

**CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

GOVERNANCE AND ADMINISTRATION
December 31, 2019

APPOINTED OFFICIALS

<u>Board of Managers</u>	<u>Position</u>	<u>Term Expires</u>
Robert Schiefelbein	President	August 2021
Chris Uecker	Vice President	August 2022
Paul DeGree	Secretary	August 2022
Kathy Jonsrud	Treasurer	August 2020
Dale Homuth	Member	August 2020

STAFF

Rebecca Carlson	Administrator
Merle Anderson	Advisor



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 Financial Statements

We have audited the accompanying 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Clearwater River Watershed District, as of December 31, 2019 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.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budget comparison information, 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 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 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.

Other Information

The supplemental information as listed in the table of contents under supplemental section 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 2018 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 September 6, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Burkhardt & Burkhardt, Ltd
Mankato, Minnesota
June 17, 2020

BASIC FINANCIAL STATEMENTS

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2019

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 1,627,423	\$ 119,395	\$ 1,746,818
Receivables:			
Accounts	0	40,251	40,251
Property taxes	8,888	0	8,888
Special assessments	607,816	0	607,816
Prepaid expenses	6,321	4,333	10,654
Due from other governments	156,947	0	156,947
Capital Assets	2,337,209	4,182,510	6,519,719
Accumulated depreciation	(371,824)	(1,240,118)	(1,611,942)
TOTAL ASSETS	\$ 4,372,780	\$ 3,106,371	\$ 7,479,151
LIABILITIES AND NET POSITION			
Liabilities			
Accounts Payable	\$ 437,871	\$ 4,738	\$ 442,609
Unearned Revenue	0	2,245	2,245
Current Portion of Long-Term Debt	18,894	0	18,894
Long-Term Debt, Net of Current Portion	581,106	0	581,106
Total Liabilities	1,037,871	6,983	1,044,854
Net Position			
Net Investment in Capital Assets	1,365,384	2,942,392	4,307,776
Restricted	601,884	0	601,884
Unrestricted	1,367,641	156,996	1,524,637
Total Net Position	3,334,909	3,099,388	6,434,297
TOTAL LIABILITIES AND NET POSITION	\$ 4,372,780	\$ 3,106,371	\$ 7,479,151

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, 2019

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	\$ 295,250	\$ 0	\$ 0	\$ 0	\$ (295,250)	\$ 0	\$ (295,250)
Special Revenue	216,557	378,493	0	0	161,936	0	161,936
Capital Projects	1,934	0	0	2,162,205	2,160,271	0	2,160,271
Total Governmental Activities	<u>513,741</u>	<u>378,493</u>	<u>0</u>	<u>2,162,205</u>	<u>2,026,957</u>	<u>0</u>	<u>2,026,957</u>
BUSINESS-TYPE ACTIVITIES:							
Sanitary Sewer System	<u>144,765</u>	<u>81,802</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(62,963)</u>	<u>(62,963)</u>
Total Primary Government	<u>\$ 658,506</u>	<u>\$ 460,295</u>	<u>\$ 0</u>	<u>\$ 2,162,205</u>	<u>2,026,957</u>	<u>(62,963)</u>	<u>1,963,994</u>
General Revenues:							
Property Taxes, Levied for General Purposes					248,293	0	248,293
Intergovernmental					9,073	0	9,073
Interest and Investments Earnings					8,470	599	9,069
Miscellaneous					7,641	0	7,641
Transfers In (Out)					(1,992,112)	1,992,112	0
Total General Revenues					<u>(1,718,635)</u>	<u>1,992,711</u>	<u>274,076</u>
Changes in Net Position					308,322	1,929,748	2,238,070
Net Position - January 1					<u>3,026,587</u>	<u>1,169,640</u>	<u>4,196,227</u>
Net Position - December 31					<u>\$ 3,334,909</u>	<u>\$ 3,099,388</u>	<u>\$ 6,434,297</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, 2019

