

**BELLE CREEK  
WATERSHED DISTRICT  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**BELLE CREEK WATERSHED DISTRICT  
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FOR THE YEAR ENDED DECEMBER 31, 2019**

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**BELLE CREEK WATERSHED DISTRICT  
ORGANIZATION  
DECEMBER 31, 2019**

**Board of Managers:**

	<u>County</u>
Les Kylo (President)	Goodhue
James Hedeem (Treasurer)	Goodhue
Steve McNamara (Secretary)	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, 2019, 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 an opinion 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.

## **Opinion**

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, 2019, 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 22, 2020, on our consideration of 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 22, 2020

**BELLE CREEK WATERSHED DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	Governmental Activities
<b>Assets:</b>	
Cash and cash equivalents	\$ 300,288
Capital assets	
Land	378,550
Total Assets	678,838
 <b>Liabilities:</b>	
Accounts payable	100
Total Liabilities	100
 <b>Net Position:</b>	
Investment in capital assets	378,550
Unrestricted	300,188
Total Net Position	\$ 678,738

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

**BELLE CREEK WATERSHED DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Net Position
	<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	\$ 11,906	\$ -	\$ -	\$ -	\$ (11,906)
Programs	7,293	-	27,562	-	20,269
Total Governmental Activities	\$ 19,199	\$ -	\$ 27,562	\$ -	8,363
General Revenues:					
Unrestricted interest earnings					2,560
Total General Revenues					2,560
Change in Net Position					10,923
Net Position - January 1					667,815
Net Position - December 31					\$ 678,738

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

**BELLE CREEK WATERSHED DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2019**

	General Fund
Assets	
Cash and cash equivalents	\$ 300,288
Total Assets	\$ 300,288
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 100
Total Liabilities	100
 Fund Balance	
Unassigned	300,188
Total Fund Balance	300,188
Total Liabilities and Fund Balance	\$ 300,188
Total Fund Balance	\$ 300,188
 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	\$ 678,738

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, 2019**

	General Fund
Revenues	
Intergovernmental	\$ 27,562
Interest income	2,560
Total Revenues	30,122
Expenditures	
Current:	
General government:	
Administrative	1,334
Insurance	8,922
Professional fees	1,650
Program expenditures	7,293
Total Expenditures	19,199
Net Change in Fund Balance	10,923
Fund Balance - January 1	289,265
Fund Balance - December 31	\$ 300,188
Net Change in Fund Balance - Governmental Fund	\$ 10,923
Change in Net Position of Governmental Activities	\$ 10,923

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

**BELLE CREEK WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**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 habitats 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, 2019**

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, 2019**

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.

**BELLE CREEK WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standards Update, Leases (Topic 842), intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of net position and statement of activities, the new ASU will require both types of leases to be recognized on the statement of net position and the statement of activities. The ASU leases will take effect for all non-public companies for fiscal years beginning after December 15, 2020.

**Note 2 - Accounting Standards Adopted**

This fiscal year the District adopted the Accounting Standards Update (ASU) No. 2014-09 – Revenue from Contracts with Customers (Topic 606). The new standard did not materially affect its statement of net position or statement of activities.

**Note 3 - Deposits and Investments**

Deposits

In accordance with Minnesota Statutes, the District maintains deposits at 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

**BELLE CREEK WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

- f) Time deposits that are fully insured by any federal agency.

At December 31, 2019, the carrying amount of the District's deposits were \$300,288 and the bank balance was \$302,330.

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.

**Note 4 - 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 5 - 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.

**Note 6 - Subsequent Events**

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the District's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the District's financial condition or results of operations is uncertain.

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 22, 2020, the date the financial statements were available to be issued.

**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**

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 of Belle Creek Watershed District, Welch, Minnesota, as of and for the year ended December 31, 2019, 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 22, 2020.

**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 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 2019-001 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 internal control 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 22, 2020



## 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, 2019, 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 22, 2020.

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 contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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 22, 2020

**BELLE CREEK WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2019**

**2019-001 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.