

**BELLE CREEK
WATERSHED DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**BELLE CREEK WATERSHED DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2018**

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BELLE CREEK WATERSHED DISTRICT
ORGANIZATION
DECEMBER 31, 2018

Board of Managers:

County

Les Kylo (President)
James Hedeem (Treasurer)
Steve McNamara (Secretary)

Goodhue
Goodhue
Goodhue

INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Belle Creek Watershed District
Welch, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Belle Creek Watershed District, Welch, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Belle Creek Watershed District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Belle Creek Watershed District, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Belle Creek Watershed District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019, on our consideration of the Belle Creek Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Belle Creek Watershed District's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

April 30, 2019

**BELLE CREEK WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 289,265
Capital assets	
Land	378,550
Total Assets	667,815
Net Position:	
Investment in capital assets	378,550
Unrestricted	289,265
Total Net Position	\$ 667,815

The accompanying notes are an integral part of these financial statements.

**BELLE CREEK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Net Position</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 11,955	\$ -	\$ -	\$ -	\$ (11,955)
Programs	4,702	-	26,669	-	21,967
Total Governmental Activities	<u>\$ 16,657</u>	<u>\$ -</u>	<u>\$ 26,669</u>	<u>\$ -</u>	<u>10,012</u>
General Revenues:					
Unrestricted interest earnings				1,920	
Total General Revenues				<u>1,920</u>	
Change in Net Position				<u>11,932</u>	
Net Position - January 1				<u>655,883</u>	
Net Position - December 31				<u>\$ 667,815</u>	

The accompanying notes are an integral part of these financial statements.

**BELLE CREEK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2018**

	General Fund
Assets	
Cash and cash equivalents	\$ 289,265
Total Assets	\$ 289,265
Fund Balance	
Unassigned	289,265
Total Fund Balance	289,265
Total Fund Balance	\$ 289,265
Total Fund Balance	\$ 289,265

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

Capital assets used in governmental funds are not financial resources and therefore are not reported in funds. Those assets consist of:

Land	378,550
Net Position of Governmental Activities	\$ 667,815

The accompanying notes are an integral part of these financial statements.

**BELLE CREEK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund
Revenues	
Intergovernmental	\$ 26,669
Interest income	1,920
Total Revenues	28,589
Expenditures	
Current:	
General government:	
Administrative	1,298
Insurance	9,057
Professional fees	1,600
Program expenditures	4,702
Total Expenditures	16,657
Net Change in Fund Balance	11,932
Fund Balance - January 1	277,333
Fund Balance - December 31	\$ 289,265
Net Change in Fund Balance - Governmental Fund	\$ 11,932
Change in Net Position of Governmental Activities	\$ 11,932

The accompanying notes are an integral part of these financial statements.

**BELLE CREEK WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 1 - Summary of Significant Accounting Policies

The Belle Creek Watershed District was established by a Joint Powers Agreement in 1968 between the townships of Belle Creek, Cannon Falls, Leon, Minneola, Vasa and Wanamingo. The District was formed to meet the requirements of Minnesota Statutes 103D.

The purpose of the District is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitat and water recreational facilities.
- Secure the other benefits associated with the proper management of surface and groundwater.

The District comprises 52,790 acres, and includes all or part of the cities of Belle Creek, Cannon Falls, Leon, Minneola, Vasa and Wanamingo.

The District is governed by a three-member Board of Managers. The Board consists of three representatives of the District. They are elected to a three-year term. Once the three-year term has been met the County Commissioners shall appoint a new Board of Managers.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Fund Financial Statements

The government-wide fund 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. The governmental activities are supported by intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general government revenues.

**BELLE CREEK WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues 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. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports one major governmental fund. The General Fund (Administrative Fund) is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenditures and programs of the District.

Cash and Investments

Cash and investment balances are invested, to the extent available, in authorized investments.

In accordance with the provisions of GASB Statement No. 31, the District reports investments at fair value in the financial statements. In accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

Capital Assets

Land is reported at acquisition cost.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**BELLE CREEK WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of internally imposed constraints. These constraints are established by resolution of the Board.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board.

Unassigned – is the residual classification for the general fund.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 30, 2019, the date the financial statements were available to be issued.

**BELLE CREEK WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 2 - Deposits and Investments

Deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board, 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% of the deposits not covered by insurance or bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) 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;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) 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
- f) Time deposits that are fully insured by any federal agency.

At December 31, 2018, the carrying amount of the District's deposits was \$289,265 and the bank balance was \$289,753.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. The balance was covered by \$250,000 of FDIC coverage and the remaining balance was covered by collateral held in the District's name.

**BELLE CREEK WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 3 - Risk Management

The District is exposed to various risks of loss for which the District carries commercial insurance policies.

There were no reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 4 - Commitments and Contingencies

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

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

Board of Managers
Belle Creek Watershed District
Welch, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Belle Creek Watershed District, Welch, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Belle Creek Watershed District's basic financial statements, and have issued our report thereon dated April 30, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over financial reporting as described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a significant deficiency.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Belle Creek Watershed District's Response to Findings

Belle Creek Watershed District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Belle Creek Watershed District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

April 30, 2019

**INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE**

To the Board of Managers
Belle Creek Watershed District
Welch, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of Belle Creek Watershed District, as of and for the year ended December 31, 2018, and the related notes to the financial statements which collectively comprise the Belle Creek Watershed District's basic financial statements, and have issued our report thereon dated April 30, 2019.

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

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

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

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

April 30, 2019

**BELLE CREEK WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2018**

2018-001 Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board.