31, 2021

	Watkins Storm Water Treatment	School Section Lake Outlet	Total Nonmajor Capital Projects
Revenues:			
Special Assessments	0	0	0
Other Revenues	44	0	44
Interest Earnings	16	1	17
Total Revenues	60	1	61
Expenditures:			
Current:			
Administration & General	5,767	100	5,867
Technical & Engineering	0	0	0
Water Quality Monitoring	0	355	355
Total Expenditures	5,767	455	6,222
Change in Fund Balances	(5,707)	(454)	(6,161)
Fund Balance - January 1	148,391	11,717	160,108
Fund Balance - December 31	\$ 142,684	\$ 11,263	\$ 153,947

OTHER REPORTS



Burkhardt & Burkhardt, Ltd.

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Clearwater River Watershed District the (District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2022.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the District has no tax increment districts.

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

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Mankato, Minnesota
June 15, 2022

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Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Clearwater River Watershed District (the District) as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the District’s internal control to be material weakness:

Material Audit Adjustments

- CONDITION: During our audit, we proposed material audit adjustment to adjust several general ledger accounts to the proper year-end balances.
- CRITERIA: Internal controls over financial reporting should be in place to ensure the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States (GAAP).
- CAUSE: The District relies on their administrative services firm to record all District transactions to the proper accounting records in a timely manner.
- EFFECT: The design of internal control over completeness and accuracy of financial records could adversely affect the District’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
- RECOMMENDATION: The District Administrator should monitor financial reports provided by the administrative services firm to evaluate the reasonableness of the reports taking into consideration the facts and circumstances and to ensure all transactions have been recorded during the period.

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Approved Budget Reconciliation

- CONDITION:** During our audit of the financial statements, we noted material differences between the approved budget and the budget entered into the District's accounting software.
- CRITERIA:** The District should have controls in place to ensure the approved budget is accurately entered into the accounting software.
- CAUSE:** The District relies on the administrator to enter the approved budget, and there is no review of this process.
- EFFECT:** The potential exists that a material misstatement could exist in the financial statements and not be prevented or detected by the District's internal controls.
- RECOMMENDATION:** The District should have a council member review the budget entered into the accounting software to what was approved at the council meeting.

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 deficiencies in the District's internal control to be significant deficiencies:

Delayed Deposits

- CONDITION:** Although the District has established procedures and controls related to deposits, we found that these procedures are not being followed. During fieldwork, we noted deposits were made weeks after the District had received checks from customers.
- CRITERIA:** A sound system of internal control requires that assets are safeguarded, and deposits are as soon as money is received.
- CAUSE:** The District has not performed ongoing or separate evaluations to ascertain whether internal control activities are present and functioning properly.
- EFFECT:** Material misstatements of the cash accounts and the misappropriation of cash may occur and not be prevented or detected and corrected in a timely basis.
- RECOMMENDATION:** The District should evaluate their internal controls over timely deposits to ensure they are operating effectively.

Financial Report Preparation

- CONDITION:** The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements and accompanying notes to the financial statements.
- CRITERIA:** Internal controls should be in place to provide reasonable assurance over financial reporting.
- CAUSE:** The District has informed us that they do not have an internal control policy in place over annual financial reporting and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.
- EFFECT:** The potential exists that a material misstatement of the annual financial statements could occur and that a material disclosure could be omitted from the financial statements and not be prevented by the District's internal control.

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RECOMMENDATION: This control deficiency is not unusual in an organization of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost and other conditions.

Segregation of Duties

CONDITION: The District has a lack of segregation of duties in certain areas due to limited accounting staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas.

CRITERIA: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

CAUSE: The District has limited accounting staff.

EFFECT: The existence of this limited segregation of duties increases the risk of fraud.

RECOMMENDATION: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District. In order to have appropriate segregation of duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets.

This communication is intended solely for the information and use of the governance and management, of the District and is not intended to be and should not be used by anyone other than these specified parties.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd.
Mankato, Minnesota
June 15, 2022

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