

Annual Financial Report

Brown's Creek Watershed District

Stillwater, Minnesota

For the Year Ended
December 31, 2017

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Brown's Creek Watershed District
 Stillwater, Minnesota
 Annual Financial Report
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 For the Year Ended December 31, 2017

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INTRODUCTORY SECTION
BROWN'S CREEK WATERSHED DISTRICT
STILLWATER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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Brown's Creek Watershed District
Stillwater, Minnesota
Board of Managers and Appointed Officials
For the Year Ended December 31, 2017

MANAGERS

<u>Name</u>	<u>Title</u>
Craig Leiser	President
Sharon Schwarze	Vice President
Ann Maule Miller	Secretary
Gerald Johnson	Treasurer
Connie Taillon	Manager

STAFF

Karen Kill	Administrator
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FINANCIAL SECTION
BROWN'S CREEK WATERSHED DISTRICT
STILLWATER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Brown's Creek Watershed District
Stillwater, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Brown's Creek Watershed District, Minnesota (the District), as of and for the year ended December 31, 2017, 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 of 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 and each major fund of the District as of December 31, 2017 and the respective changes in financial position and the budgetary comparison for the General fund and the Management Planning fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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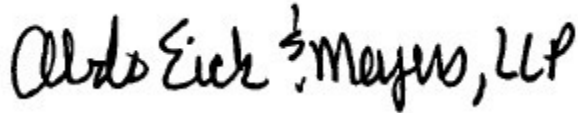
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 11, 2018

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Management's Discussion and Analysis

As management of the Brown's Creek Watershed District (the District), Stillwater, Minnesota, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,086,383 (net position). Of this amount, \$614,422 (unrestricted net position) may be used to meet the District's ongoing obligations.
- The District's total net position increased by \$275,434, which is mostly due to a decrease in expenses from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$614,174, an increase of \$114,261 in comparison with the prior year. This increase in fund balance is mainly due to revenues in excess of budget.
- The ending General fund balance is \$417,661, all of which is unassigned and is 222.8 percent of the 2018 budgeted expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

**Figure 1
Required Components of the
District’s Annual Financial Report**

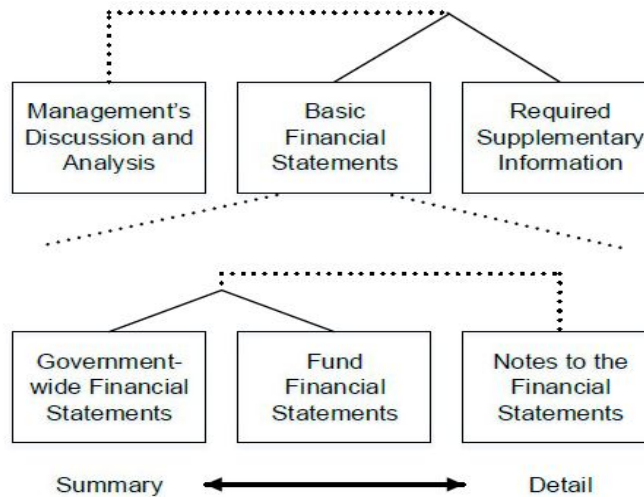


Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2
Major features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements	
	Government-wide Statements	Governmental Funds
Scope	Entire District	The activities of the District
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., grants and earned but unused vacation and sick leave).

The governmental activities of the District include general government and program costs.

The government-wide financial statements start on page 24 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently maintains two governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its General fund and Management Planning fund. A budgetary comparison statement has been provided for the General fund and Management Planning fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 28 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 35 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,086,383 at the close of the most recent fiscal year.

The largest portions of the District's net position are unrestricted and available to meet the ongoing needs of the District. 43.4 percent reflects its investment in capital assets (e.g., land, land improvements, and permanent easements). These assets are not available for future spending.

