

BROWN'S CREEK WATERSHED DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**BROWN'S CREEK WATERSHED DISTRICT
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INTRODUCTORY SECTION

**BROWN'S CREEK WATERSHED DISTRICT
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2018**

WATERSHED BOARD OF MANAGERS

Craig Leiser
Sharon Schwarze
Anne Maule Miller
Gerald Johnson
Klay Eckles

TITLE

President
Vice President
Secretary
Treasurer
2nd Vice President

DISTRICT ADMINISTRATOR

Karen Kill

Administrator

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable President and Members of the District Board
Brown's Creek Watershed District

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 as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Brown's 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 each major fund of the Brown's Creek Watershed District as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund and management and planning fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

For the year ended December 31, 2018, the District restated beginning Governmental Activities net position, beginning General Fund balance and beginning Management Planning fund balance to correct errors in previously issued financial statements (see Note 9). Our auditors' opinion was not modified with respect to the restatement.

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 4 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 25, 2019

**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

As management of the Brown's Creek Watershed District, 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, 2018.

Financial Highlights

- The District's governmental activities net position increased by \$165,524. The District's governmental activities total ending net position was \$1,604,463 at year-end.
- The fund balance of the General Fund increased to \$520,689 at year-end.
- The fund balance of the Management Fund increased to \$186,433 at year-end.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four 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., uncollected taxes).

Both of the government-wide financial statements consist of the District functions that are principally supported by taxes and, to a limited extent, intergovernmental revenue. The governmental activities of the District include general government, program costs, and project costs.

The government-wide financial statements can be found on pages 11 - 12 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. All of the funds of the District fall under the category of governmental funds.

**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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 sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District currently maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Management Planning Fund.

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

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

Notes to 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 financial statements can be found on pages 19 - 29 of this report.

Government-Wide Financial Analysis

Beginning with the year ended December 31, 2004, the District's financial statements were presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*. Comparative information is included in these tables to highlight changes in financial position, shown in Exhibit 1.

The government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the District's financial position. Over time, increases or decreases in the District's net position can be used as an indicator of the District's financial position.

**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus a liberal approach to depreciation estimates, as well as capitalization policies, will produce a very significant difference in the calculated amounts.

For these reasons, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

EXHIBIT 1: BROWN'S CREEK WATERSHED DISTRICT'S NET POSITION - GOVERNMENTAL ACTIVITIES

	Governmental Activities	
	2018	2017
Current and Other Assets	\$ 1,530,017	\$ 859,744
Capital Assets, Net	942,305	548,281
Total Assets	2,472,322	1,408,025
Current Liabilities	816,979	245,322
Noncurrent Liabilities	50,880	76,320
Total Liabilities	867,859	321,642
Net Position:		
Net Investment in Capital Assets	891,425	471,961
Unrestricted	713,038	614,422
Total Net Position	\$ 1,604,463	\$ 1,086,383

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,604,463 at the close of the most recent fiscal year. Brown's Creek's recorded assets are largely in cash and investments. This cash balance is generally used to finance the District's expenses during the year. The District receives the vast majority of its income through the property tax system.

Capital Assets are shown net of depreciation, where applicable. Roads are recorded after January 1, 2004 when a capital improvement is made.