	<u>General</u>	<u>Chain of Lakes Operations & Maintenance</u>	<u>Debt Service</u>
ASSETS			
Cash and Cash Equivalents	\$ 703,736	\$ 271,798	\$ 0
Property Taxes Receivable	8,834	0	0
Special Assessments Receivable	178	2,731	601,884
Prepaid Expenses	6,321	0	0
Due From Other Governments	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u><u>\$ 719,069</u></u>	<u><u>\$ 274,529</u></u>	<u><u>\$ 601,884</u></u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts Payable	<u>\$ 9,961</u>	<u>\$ 0</u>	<u>\$ 0</u>
Deferred Inflows of Resources			
Unavailable Revenue	<u>4,824</u>	<u>0</u>	<u>601,884</u>
Fund Balances			
Nonspendable - Prepaid Expenses	6,321	0	0
Committed:			
Special Revenue Funds	0	274,529	0
Capital Project Funds	0	0	0
Unassigned:			
General Fund	697,963	0	0
Special Revenue Funds	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>704,284</u>	<u>274,529</u>	<u>0</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 719,069</u></u>	<u><u>\$ 274,529</u></u>	<u><u>\$ 601,884</u></u>

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

Clearwater Harbor/ Hidden River Nitrogen Mitigation	Nonmajor Governmental Funds	Total Governmental Funds
\$ 303,917	\$ 347,971	\$ 1,627,422
0	54	8,888
0	3,023	607,816
0	0	6,321
<u>156,947</u>	<u>0</u>	<u>156,947</u>
<u>\$ 460,864</u>	<u>\$ 351,048</u>	<u>\$ 2,407,394</u>
<u>\$ 415,225</u>	<u>\$ 12,684</u>	<u>\$ 437,870</u>
<u>0</u>	<u>51</u>	<u>606,759</u>
0	0	6,321
0	251,826	526,355
45,639	193,876	239,515
0	0	697,963
<u>0</u>	<u>(107,389)</u>	<u>(107,389)</u>
<u>45,639</u>	<u>338,313</u>	<u>1,362,765</u>
<u>\$ 460,864</u>	<u>\$ 351,048</u>	<u>\$ 2,407,394</u>

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, 2019

Total Fund Balances - Governmental Funds	\$ 1,362,765
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	(371,824)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Note payable	(600,000)
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	4,875
Special Assessments	<u>601,884</u>
Total Net Position - Governmental Activities	<u>\$ 3,334,909</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, 2019

	General	Chain of Lakes Operations & Maintenance	Debt Service
Revenues			
Property Taxes	\$ 248,161	\$ 0	\$ 0
Intergovernmental Revenue	3,340	0	0
Special Assessments	16,850	158,346	0
Miscellaneous Income	5,529	39	0
Interest Income	4,704	1,521	0
Total Revenue	<u>278,584</u>	<u>159,906</u>	<u>0</u>
Expenditures			
Governance	19,633	0	0
Administration & General	133,469	2,616	0
Technical & Engineering	30,028	7,859	0
Operation & Maintenance	5,282	5,199	0
Water Quality Monitoring	0	3,005	0
Study, Survey, & Plan Development	0	0	0
Capital Outlay	0	10,000	0
Total Expenditures	<u>188,412</u>	<u>28,679</u>	<u>0</u>
Excess Revenues Over (Under) Expenditures	<u>90,172</u>	<u>131,227</u>	<u>0</u>
Other Financing Sources (Uses)			
Issuance of Note Payable	0	0	0
Transfers Out	(1,517)	0	0
Total Other Financing Sources (Uses)	<u>(1,517)</u>	<u>0</u>	<u>0</u>
Change in Fund Balance	88,655	131,227	0
Fund Balance - January 1	<u>615,629</u>	<u>143,302</u>	<u>0</u>
Fund Balance - December 31	<u>\$ 704,284</u>	<u>\$ 274,529</u>	<u>\$ 0</u>

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

Clearwater Harbor/ Hidden River Nitrogen Mitigation	Nonmajor Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 248,161
1,523,346	40,924	1,567,610
0	205,081	380,277
0	2,075	7,643
0	2,245	8,470
<u>1,523,346</u>	<u>250,325</u>	<u>2,212,161</u>
0	0	19,633
25,040	58,604	219,729
104,149	14,872	156,908
0	79,898	90,379
0	36,390	39,395
0	48	48
<u>1,861,407</u>	<u>0</u>	<u>1,871,407</u>
<u>1,990,596</u>	<u>189,812</u>	<u>2,397,499</u>
<u>(467,250)</u>	<u>60,513</u>	<u>(185,338)</u>
600,000	0	600,000
0	0	(1,517)
<u>600,000</u>	<u>0</u>	<u>598,483</u>
132,750	60,513	413,145
<u>(87,111)</u>	<u>277,800</u>	<u>949,620</u>
<u>\$ 45,639</u>	<u>\$ 338,313</u>	<u>\$ 1,362,765</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, 2019