Brown's Creek Watershed District's Summary of Net Position

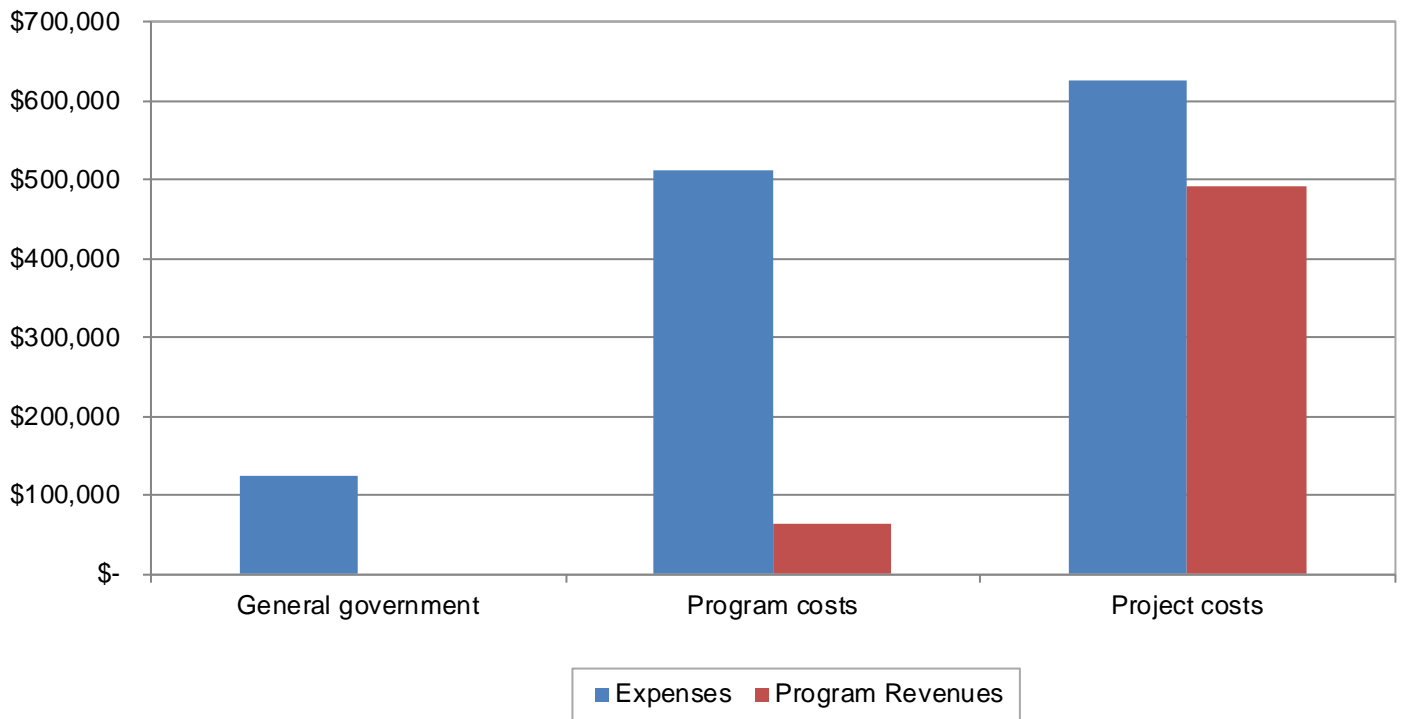
	December 31,		Increase (Decrease)
	2017	2016	
Assets			
Current	\$ 859,744	\$ 752,091	\$ 107,653
Capital	548,281	304,487	243,794
Total Assets	1,408,025	1,056,578	351,447
Liabilities			
Current	245,322	245,629	(307)
Noncurrent	76,320	-	76,320
Total Liabilities	321,642	245,629	76,013
Net Position			
Investment in capital assets	471,961	304,487	167,474
Unrestricted	614,422	506,462	107,960
Total Net Position	\$ 1,086,383	\$ 810,949	\$ 275,434

Governmental Activities. Governmental activities increased the District's net position by \$275,434, which was mostly due to a decrease in expenses.