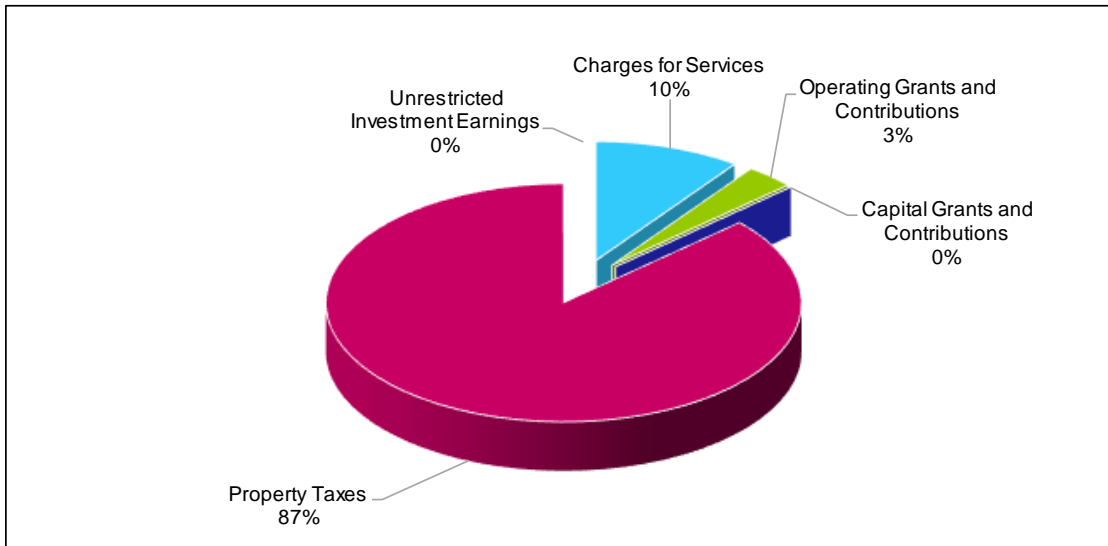
**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Governmental Activities increased the District's net position by \$165,524. Key elements of the increase are as follows:

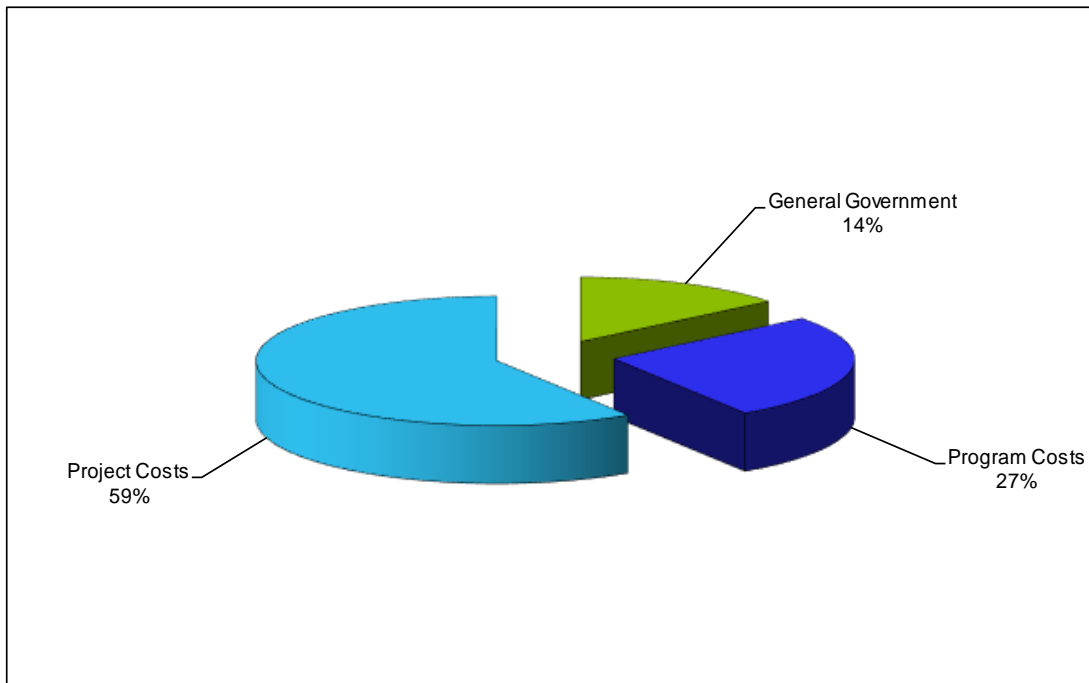
	Governmental Activities			
	2018	2017	Annual Change	Percent Change
REVENUES				
Program Revenues:				
Charges for Services	\$ 114,993	\$ 63,194	\$ 51,799	82 %
Operating Grants and Contributions	38,305	363,503	(325,198)	(89)
Capital Grants and Contributions	-	127,200	(127,200)	(100)
General Revenues:				
Property Taxes	1,003,946	981,939	22,007	2
Unrestricted Investment Earnings	217	340	(123)	(36)
Total Revenues	<u>1,157,461</u>	<u>1,536,176</u>	<u>(378,715)</u>	<u>(25)</u>
EXPENSES				
General Government	141,427	124,122	17,305	14
Program Costs	263,750	512,149	(248,399)	(49)
Project Costs	586,760	624,471	(37,711)	(6)
Total Expenses	<u>991,937</u>	<u>1,260,742</u>	<u>(268,805)</u>	<u>(21)</u>
CHANGE IN NET POSITION	165,524	275,434	(109,910)	(40)
Net Position - Beginning of Year	1,086,383	810,949	275,434	34
Prior Period Restatement - See Note 9	352,556	-	352,556	-
Net Position - Beginning of Year (as Restated)	<u>1,438,939</u>	<u>810,949</u>	<u>627,990</u>	77
NET POSITION - END OF YEAR	<u>\$ 1,604,463</u>	<u>\$ 1,086,383</u>	<u>\$ 518,080</u>	48