Total Net Change in Fund Balances - Governmental Funds	\$ 413,145
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.	
Capital outlay	1,990,596
Less: Depreciation	(106,838)
Assets contributed to business-type activities	(1,990,596)
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.	
Note proceeds received	(600,000)
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	133
Special Assessments	<u>601,884</u>
Change in Net Position - Governmental Activities	<u>\$ 308,322</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, 2019

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 0	\$ 11,887	\$ 92,281	\$ 61,683	\$ 165,851
Accounts receivable	10,880	1,766	18,915	8,690	40,251
Prepaid insurance	1,139	395	2,354	445	4,333
Total Current Assets	<u>12,019</u>	<u>14,048</u>	<u>113,550</u>	<u>70,818</u>	<u>210,435</u>
Noncurrent Assets					
Capital assets	1,047,401	141,138	2,922,471	71,500	4,182,510
Less: Accumulated depreciation	<u>(223,698)</u>	<u>(42,956)</u>	<u>(943,993)</u>	<u>(29,471)</u>	<u>(1,240,118)</u>
Net Capital Assets	<u>823,703</u>	<u>98,182</u>	<u>1,978,478</u>	<u>42,029</u>	<u>2,942,392</u>
TOTAL ASSETS	<u>\$ 835,722</u>	<u>\$ 112,230</u>	<u>\$ 2,092,028</u>	<u>\$ 112,847</u>	<u>\$ 3,152,827</u>
LIABILITIES AND NET POSITION					
Current Liabilities					
Deficit Cash Balances	\$ 46,456	\$ 0	\$ 0	\$ 0	\$ 46,456
Accounts payable	3,140	122	1,388	88	4,738
Unearned Revenue	377	368	1,384	116	2,245
Total Current Liabilities	<u>49,973</u>	<u>490</u>	<u>2,772</u>	<u>204</u>	<u>53,439</u>
Net Position					
Net Investment in Capital Assets	823,703	98,182	1,978,478	42,029	2,942,392
Unrestricted	<u>(37,954)</u>	<u>13,558</u>	<u>110,778</u>	<u>70,614</u>	<u>156,996</u>
Total Net Position	<u>785,749</u>	<u>111,740</u>	<u>2,089,256</u>	<u>112,643</u>	<u>3,099,388</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 835,722</u>	<u>\$ 112,230</u>	<u>\$ 2,092,028</u>	<u>\$ 112,847</u>	<u>\$ 3,152,827</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, 2019

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
Operating Revenue					
Charges for Services	\$ 21,286	\$ 6,080	\$ 44,795	\$ 8,942	\$ 81,103
Operating Expenses					
Routine Maintenance	15,091	680	14,517	0	30,288
Administration & General	23,348	2,303	11,950	1,953	39,554
Depreciation	<u>12,363</u>	<u>2,643</u>	<u>57,467</u>	<u>2,450</u>	<u>74,923</u>
Total Operating Expenses	<u>50,802</u>	<u>5,626</u>	<u>83,934</u>	<u>4,403</u>	<u>144,765</u>
Income (Loss) from Operations	(29,516)	454	(39,139)	4,539	(63,662)
Nonoperating Revenue					
Interest Income	0	49	137	413	599
Other Revenue	<u>293</u>	<u>18</u>	<u>367</u>	<u>21</u>	<u>699</u>
Total Nonoperating Revenue (Expense)	<u>293</u>	<u>67</u>	<u>504</u>	<u>434</u>	<u>1,298</u>
Income Before Transfers and Other Items	(29,223)	521	(38,635)	4,973	(62,364)
Transfers and Other Items					
Transfers In	0	0	0	1,517	1,517
Capital Contributions	<u>556,293</u>	<u>0</u>	<u>1,434,302</u>	<u>0</u>	<u>1,990,595</u>
Total Transfers and Other Items	<u>556,293</u>	<u>0</u>	<u>1,434,302</u>	<u>1,517</u>	<u>1,992,112</u>
Change in Net Position	527,070	521	1,395,667	6,490	1,929,748
Net Position - January 1	<u>258,679</u>	<u>111,219</u>	<u>693,589</u>	<u>106,153</u>	<u>1,169,640</u>
Net Position - December 31	<u>\$ 785,749</u>	<u>\$ 111,740</u>	<u>\$ 2,089,256</u>	<u>\$ 112,643</u>	<u>\$ 3,099,388</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, 2019