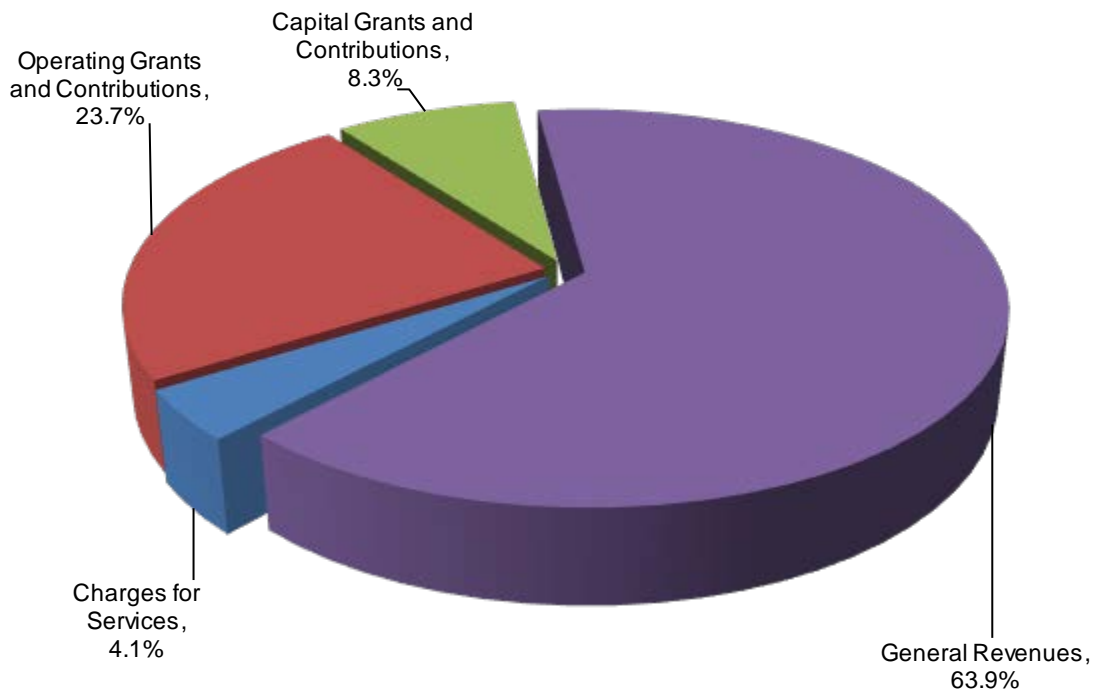
Brown's Creek Watershed District's Changes in Net Position

	December 31,		Increase (Decrease)
	2017	2016	
Revenues			
Program			
Charges for services	\$ 63,194	\$ 113,031	\$ (49,837)
Operating grants and contributions	363,503	244,793	118,710
Capital grants and contribution	127,200	-	127,200
General			
Property taxes	981,939	917,266	64,673
Unrestricted investment earnings	340	254	86
Total Revenues	1,536,176	1,275,344	260,832
Expenses			
General government	124,122	130,134	(6,012)
Program costs	512,149	651,996	(139,847)
Project costs	624,471	696,116	(71,645)
Total Expenses	1,260,742	1,478,246	(217,504)
Change in Net Position	275,434	(202,902)	478,336
Net Position, January 1	810,949	1,013,851	(202,902)
Net Position, December 31	\$ 1,086,383	\$ 810,949	\$ 275,434

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$614,174, an increase of \$114,261 in comparison with the prior year. Approximately 68.0 percent of this total amount, \$417,661 constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance, \$196,513, is committed for water resources management plan.

The General fund is the chief operating fund of the District. At the end of the current year, the fund balance of the General fund was \$417,661. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 336.5 percent of 2017 actual expenditures and 222.8 percent of 2018 budgeted fund expenditures. The General fund balance increased by \$31,731 during the current fiscal year.

The fund balance of the Management Planning fund at year end was \$196,513 which is an increase of \$82,530 from the prior year. This was due to revenues exceeding expenditures related to program and project costs.

General Fund Budgetary Highlights

The District's General fund budget was amended during the year. The actual results were more favorable than those projected by the 2017 budget. Revenues were over budget by \$253. Expenditures were lower than budgeted by \$31,478.

Management Planning Fund Budgetary Highlights

The District's Management Planning fund budget was amended during the year. The actual results were more favorable than those projected by the 2017 budget. Revenues were over budget by \$189,874, which can be attributed to permit fees being over budget by \$63,194. Expenditures were higher than budgeted by \$30,544, which is mostly due to permitting cost.

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2017 amounts to \$548,281 (net of accumulated depreciation). This investment in capital assets includes land, easements, and land improvements. The District's investment in capital assets for the current fiscal year was 43.4 percent.

Additional information on the District's capital assets can be found in Note 3B on page 41 of this report.

Brown's Creek Watershed District's Capital Assets (Net of Depreciation)

	December 31,		Increase (Decrease)
	2017	2016	
Land and Permanent Easements	\$ 316,555	\$ 62,155	\$ 254,400
Land Improvements	231,726	242,332	(10,606)
Total	<u>\$ 548,281</u>	<u>\$ 304,487</u>	<u>\$ 243,794</u>

Economic Factors and Next Year's Budgets

The District goes through a multi-stage process to develop its annual budget.