**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

The following is a graphical representation of the various sources of the District's 2018 governmental revenues of \$1,157,461:



The following is a graphical representation of the allocation of the District's 2018 governmental expenses of \$991,937.



**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of December 31, 2018, totals \$942,305 (net of accumulated depreciation). This investment in capital assets includes land, District Hall, office equipment, and roads.

**Capital Assets at Year-End
(Net of Accumulated Depreciation)**

	Governmental Activities	
	2018	2017
Land	\$ 316,555	\$ 316,555
Construction in Progress	38,838	352,556
Land Improvements	646,192	265,158
Less: Accumulated Depreciation	(59,280)	(33,432)
Capital Assets, Net	\$ 942,305	\$ 900,837

Additional information on capital assets is presented in Note 4 of this report.

Long-Term Debt. The District has a note payable from a cooperative agreement with Washington County for the purchase of land for preservation purposes. At the end of 2018, the District balance due to the County was \$50,790, payable in equal annual payments of \$25,440.

Outstanding Debt at Year-End

	Governmental Activities	
	2018	2017
Notes Payable	\$ 50,880	\$ 76,320

Additional information is presented in Note 5 of this report.

Economic Factors and Next Year's Budgets and Rates

- The District Council has prepared a balanced budget for the General Fund for 2018.
- For the 2018 budget, the District will continue implementing the 2017-2026 watershed management plan.

General Fund Budgetary Highlights

Detail of the General Fund original budget, final budget, and actual revenues and expenditures can be found on pages 17 of this report. The District amended the General Fund budget during the year. Overall revenues of the General Fund were under budget by \$270, due to receiving slightly less in property tax revenue than was allocated from the levy. Expenditures in the General Fund were over budget by \$5,427 mostly due to additional administrative services expenditures of \$4,547. All of these factors combined to result in an unfavorable General Fund budget variance of \$5,697.

**BROWN'S CREEK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Management Planning Budgetary Highlights

Detail of the Management Planning original budget, final budget, and actual revenues and expenditures can be found on page 18 of this report. The District amended the Management Planning Fund budget during the year. Overall revenues of the Management Planning Fund were under budget by \$58,574, due to grant revenue being on a cash basis but the actual activity being on an accrual basis, resulting in grant revenue to be under budget by \$164,842 which was then offset by permit fees being over budget by \$114,993 due to a larger number of permit revenue from greater activity in FY18. Expenditures in the Management Planning Fund were under budget by \$387,819 due to program costs being under budget by \$505,980 due to mostly to less activity than expected at the time of the budget, which was offset by permitting expenditures being over budget by \$144,394 due to the additional activity related to permitting. All of these factors combined to result in a favorable Management Planning Fund budget variance of \$329,245.

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, Brown's Creek Watershed District, 455 Hayward Ave North, Oakdale, MN 55128.