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers and Users	\$ 20,712	\$ 6,002	\$ 47,204	\$ 7,684	\$ 81,602
Payments to Suppliers	(37,049)	(3,016)	(27,035)	(4,630)	(71,730)
Other Receipts	293	18	367	21	699
Net Cash Provided (Used) by Operating Activities	<u>(16,044)</u>	<u>3,004</u>	<u>20,536</u>	<u>3,075</u>	<u>10,571</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,517</u>	<u>(1,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>0</u>	<u>49</u>	<u>137</u>	<u>413</u>	<u>599</u>
Change in Cash and Cash Equivalents	(16,044)	3,053	20,673	5,005	9,653
Cash and Cash Equivalents - January 1	<u>(30,412)</u>	<u>8,834</u>	<u>71,608</u>	<u>56,678</u>	<u>106,708</u>
Cash and Cash Equivalents - December 31	<u>\$ (46,456)</u>	<u>\$ 11,887</u>	<u>\$ 92,281</u>	<u>\$ 61,683</u>	<u>\$ 116,361</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating Income (Loss)	\$ (29,516)	\$ 454	\$ (39,139)	\$ 4,539	\$ (63,662)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Other Receipts	293	18	367	21	699
Depreciation Expense	12,363	2,643	57,467	2,450	74,923
Accounts Receivable	(574)	(78)	2,409	(1,258)	499
Prepaid Insurance	(601)	(114)	(1,655)	(110)	(2,480)
Accounts Payable	1,774	73	(162)	(2,683)	(998)
Unearned Revenue	217	8	1,249	116	1,590
Net Cash Provided by Operating Activities	<u>\$ (16,044)</u>	<u>\$ 3,004</u>	<u>\$ 20,536</u>	<u>\$ 3,075</u>	<u>\$ 10,571</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, 2019

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 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 considered to be 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.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current 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 considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

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.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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 *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.

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 insures 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 insures 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 insures 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 insures 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 water and 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.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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

The District's investments are reported at their respective fair market values. The District has not adopted a formal investment policy.

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, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Delinquent taxes receivable include 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 2019. 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 receivable 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:

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

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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.
- 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”.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2019, no fund had expenditures over appropriations.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-(Continued)

C. Deficit Fund Equity

The following had fund equity deficits at year-end:

Fund	Amount
Governmental	
Nonmajor	
Augusta Channel Clean Out	\$ 13,418
Data Acquisition	38,363
School Section Lake Outlet	45,848
Bass Lake AIS	9,760

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, 2019

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.

At December 31, 2019, the carrying amount of deposits was \$1,746,818 and the bank balance was \$1,766,643. The District's deposits were covered by \$750,000 of federal depository insurance. The remaining balance was covered by collateral held by the District's agent in the District's name.

Investments

As of December 31, 2019, the District had no investments.

A reconciliation of cash and cash equivalents as shown on the statement of net position for the District follows:

	Governmental Funds	Proprietary Funds
Demand deposits	\$ 1,399,278	\$ 102,657
Time deposits	228,145	16,738
Total cash and cash equivalents	\$ 1,627,423	\$ 119,395

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	\$ 4,824	\$ -
Delinquent property taxes - data aquisition fund	51	-
Special assessments not yet due - debt service fund	601,884	
Total unavailable/unearned revenue	\$ 606,759	\$ -

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: \$551,752 of special assessments.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

C. Interfund receivables, payables, and transfers

Interfund transfers

Interfund transfers for the year ended December 31, 2019, consisted of the following:

Transferred To	Transfer From		Total
	General Fund	Governmental Activities	
Lake Louisa Hills Sewer	\$ 1,517	\$ -	\$ 1,517
Hidden River Maintenance		556,293	556,293
Clearwater Harbor Maintenance		1,434,302	1,434,302
Total	\$ 1,517	\$ 1,990,595	\$ 1,992,112

Transfers from the General fund to Lake Louisa Hills Sewer fund was to close out a fund the District no longer utilizes. The transfers to Hidden River and Clearwater Harbor Maintenance were for capital contributions relating to constructions costs of a project.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 235,853	\$ -	\$ -	\$ 235,853
Construction in progress	85,655	-	(85,655)	-
Total capital assets not being depreciated	321,508	-	(85,655)	235,853
Capital assets being depreciated				
Distribution system	1,964,664	85,655	-	2,050,319
Machinery and equipment	51,037	-	-	51,037
Total capital assets being depreciated	2,015,701	85,655	-	2,101,356
Less accumulated depreciation for				
Distribution system	(233,716)	(102,516)	-	(336,232)
Machinery and equipment	(31,270)	(4,322)	-	(35,592)
Total accumulated depreciation	(264,986)	(106,838)	-	(371,824)
Total capital assets being depreciated, net	1,750,715	(21,183)	-	1,729,532
Governmental activities capital assets, net	<u>\$ 2,072,223</u>	<u>\$ (21,183)</u>	<u>\$ (85,655)</u>	<u>\$ 1,965,385</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

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	2,147,845	1,990,595	-	4,138,440
Machinery and equipment	8,670	-	-	8,670
Total capital assets being depreciated	2,156,515	1,990,595	-	4,147,110
Less accumulated depreciation for				
Sanitary system	(1,160,668)	(74,344)	-	(1,235,012)
Machinery and equipment	(4,528)	(578)	-	(5,106)
Total accumulated depreciation	(1,165,196)	(74,922)	-	(1,240,118)
Total capital assets being depreciated, net	991,319	1,915,673	-	2,906,992
Business-type activities capital assets, net	\$ 1,026,719	\$ 1,915,673	\$ -	\$ 2,942,392

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

Governmental activities

General government \$ 106,838

Total depreciation expense - governmental activities \$ 106,838

Business-type activities

Hidden River \$ 12,362

Rest a While 2,643

Clearwater Harbor 57,467

Wandering Ponds 2,450

Total depreciation expense - business-type activities \$ 74,922

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

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	\$ 600,000	4.00%	11/1/19	2/1/30	<u>\$ 600,000</u>

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

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2020	\$ 18,894	\$ 18,170	\$ 37,064
2021	51,393	22,735	74,128
2022	53,469	20,659	74,128
2023	55,629	18,499	74,128
2024	57,876	16,252	74,128
2025-2029	326,402	44,238	370,640
2030	36,337	727	37,064
Total	<u>\$ 600,000</u>	<u>\$ 141,280</u>	<u>\$ 741,280</u>

Changes in long-term liabilities

During the year ended December 31, 2019, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Note payable	\$ -	\$ 600,000	\$ -	\$ 600,000	\$ 18,894
Governmental activity long-term liabilities	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 18,894</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

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 at December 31, 2019 included the following:

Nonspendable

Major Funds:

General Fund - prepaid expenses	<u>\$ 6,321</u>
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Committed

Major Funds:

Chain of lakes O&M	\$ 274,529
Clearwater harbor/hidden river nitrogen mitigation	45,639

Non-Major Funds:

Clearwater grass/bog removal	19,211
Cedar #06-01 maintenance	16,593
Cedar lake AIS	37,910
Louisa & marie AIS	30,894
Clearwater lake milfoil	59,112
Clearwater lake AIS	67,439
Lake augusta AIS	20,667
Watkins storm water	148,472
School section project	<u>45,404</u>

Total Committed	<u>\$ 765,870</u>
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Unassigned

Major Funds:

General Fund	\$ 697,963
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Nonmajor Funds:

Augusta channel clean out	(13,418)
Data acquisition	(38,363)
School section lake outlet	(45,848)
Bass lake AIS	<u>(9,760)</u>