- Staff reviews the ten-year Watershed Management Plan Implementation Plan and all completed water resource implementation plans for proposed activities.
- Staff contacts all municipalities and agencies to discuss potential cooperative projects and stakeholder priorities.
- Board meets as many times as necessary for a budget workshop, generally at least twice, to assess the previous year's work plan and consider projected projects and programs. For the 2018 budget, the Board met July 25, 2017 and August 9, 2017 to develop an initial draft 2018 budget.
- Board holds a public hearing to receive public comment on the proposed draft levy and budget. For the 2018 budget, the public hearing was held September 13, 2017.
- Board certifies initial levy to the County in September.
- The budget is presented to the County Commissioners in a public workshop.
- Between September through December, Board reviews projects and programs. The Board determines if the final budget and levy can be reduced at the regular December Board meeting.
- Prior to final certification, the Board of Managers took any additional public comment on the 2018 Budget and Levy on December 13, 2017 at the regular meeting.
- Final levy is certified in December.

For the 2018 budget, the District will continue implementing the 2017-2026 watershed management plan.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Karen Kill, Administrator, Brown's Creek Watershed District, 455 Hayward Ave North, Oakdale, MN 55128.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

BROWN'S CREEK WATERSHED DISTRICT
STILLWATER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

Brown's Creek Watershed District
 Stillwater, Minnesota
 Statement of Net Position
 December 31, 2017

	Governmental Activities
Assets	
Cash and temporary investments	\$ 779,644
Receivables	
Accounts	17,324
Taxes	12,394
Due from other governments	50,382
Capital assets	
Nondepreciable assets	316,555
Depreciable assets, net of accumulated depreciation	231,726
Total Assets	1,408,025
Liabilities	
Accounts payable	56,008
Due to other governments	103,077
Deposits payable	86,237
Noncurrent liabilities - due in more than one year	
Note Payable	76,320
Total Liabilities	321,642
Net Position	
Net investment in capital assets	471,961
Unrestricted	614,422
Total Net Position	\$ 1,086,383

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
Stillwater, Minnesota
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities					
General government	\$ 124,122	\$ -	\$ -	\$ -	\$ (124,122)
Program costs	512,149	63,194	-	-	(448,955)
Project costs	624,471	-	363,503	127,200	(133,768)
Total	\$ 1,260,742	\$ 63,194	\$ 363,503	\$ 127,200	(706,845)
General Revenues					
Property taxes					981,939
Unrestricted investment earnings					340
Total General Revenues					982,279
Change in Net Position					275,434
Net Position, January 1					810,949
Net Position, December 31					\$ 1,086,383

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS
BROWN'S CREEK WATERSHED DISTRICT
STILLWATER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

Brown's Creek Watershed District
 Stillwater, Minnesota
 Balance Sheet
 Governmental Funds
 December 31, 2017

	General	Management Planning	Total Governmental Funds
Assets			
Cash and temporary investments	\$ 576,746	\$ 202,898	\$ 779,644
Receivables			
Accounts	-	17,324	17,324
Taxes	-	12,394	12,394
Due from other governments	-	50,382	50,382
	<u>576,746</u>	<u>282,998</u>	<u>859,744</u>
Total Assets	<u>\$ 576,746</u>	<u>\$ 282,998</u>	<u>\$ 859,744</u>
Liabilities			
Accounts payable	\$ 56,008	\$ -	\$ 56,008
Due to other governments	103,077	-	103,077
Deposits payable	-	86,237	86,237
Total Liabilities	<u>159,085</u>	<u>86,237</u>	<u>245,322</u>
Deferred Inflows of Resources			
Unavailable revenue - taxes	-	248	248
	<u>-</u>	<u>248</u>	<u>248</u>
Fund Balances			
Committed			
Water resources management plan	-	196,513	196,513
Unassigned	417,661	-	417,661
Total Fund Balances	<u>417,661</u>	<u>196,513</u>	<u>614,174</u>
	<u>417,661</u>	<u>196,513</u>	<u>614,174</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 576,746</u>	<u>\$ 282,998</u>	<u>\$ 859,744</u>

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
 Stillwater, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2017

Amounts reported for the governmental activities in the statement of net position are different because

Total Fund Balances - Governmental	\$	614,174
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		581,713
Less accumulated depreciation		(33,432)
Noncurrent liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Note payable		(76,320)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.		
Delinquent taxes receivable		<u>248</u>
Total Net Position - Governmental Activities	\$	<u><u>1,086,383</u></u>