BASIC FINANCIAL STATEMENTS

**BROWN'S CREEK WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government Governmental Activities
ASSETS	
Cash and Investments	\$ 1,469,347
Receivables:	
Accounts	8,538
Taxes	14,707
Due from Other Governments	37,425
Capital Assets:	
Nondepreciable Assets	355,393
Depreciable Assets, Net of Accumulated Depreciation	586,912
Total Capital Assets, Net	942,305
 Total Assets	 2,472,322
LIABILITIES	
Accounts Payable	51,130
Due to Other Governments	121,620
Deposits Payable	604,849
Unearned Revenue	39,380
Notes Payable	50,880
Total Liabilities	867,859
NET POSITION	
Net Investment in Capital Assets	891,425
Unrestricted	713,038
 Total Net Position	 \$ 1,604,463

See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 141,427	\$ -	\$ -	\$ (141,427)
Program Costs	263,750	-	38,305	(225,445)
Project Costs	586,760	114,993	-	(471,767)
Total Governmental Activities	\$ 991,937	\$ 114,993	\$ 38,305	(838,639)
General Revenues:				
Property Taxes				1,003,946
Unrestricted Investment Earnings				217
Total General Revenues				1,004,163
Change in Net Position				165,524
Net Position - January 1 as Previously Reported				1,086,383
Prior Period Adjustment, See Note 9				352,556
Net Position - January 1 as Restated				1,438,939
Net Position - End of Year				\$ 1,604,463

See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2018**

ASSETS	<u>General Fund</u>	<u>Management Planning</u>	<u>Totals</u>
Cash and Investments	\$ 542,727	\$ 926,620	\$ 1,469,347
Receivables:			
Accounts	-	8,538	8,538
Taxes	1,743	12,964	14,707
Due from Other Governments	<u>-</u>	<u>37,425</u>	<u>37,425</u>
 Total Assets	 <u>\$ 544,470</u>	 <u>\$ 985,547</u>	 <u>\$ 1,530,017</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ 6,521	\$ 44,609	\$ 51,130
Due to Other Governments	16,878	104,742	121,620
Deposits Payable	-	604,849	604,849
Unearned Revenue	-	39,380	39,380
Total Liabilities	<u>23,399</u>	<u>793,580</u>	<u>816,979</u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	382	5,534	5,916
 FUND BALANCE			
Committed:			
Water Resources Management Plan	-	186,433	186,433
Unassigned	<u>520,689</u>	<u>-</u>	<u>520,689</u>
Total Fund Balance	<u>520,689</u>	<u>186,433</u>	<u>707,122</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balance	 <u>\$ 544,470</u>	 <u>\$ 985,547</u>	 <u>\$ 1,530,017</u>

See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balances for Governmental Funds	\$	707,122
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Total net position reported for governmental activities in the statement of net position is different because:

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

Land	\$	316,555	
Construction in Progress		38,838	
Land Improvements		646,192	
Less: Accumulated Depreciation		<u>(59,280)</u>	942,305

Some of the District's receivables (including property taxes and other long-term receivables) will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds. 5,916

Some liabilities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Balances at year-end are:

Notes Payable		<u>(50,880)</u>
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Total Net Position of Governmental Activities	\$	<u><u>1,604,463</u></u>
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**BROWN'S CREEK WATERSHED DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2018**

	General Fund	Management Planning	Totals
	<u> </u>	<u> </u>	<u> </u>
REVENUE			
Property Taxes	\$ 155,513	\$ 842,765	\$ 998,278
Licenses and Permits	-	114,993	114,993
Intergovernmental Revenue:			
Grants	-	38,305	38,305
Investment Earnings	217	-	217
Total Revenue	<u>155,730</u>	<u>996,063</u>	<u>1,151,793</u>
 EXPENDITURES			
Current:			
General Government	141,427	-	141,427
Program Costs	-	305,218	305,218
Project Costs	-	586,760	586,760
Debt Service:			
Principal	-	25,440	25,440
Total Expenditures	<u>141,427</u>	<u>917,418</u>	<u>1,058,845</u>
 NET CHANGE IN FUND BALANCES	 14,303	 78,645	 92,948
 FUND BALANCES			
January 1 - As Previously Reported	417,661	196,513	614,174
Prior Period Adjustment, see Note 9	88,725	(88,725)	-
January 1 - As Restated	<u>506,386</u>	<u>107,788</u>	<u>614,174</u>
 End of Year	 <u>\$ 520,689</u>	 <u>\$ 186,433</u>	 <u>\$ 707,122</u>

See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances-Total Governmental Funds \$ 92,948

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

Governmental funds report capital outlays as expenditures and proceeds from the sale of capital assets as revenues. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays	\$ 67,316	
Depreciation Expense	<u>(25,848)</u>	41,468

Delinquent and deferred property taxes will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable resources in the governmental funds.