Total unassigned fund balance	<u>\$ 590,574</u>
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Total Fund Balances	<u><u>\$ 1,362,765</u></u>
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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

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 at December 31, 2019 includes the following:

Net Investment in Capital Assets:	
Land	\$ 235,853
Distribution system	2,050,319
Machinery and equipment	51,037
Less: accumulated depreciation	(371,824)
Less: related debt	<u>(600,000)</u>
Total Net Investment in Capital Assets	1,365,384
Restricted	601,884
Unrestricted	<u>1,367,641</u>
Total Governmental Activities Net Position	<u>\$ 3,334,909</u>

Business-Type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position at December 31, 2019 includes the following:

Net Investment in Capital Assets:	
Land	\$ 35,400
Sanitary system	4,138,440
Machinery and equipment	8,670
Less: accumulated depreciation	<u>(1,240,118)</u>
Total Net Investment in Capital Assets	2,942,392
Unrestricted	<u>156,996</u>
Total Business-Type Activities Net Position	<u>\$ 3,099,388</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

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.

C. Commitments

Construction commitments

As of December 31, 2019, the District has signed contracts in place for one construction project. The following summarizes these commitments:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Clearwater Harbor/Hidden River Nitrogen Mitigation	<u>\$ 1,852,087</u>	<u>\$ 133,392</u>

Note 5 SUBSEQUENT EVENT

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the District is unable to determine if it will have a material impact to its operations.

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, 2019

	Original And Final Budget	Actual Amount	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 250,000	\$ 248,161	\$ (1,839)
Special Assessments	14,000	16,850	2,850
Intergovernmental	3,500	3,340	(160)
Miscellaneous income	1,500	5,529	4,029
Interest income	1,725	4,704	2,979
Total Revenue	270,725	278,584	7,859
Expenditures			
Governance	145,100	19,633	(125,467)
Administrative & General	96,500	133,469	36,969
Technical & Engineering	27,900	30,028	2,128
Operations & Maintenance	8,300	5,282	(3,018)
Water Quality Monitoring	9,700	0	(9,700)
Other Special Projects	27,550	0	(27,550)
Total Expenditures	315,050	188,412	(126,638)
Excess Revenue Over (Under) Expenditures	(44,325)	90,172	134,497
Other Financing Uses:			
Transfers Out	0	(1,517)	1,517
Change in Fund Balance	\$ (44,325)	88,655	\$ 136,014
Fund Balance - January 1		615,629	
Fund Balance - December 31		\$ 704,284	

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, 2019

	Original And Final Budget	Actual Amount	Variance with Final Budget - Over (Under)
Revenues			
Special Assessments	150,000	158,346	8,346
Miscellaneous income	500	39	(461)
Interest income	500	1,521	1,021
Total Revenue	151,000	159,906	8,906
Expenditures			
Administrative & General	8,750	2,616	(6,134)
Technical & Engineering	15,000	7,859	(7,141)
Operations & Maintenance	70,500	5,199	(65,301)
Water Quality Monitoring	9,000	3,005	(5,995)
Study, Survey, and Plan Development	5,000	0	(5,000)
Other Special Projects	42,750	0	(42,750)
Capital Outlay	0	10,000	10,000
Total Expenditures	151,000	28,679	(122,321)
Excess Revenues Over (Under) Expenditures	\$ 0	131,227	\$ 131,227
Fund Balance - January 1		143,302	
Fund Balance - December 31		\$ 274,529	

SUPPLEMENTARY INFORMATION

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
December 31, 2019

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 151,789	\$ 196,182	\$ 347,971
Property taxes receivable	54	0	54
Special assessments receivable	3,023	0	3,023
TOTAL ASSETS	\$ 154,866	\$ 196,182	\$ 351,048
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 10,378	\$ 2,306	\$ 12,684
Deferred Inflows of Resources			
Unavailable Revenue	51	0	51
Fund Balances			
Committed			
Special Revenue	251,826	0	251,826
Capital Projects	0	193,876	193,876
Unassigned			
Special Revenue	(107,389)	0	(107,389)
Total Fund Balances	144,437	193,876	338,313
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 154,866	\$ 196,182	\$ 351,048