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
Stillwater, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Management Planning	Total Governmental Funds
Revenues			
Property taxes	\$ 155,600	\$ 830,814	\$ 986,414
Intergovernmental			
Market value agricultural credit	-	1,826	1,826
Grants	-	490,703	490,703
Interest on investments	253	87	340
Permit fees	-	63,194	63,194
Total Revenues	<u>155,853</u>	<u>1,386,624</u>	<u>1,542,477</u>
Expenditures			
Current			
General government	124,122	-	124,122
Program costs	-	512,149	512,149
Project costs	-	893,705	893,705
Debt service			
Principal	-	25,440	25,440
Total Expenditures	<u>124,122</u>	<u>1,431,294</u>	<u>1,555,416</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	31,731	(44,670)	(12,939)
Other Financing Sources (Uses)			
Issuance of debt	-	127,200	127,200
Net Change in Fund Balances	31,731	82,530	114,261
Fund Balances, January 1	<u>385,930</u>	<u>113,983</u>	<u>499,913</u>
Fund Balances, December 31	<u>\$ 417,661</u>	<u>\$ 196,513</u>	<u>\$ 614,174</u>

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
 Stillwater, 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, 2017

Amounts reported for governmental activities in the statement of activities are different because

Total Net Change in Fund Balances - Governmental Funds	\$ 114,261
<p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	254,400
Depreciation expense	(10,606)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities</p>	
Issuance of long-term debt	(127,200)
Principal repayments	50,880
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	<u>(6,301)</u>
Change in Net Position - Governmental Activities	<u><u>\$ 275,434</u></u>

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
 Stillwater, Minnesota
 Statement of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 General Fund
 For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 155,600	\$ 155,600	\$ 155,600	\$ -
Interest on investments	-	-	253	253
Total Revenues	<u>155,600</u>	<u>155,600</u>	<u>155,853</u>	<u>253</u>
Expenditures				
Current				
General government				
Per diems	10,000	10,000	8,959	1,041
Engineering	24,000	24,000	23,541	459
Administrator services	47,000	47,000	47,680	(680)
Legal fees	21,500	21,500	20,905	595
Accounting	3,600	3,600	3,600	-
Audit	8,000	8,000	7,960	40
Postage	1,000	1,000	-	1,000
Printing	1,000	1,000	805	195
Dues and subscriptions	4,000	4,000	4,205	(205)
Training and seminars	1,000	1,000	745	255
Insurance and bonds	3,500	3,500	712	2,788
Recording secretary	4,000	4,000	3,399	601
Miscellaneous	27,000	27,000	1,611	25,389
Total Expenditures	<u>155,600</u>	<u>155,600</u>	<u>124,122</u>	<u>31,478</u>
Net Change in Fund Balances	-	-	31,731	31,731
Fund Balances, January 1	<u>385,930</u>	<u>385,930</u>	<u>385,930</u>	-
Fund Balances, December 31	<u>\$ 385,930</u>	<u>\$ 385,930</u>	<u>\$ 417,661</u>	<u>\$ 31,731</u>

The notes to the financial statements are an integral part of this statement.

Brown's Creek Watershed District
Stillwater, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Management Planning Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 824,174	\$ 824,174	\$ 830,814	\$ 6,640
Intergovernmental				
Market value agricultural credit	1,826	1,826	1,826	-
Grants	330,750	370,750	490,703	119,953
Interest on investments	-	-	87	87
Permit fees	-	-	63,194	63,194
Total Revenues	<u>1,156,750</u>	<u>1,196,750</u>	<u>1,386,624</u>	<u>189,874</u>
Expenditures				
Current				
Program costs				
Baseline monitoring and equipment	149,000	149,000	148,389	611
Legal fees	35,000	35,000	43,901	(8,901)
Staff engineer	71,000	71,000	70,623	377
Permitting	53,100	53,100	135,069	(81,969)
Administrator services	95,000	95,000	94,667	333
East metro water resources educator	18,500	18,500	19,500	(1,000)
Miscellaneous	25,000	44,105	-	44,105
Project costs	908,150	935,045	893,705	41,340
Debt service	-	-	25,440	(25,440)
Total Expenditures	<u>1,354,750</u>	<u>1,400,750</u>	<u>1,431,294</u>	<u>(30,544)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(198,000)	(204,000)	(44,670)	159,330
Other Financing Sources (Uses)				
Issuance of debt	-	-	127,200	127,200
Net Change in Fund Balances	(198,000)	(204,000)	82,530	286,530
Fund Balances, January 1	<u>113,983</u>	<u>113,983</u>	<u>113,983</u>	<u>-</u>
Fund Balances, December 31	<u>\$ (84,017)</u>	<u>\$ (90,017)</u>	<u>\$ 196,513</u>	<u>\$ 286,530</u>

The notes to the financial statements are an integral part of this statement.