Unavailable Resources - December 31, 2017	248	
Unavailable Resources - December 31, 2018	<u>5,916</u>	5,668

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of Note Payable		<u>25,440</u>
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Change in Net Position of Governmental Activities		<u><u>\$ 165,524</u></u>
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See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUE				
Property Taxes	\$ 156,000	\$ 156,000	\$ 155,513	\$ (487)
Investment Earnings	-	-	217	217
Total Revenue	<u>156,000</u>	<u>156,000</u>	<u>155,730</u>	<u>(270)</u>
EXPENDITURES				
General Government:				
Per Diems	10,000	10,000	6,345	(3,655)
Engineering	24,000	24,000	23,541	(459)
Administrator Services	50,000	50,000	54,547	4,547
Legal Fees	21,600	21,600	21,934	334
Accounting	3,900	3,900	3,600	(300)
Audit	8,000	8,000	7,950	(50)
Postage	1,000	1,000	-	(1,000)
Printing	1,000	1,000	2,177	1,177
Dues and Subscriptions	6,000	6,000	5,880	(120)
Training and Seminars	1,000	1,000	60	(940)
Insurance and Bonds	3,500	3,500	3,414	(86)
Recording Secretary	4,000	4,000	3,398	(602)
Miscellaneous	2,000	2,000	8,581	6,581
Total Expenditures	<u>136,000</u>	<u>136,000</u>	<u>141,427</u>	<u>5,427</u>
NET CHANGE IN FUND BALANCES	<u>\$ 20,000</u>	<u>\$ 20,000</u>	14,303	<u>\$ (5,697)</u>
FUND BALANCES				
Beginning of Year, As Previously Reported			417,661	
Prior Period Adjustment, See Note 9			<u>88,725</u>	
Beginning of Year, As Restated			<u>506,386</u>	
End of Year			<u>\$ 520,689</u>	

See accompanying Notes to Financial Statements.

**BROWN'S CREEK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
BUDGET AND ACTUAL
MANAGEMENT PLANNING FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUE				
Property Taxes	\$ 851,490	\$ 851,490	\$ 842,765	\$ (8,725)
Licenses and Permits	-	-	114,993	114,993
Intergovernmental Revenue:				
Grants	203,147	203,147	38,305	(164,842)
Total Revenue	1,054,637	1,054,637	996,063	(58,574)
EXPENDITURES				
Current:				
Program Costs	811,198	811,198	305,218	(505,980)
Project Costs:				
Baseline Monitoring and Equipment	134,837	134,837	140,526	5,689
Legal Fees	35,000	35,000	31,096	(3,904)
Staff Engineer	71,000	71,000	70,623	(377)
Permitting	35,600	35,600	179,994	144,394
Administrator Services	154,000	154,000	124,137	(29,863)
East Metro Water Resources Educator	18,500	18,500	18,500	-
Equipment Maintenance and Upgrades	19,416	19,416	21,884	2,468
Miscellaneous	246	246	-	(246)
Debt Service	25,440	25,440	25,440	-
Total Expenditures	1,305,237	1,305,237	917,418	(387,819)
NET CHANGE IN FUND BALANCES	\$ (250,600)	\$ (250,600)	78,645	\$ 329,245
FUND BALANCES				
Beginning of Year, As Previously Reported			196,513	
Prior Period Adjustment, See Note 9			(88,725)	
Beginning of Year, As Restated			107,788	
End of Year			\$ 186,433	

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, which consists of a chairperson, vice chair, treasurer and three supervisors. All members are elected on a nonpartisan, at-large basis and serve on a part-time basis.

Financial Reporting Entity

The accounting and reporting policies of the District relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements; GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant accounting policies of the District.