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, 2019

	Special Revenue	Capital Project	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental Revenue	\$ 5,733	\$ 35,191	\$ 40,924
Special Assessments	203,297	1,784	205,081
Miscellaneous Income	2,066	9	2,075
Interest Income	1,305	940	2,245
Total Revenue	<u>212,401</u>	<u>37,924</u>	<u>250,325</u>
Expenditures			
Administration & General	57,482	1,122	58,604
Technical & Engineering	14,312	560	14,872
Operation & Maintenance	79,898	0	79,898
Water Quality Monitoring	36,138	252	36,390
Study, Survey, & Plan Development	48	0	48
Total Expenditures	<u>187,878</u>	<u>1,934</u>	<u>189,812</u>
Excess of Revenues Over (Under) Expenditures	24,523	35,990	60,513
Fund Balance - January 1	<u>119,914</u>	<u>157,886</u>	<u>277,800</u>
Fund Balance - December 31	<u>\$ 144,437</u>	<u>\$ 193,876</u>	<u>\$ 338,313</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2019

	Clearwater Grass/Bog Removal	Augusta Channel Clean Out	Data Acquisition	School Section Lake Outlet
ASSETS				
Cash and cash equivalents	\$ 19,041	\$ (14,116)	\$ (38,039)	\$ (42,263)
Property taxes receivable	0	0	54	0
Special assessments receivable	170	698	0	0
TOTAL ASSETS	\$ 19,211	\$ (13,418)	\$ (37,985)	\$ (42,263)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 0	\$ 0	\$ 327	\$ 3,585
Deferred Inflows of Resources				
Unavailable Revenue	0	0	51	0
Fund Balances				
Committed				
Special Revenue	19,211	0	0	0
Unassigned				
Special Revenue	0	(13,418)	(38,363)	(45,848)
Total Fund Balances	19,211	(13,418)	(38,363)	(45,848)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 19,211	\$ (13,418)	\$ (37,985)	\$ (42,263)

Cedar #06-01 Maintenance	Cedar Lake AIS	Louisa & Marie AIS	Bass Lake AIS	Clearwater Lake Milfoil	Clearwater Lake AIS	Lake Augusta AIS	Total Nonmajor Special Revenue Funds
\$ 19,277	\$ 37,409	\$ 30,644	\$ (9,760)	\$ 59,112	\$ 70,047	\$ 20,437	\$ 151,789
0	0	0	0	0	0	0	54
329	501	250	0	0	845	230	3,023
<u>\$ 19,606</u>	<u>\$ 37,910</u>	<u>\$ 30,894</u>	<u>\$ (9,760)</u>	<u>\$ 59,112</u>	<u>\$ 70,892</u>	<u>\$ 20,667</u>	<u>\$ 154,866</u>
\$ 3,013	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,453	\$ 0	\$ 10,378
0	0	0	0	0	0	0	51
16,593	37,910	30,894	0	59,112	67,439	20,667	251,826
0	0	0	(9,760)	0	0	0	(107,389)
<u>16,593</u>	<u>37,910</u>	<u>30,894</u>	<u>(9,760)</u>	<u>59,112</u>	<u>67,439</u>	<u>20,667</u>	<u>144,437</u>
<u>\$ 19,606</u>	<u>\$ 37,910</u>	<u>\$ 30,894</u>	<u>\$ (9,760)</u>	<u>\$ 59,112</u>	<u>\$ 70,892</u>	<u>\$ 20,667</u>	<u>\$ 154,866</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, 2019

	Clearwater Grass/Bog Removal	Augusta Channel Clean Out	Data Acquisition	School Section Lake Outlet
Revenues				
Intergovernmental Revenue	0	0	5,733	0
Special Assessments	8,783	4,648	0	0
Miscellaneous Income	9	0	0	12
Interest Income	102	0	22	0
Total Revenue	<u>8,894</u>	<u>4,648</u>	<u>5,755</u>	<u>12</u>
Expenditures				
Administration & General	788	100	29,087	4,390
Technical & Engineering	0	0	0	4,696
Operation & Maintenance	1,458	0	0	1,589
Water Quality Monitoring	0	0	34,856	0
Study, Survey, & Plan Development	0	0	0	0
Total Expenditures	<u>2,246</u>	<u>100</u>	<u>63,943</u>	<u>10,675</u>
Excess Revenue Over (Under) Expenditures	6,648	4,548	(58,188)	(10,663)
Fund Balance - January 1	<u>12,563</u>	<u>(17,966)</u>	<u>19,825</u>	<u>(35,185)</u>
Fund Balance - December 31	<u>\$ 19,211</u>	<u>\$ (13,418)</u>	<u>\$ (38,363)</u>	<u>\$ (45,848)</u>