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Brown's Creek Watershed District
Stillwater, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Brown's Creek Watershed District (the District), Stillwater, Minnesota was originally created in 1997 by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota statutes Chapter 103D. The District was established to promote the public welfare and public interest and will advance the purpose of Minnesota statutes, chapters 103B and 103D. The District is operated by a five member Board of Managers.

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. The District has no component units that meet the GASB criteria.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Brown's Creek Watershed District
Stillwater, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide 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 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, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for service, assessments to members, grants and interest associated with the current fiscal period are all considered 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 organization.

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 grants, entitlement and donations. 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The District reports the following major governmental funds:

The *General fund* is the District's primary operating fund. It accounts for all financial resources not accounted for in a different fund of the District.

The *Management Planning fund* was established pursuant to Minnesota statutes for funding related to the development and implementation of the District's watershed management plan. By law, this plan must contain a capital improvement plan which allows watershed districts to implement projects without petition. The District may impose an ad valorem levy over the entire watershed or subwatershed to fund these projects or allow funds to accumulate to finance these capital improvement projects. The property tax levy is committed to execute the water resources management plan as filed with the Board of Water and Soil Resources.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

Brown's Creek Watershed District
Stillwater, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The District's cash and temporary investments 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. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. 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.
8. 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.
9. 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.

Property Tax Revenue Recognition

The Board of Managers annually adopts a tax levy and certifies it to the County in December of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. The District has no ability to enforce payments of property taxes by property owners. The County possesses this authority.

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

Brown's Creek Watershed District
Stillwater, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end.

Capital Assets

Capital assets, which include land, land improvements and easements are reported in the applicable governmental 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 \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999 the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District implemented the general provisions of GASB Statement No. 34 in the 2004 calendar year and has elected not to report infrastructure assets acquired in years prior to 2004.

Deferred 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 that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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 Board, which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the 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 Board itself or by an official to which the governing body delegates the authority

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

Brown's Creek Watershed District
 Stillwater, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Net Position

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 - Consists 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 "investment in capital assets".

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.

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

The Board of Managers adopts an annual budget for the General and Management Planning fund of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. There were amendments to the budget during 2017. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement process.

The District does not use encumbrance accounting.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Management Planning Fund	\$ 1,400,750	\$ 1,431,294	\$ 30,544

These excess expenditures were funded by greater than anticipated revenues.

Brown's Creek Watershed District
Stillwater, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts

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 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, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 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.

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 District.

At year end, the District's carrying amount of deposits was \$779,644 and the bank balance was \$785,621. Of the bank balance, \$535,763 was covered by federal depository insurance. The remaining balance was covered by collateral held in the District's name.

Brown's Creek Watershed District
 Stillwater, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated				
Land and permanent easements	\$ 62,155	\$ 254,400	\$ -	\$ 316,555
Capital Assets, being Depreciated				
Land improvements	265,158	-	-	265,158
Less Accumulated Depreciation for Land improvements	(22,826)	(10,606)	-	(33,432)
Total Capital Assets being Depreciated, Net	242,332	(10,606)	-	231,726
Governmental Activities Capital Assets, Net	<u>\$ 304,487</u>	<u>\$ 243,794</u>	<u>\$ -</u>	<u>\$ 548,281</u>

Depreciation expense charged to the project costs function for 2017 was \$10,606.

C. Note Payable

During 2017, the District entered into a cooperative agreement with Washington County to purchase land for the purposes of preservation of open space, parks and public water, commonly referred to as the Land and Water Legacy Program. After receipt of title ownership of the Property, the District will reimburse the County 50.0 percent of the purchase price \$127,200 with no interest. At the end of 2017 the District balance due to the County was \$76,320, payable in equal annual payments of \$25,440.

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 pays annual premiums for its workers compensation and property and casualty insurance. 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. Permit Collateral

The District issues permits to applicants who wish to make changes to land that may affect the water drainage or alter the lake shore within the boundaries of the District. The District requires collateral to be deposited to ensure the projects are completed in accordance with the permit application. As of December 31, 2017, the District was holding \$86,237 of collateral deposits.

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OTHER REQUIRED REPORT
BROWN'S CREEK WATERSHED DISTRICT
STILLWATER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Brown's Creek Watershed District
Stillwater, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of the Brown's Creek Watershed District (the District), Stillwater, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 11, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 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 that we did not test for compliance with the provisions for tax increment financing because the District does not have any established tax increment financing 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 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 District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use 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.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 11, 2018