The District's basic financial statements include the accounts of all District operations. For financial reporting purposes, the accompanying financial statements present those of the District. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. Significant influence or accountability is based primarily on operational and financial relationships with the District. Component organizations are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component organization would render the financial statements of the District misleading. Based on these criteria, there are no organizations considered to be component units of the District.

Basic Financial Statements

Government-Wide Statements

The government-wide financial statements, the statement of net position, and the statement of activities (changes in net position) report information on all of the activities of the District as a whole. Governmental activities are normally supported by taxes and inter-governmental revenues. In general, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

Fund Financial Statements

Separate fund financial statements are provided for Governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements. A fund is classified as a major fund if it is the primary operating fund of the District (General Fund) or meets minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for major fund determination set forth in GASB Statement No. 34.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District uses funds to report on its financial position and the results of its operations. The District segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Government resources are allocated to and accounted for in individual funds based upon the purposes for which resources are to be spent and the means by which spending activities are controlled.

Governmental funds are those funds through which most governmental functions typically are financed. The District reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Management Planning Fund – 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.

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources (cost of service) measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position.

Governmental fund financial statements are reported using a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual. Susceptible to accrual occurs when revenues become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues to be available if they are collected within 60 days after the end of the current period. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, charges for services and investment income. Revenue sources not susceptible to accrual are recorded only when received because they are not measurable until collected. Expenditures are recorded when the related fund liability is incurred.

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments

Cash and investments include cash on hand, demand deposits, and investments.

The District provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund statements, and an interfund payable in the fund with the deficit, until adequate resources are received.

Property Taxes

Property tax levies are approved at the annual meeting held each year in March. The levy, so set, is certified to the County Auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year.

Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material.

Within the governmental fund financial statements, the District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. The portion of delinquent taxes not collected by the District in January is fully offset by a deferred inflow in the governmental funds because it is not available to finance current expenditures. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Accounts Receivable

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

**BROWN'S CREEK WATERSHED DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include land, land improvements, and easement are reported 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 assets 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.

Capital assets acquired or constructed by governmental funds are recorded as expenditures in these funds. These capital assets are not capitalized in individual governmental funds but rather are reported only in the government-wide financial statements. Depreciation of capital assets is recorded as an Allocated Expense in the statement of activities for government-wide financial statements. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives of such assets are:

Asset	Years
Land Improvements	25

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. Deferred inflows arise when potential revenue is either unavailable for recognition in the current period or meets the definition of a deferred inflow per GASB Statement No. 65. In subsequent periods, when the revenue becomes available or is no longer a deferred inflow but meets the classification of revenue, the deferred inflow is eliminated and revenue is recognized. The District types of item that qualifies for reporting in this category. Unavailable revenue related to taxes occurs because the receivables are recorded in the current year, but the revenue will not be collected and recorded until subsequent years.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide financial statements and is classified into three components:

- a) Net Investment in capital assets – This component consists of capital assets net of accumulated depreciation less any debt related to capital improvements.
- b) Restricted net position – Net position with constraints placed on the use either by:
1) external groups such as creditors, grantors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation are reflected in this component.
- c) Unrestricted net position – The remaining portion of net position that does not meet the definition of “restricted” or “invested in capital assets.”

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

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 – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc).

Committed – funds are established and modified by a resolution approved by the District Board.

Assigned – consists of internally imposed constraints approved by the District Board.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Management Planning Fund. Budgeted expenditure appropriations lapse at year-end.

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash management.

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, actual expenditures were over the budgeted amounts in the following funds:

Fund	Budget	Actual	Excess
General Fund	\$ 136,000	\$ 141,427	\$ 5,427

All expenditures in excess of budget were considered to be crucial to operations and were approved by the Board.