Cedar #06-01 Maintenance	Cedar Lake AIS	Louisa & Marie AIS	Bass Lake AIS	Clearwater Lake Milfoil	Clearwater Lake AIS	Lake Augusta AIS	Total Nonmajor Special Revenue Funds
0	0	0	0	0	0	0	5,733
46,585	30,795	36,849	7,279	630	56,403	11,325	203,297
29	4	4	0	2,002	2	4	2,066
57	273	97	0	460	172	122	1,305
<u>46,671</u>	<u>31,072</u>	<u>36,950</u>	<u>7,279</u>	<u>3,092</u>	<u>56,577</u>	<u>11,451</u>	<u>212,401</u>
1,565	523	523	16,495	592	2,923	496	57,482
9,458	0	0	0	158	0	0	14,312
17,615	29,606	20,156	0	980	3,450	5,044	79,898
1,282	0	0	0	0	0	0	36,138
48	0	0	0	0	0	0	48
<u>29,968</u>	<u>30,129</u>	<u>20,679</u>	<u>16,495</u>	<u>1,730</u>	<u>6,373</u>	<u>5,540</u>	<u>187,878</u>
16,703	943	16,271	(9,216)	1,362	50,204	5,911	24,523
<u>(110)</u>	<u>36,967</u>	<u>14,623</u>	<u>(544)</u>	<u>57,750</u>	<u>17,235</u>	<u>14,756</u>	<u>119,914</u>
<u>\$ 16,593</u>	<u>\$ 37,910</u>	<u>\$ 30,894</u>	<u>\$ (9,760)</u>	<u>\$ 59,112</u>	<u>\$ 67,439</u>	<u>\$ 20,667</u>	<u>\$ 144,437</u>

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
December 31, 2019

	Watkins Storm Water Treatment	School Section Lake Outlet	Total Nonmajor Capital Projects
ASSETS			
Cash and cash equivalents	<u>\$ 148,472</u>	<u>\$ 47,710</u>	<u>\$ 196,182</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 0	\$ 2,306	\$ 2,306
Fund Balances			
Committed Capital Projects	<u>148,472</u>	<u>45,404</u>	<u>193,876</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 148,472</u></u>	<u><u>\$ 47,710</u></u>	<u><u>\$ 196,182</u></u>

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, 2019

	Watkins Storm Water Treatment	School Section Lake Outlet	Total Nonmajor Capital Projects
Revenues			
Intergovernmental Revenue	\$ 35,191	\$ 0	\$ 35,191
Special Assessments	0	1,784	1,784
Miscellaneous Income	9	0	9
Interest Income	764	176	940
Total Revenue	35,964	1,960	37,924
Expenditures			
Administration & General	952	170	1,122
Technical & Engineering	0	560	560
Water Quality Monitoring	0	252	252
Total Expenditures	952	982	1,934
Excess Revenues Over (Under) Expenditures	35,012	978	35,990
Fund Balance - January 1	113,460	44,426	157,886
Fund Balance - December 31	\$ 148,472	\$ 45,404	\$ 193,876

OTHER REPORTS



Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2020.

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 public indebtedness because the District has no outstanding debt or tax increment financing since 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.

Deposits and Investments

The District held deposits with a depository that failed to provide the required amount of collateral on those deposits during the year ended December 31, 2019.

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
Mankato, Minnesota
June 17, 2020

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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, 2019, 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 certain deficiencies in internal control that we consider to be material weaknesses 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’ internal control to be material weaknesses:

Material Audit Adjustments

- CONDITION:** During the course of our audit, we proposed a material audit adjustment to record three quarterly customer billings of Enterprise fund sewer service revenue totaling \$59,475 to the District’s general ledger.
- 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 accounting 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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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:

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.
- 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.
Mankato, Minnesota
June 17, 2020

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