NOTE 3 DEPOSITS AND INVESTMENTS

The cash balances of substantially all funds are pooled by the District for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2018, based on market prices. Investment earnings on cash and pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. In addition, other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

Deposits

In accordance with applicable Minnesota state statutes, the District maintains deposits at financial institutions authorized by the District Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of state or local governments rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the District's deposits in banks at December 31, 2018 was \$1,469,347 and \$1,535,722, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

PRIMARY GOVERNMENT Governmental Activities:	Beginning Balance (As Restated)	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated:				
Land and permanent easements	\$ 316,555	\$ -	\$ -	\$ 316,555
CIP	352,556	67,316	(381,034)	38,838
Total Capital Assets, Not Being Depreciated	<u>669,111</u>	<u>67,316</u>	<u>(381,034)</u>	<u>355,393</u>
Capital Assets, Being Depreciated:				
Land Improvements	265,158	381,034	-	646,192
Accumulated Depreciation for:				
Land Improvements	(33,432)	(25,848)	-	(59,280)
Total Capital Assets, Being Depreciated, Net	<u>231,726</u>	<u>355,186</u>	<u>-</u>	<u>586,912</u>
Governmental Activities Capital Assets, Net	<u>\$ 900,837</u>	<u>\$ 422,502</u>	<u>\$ (381,034)</u>	<u>\$ 942,305</u>

Depreciation expense was charged by function for 2018 as follows:

Governmental Activities:	
Project Costs Function	<u>\$ 25,848</u>

NOTE 5 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% of the purchase price \$127,200 with no interest. At the end of 2018, the District balance due to the County was \$50,880, payable in equal annual payments of \$25,440.

NOTE 6 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 no reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 PERMIT COLLATERAL

The District issues permits to applicants who wish to make changes to land that may affect the water drainage or alter the lakeshore within the boundaries of the Districts. The District requires collateral to be deposited to ensure the projects are completed in accordance with the permit application, which can be Letters of Credit or cash escrows. As of December 31, 2018, the District was holding \$1,471,465 in Letters of Credit and \$567,726 of collateral cash deposits in escrow.

NOTE 8 FUND BALANCES

The District has committed by resolution the entire fund balance for the Management Planning Fund for the purpose of the fund.

NOTE 9 PRIOR PERIOD ADJUSTMENTS

The District restated beginning net position of Governmental Activities. The restatement of Governmental Activities was due to Construction in Progress that was improperly expensed in the prior year. Accordingly, it has no effect on the fund balance statements. As a result, the District requires the restatement of the December 31, 2017 net position as follows

	Governmental Activities
Net Position - January 1 as Previously Reported	\$ 1,086,383
Prior Period Adjustment	352,556
Net Position - January 1 as Restated	\$ 1,438,939

**BROWN'S CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 PRIOR PERIOD ADJUSTMENTS (CONTINUED)

The District restated beginning fund balance of the General Fund and beginning fund balance of the Management Planning Fund. The restatement of the General Fund and Management Planning Fund was due to there being no allocation of the Due To Other Governments Balance between the two funds in the prior year as it was all recorded in the General Fund. Accordingly, this adjustment has no effect on the government wide financial statements due to the offsetting difference between the two funds. As a result, the District's fund balances for both funds require the restatement of the December 31, 2017 fund balance as follows:

	General Fund	Management Planning	Totals
Fund Balance - January 1 - as Previously Reported	\$ 417,661	\$ 196,513	\$ 614,174
Prior Period Adjustment	88,725	(88,725)	-
Fund Balance - January 1 - as Restated	<u>\$ 506,386</u>	<u>\$ 107,788</u>	<u>\$ 614,174</u>

OTHER REPORTS SECTION



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Chair and
Members of the District Board
Brown's Creek Watershed District

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) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 25, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 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.

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*, except as described in the schedule of findings and recommendations as item 2018-001. 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, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 25, 2019

**BROWN'S CREEK WATERSHED DISTRICT
SCHEDULE OF LEGAL COMPLIANCE FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2018**

Minnesota Legal Compliance Finding

2018-001: Statements of Economic Interest

Criteria: Minnesota Statute §471.425 subdivision 2, states that a municipality must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period. In this case BCWD's standard payment period is within 35 days of the date of receipt.

Condition: BCWD had one disbursement noted during testing that was over the 35-day legal compliance standard payment period. Noted disbursement was check #3480.

Effect: BCWD is not in compliance with Minnesota Statutes.

Cause: Invoice was received late, however there was no way to tell when the invoice was actually received by BCWD.

Recommendation: We recommend BCWD pay all invoices within the standard payment period, 35 days, going forward.