

MINNEHAHA CREEK WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2022

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MINNEHAHA CREEK WATERSHED DISTRICT
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INTRODUCTORY SECTION

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MINNEHAHA CREEK WATERSHED DISTRICT

ORGANIZATION

December 31, 2022

Board of Managers:

Term Expires

Sherry Davis White - President

March, 2024

Bill Olson - Vice President

March, 2025

Jessica Loftus - Treasurer

March, 2023

Eugene Maxwell - Secretary

March, 2025

Steve Sando

March, 2024

Richard Miller

March, 2023

Arun Hejmadi

March, 2025

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Minnehaha Creek Watershed District's basic financial statements as listed in the table of contents.

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 Minnehaha Creek Watershed District, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Minnehaha Creek Watershed District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Report on Summarized Comparative Information

We have previously audited Minnehaha Creek Watershed's 2021 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated April 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnehaha Creek Watershed District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Minnehaha Creek Watershed District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnehaha Creek Watershed District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, and the schedules of pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Minnehaha Creek Watershed District's basic financial statements. The accompanying schedule of revenues and expenditures by program/project is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves,

and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures by program/project is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and other information sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

April 19, 2023

Management’s Discussion and Analysis

As management of the Minnehaha Creek Watershed District, Minnesota, (the MCWD or District), we offer readers of the MCWD’s financial statements this narrative overview and analysis of the financial activities of the MCWD for the fiscal year ended December 31, 2022.

Financial Highlights

- The assets and deferred outflows of resources of the MCWD exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$43,039,409 (net position). Of this amount, \$19,079,390 unrestricted (net position) may be used to meet MCWD’s ongoing obligations.
- There was an increase in the MCWD’s total net position of \$3,939,759. This increase is primarily due to the increase in cash of \$1,848,228 held for on-going and/or delayed projects. This amount includes \$1 million in proceeds from Alatus for the 1.34 acre land sale at 325 Blake Road. The District saw a decrease of \$2,379,792 in outstanding debt due to scheduled payments.
- As of the close of the current fiscal year, the District’s governmental fund reported an ending fund balance of \$22,585,033, an increase of \$2,452,711 in comparison with the prior year. Approximately 75.0% of this total amount, or \$16,915,738, is assigned by management to show the intent of the funds but is also available for spending at the District’s discretion, while 24.8%, or \$5,611,423 is committed for unspent property taxes, and .2%, or \$57,872, of this total amount is non-spendable for prepaid items.
- At the end of the current fiscal year, the assigned fund balance for the Management Planning fund was \$16,915,738, which is 187.7% of the 2022 total fund expenditures or 118.2% of next year’s Management Planning fund budget.
- The MCWD’s total noncurrent long-term liabilities decreased \$3,168,502 during the current fiscal year. The decrease is attributed to the reduction of scheduled debt payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the MCWD’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 supplemental information in addition to the basic financial statements themselves.

Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about non-major governmental funds, which are added together and presented in single columns in the basic financial statements.

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

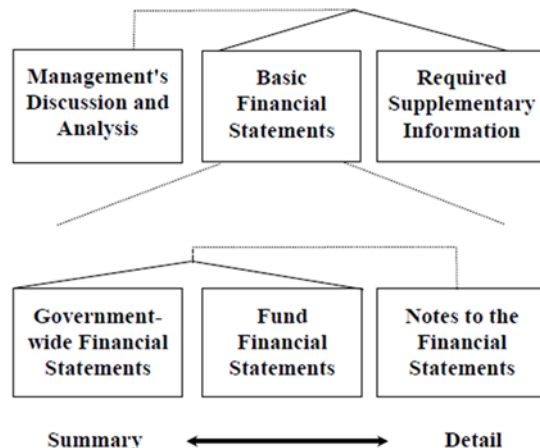


Figure 2 summarizes the major features of the MCWD’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each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

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

	Government-wide Statements	Governmental Funds
Scope	Entire MCWD government	Entire MCWD government
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 fully used 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 fully used and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow of 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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 and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the MCWD that are principally supported by taxes and charges for services (*governmental activities*). The governmental activities of the MCWD include general government, programs, projects, and interest on long-term debt.

The government-wide financial statements can be found on Statements 1 and 2 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 MCWD, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 MCWD maintains only one governmental fund. This 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 Management Planning fund.

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

The basic governmental fund financial statements can be found on Statements 3 through 5 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 can be found immediately following Statement 5 of this report.

Required Supplementary Information. Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule (Statement 6), the Schedule of Proportionate Share of Net Pension Liability (Statement 7), the Schedule of Pension Contributions (Statement 8) and the notes to the required supplementary information 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.

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 MCWD, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$43,039,409 at the close of the most recent fiscal year.

The largest part of the District's net position (55.7%) is the investment in capital assets. The investment in capital assets (e.g., land, easements, buildings, machinery and equipment) is reduced by any related debt used to acquire those assets that is still outstanding to arrive at capital assets net of related debt. The MCWD uses these capital assets to provide services throughout the watershed district; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MCWD's Summary of Net Position

	Governmental Activities		
	2022	2021	Increase (Decrease)
Assets			
Current and other assets	\$ 25,552,078	\$ 23,674,239	\$ 1,877,839
Capital assets	36,325,564	37,249,123	(923,559)
Total Assets	61,877,642	60,923,362	954,280
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	524,312	715,653	(191,341)
Liabilities			
Noncurrent liabilities outstanding	11,115,334	14,283,836	(3,168,502)
Other liabilities	7,867,210	7,019,158	848,052
Total Liabilities	18,982,544	21,302,994	(2,320,450)
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions and debt refundings	380,001	1,236,371	(856,370)
Net Position			
Net investment in capital assets	23,960,019	22,545,384	1,414,635
Unrestricted	19,079,390	16,554,266	2,525,124
Total Net Position	\$ 43,039,409	\$ 39,099,650	\$ 3,939,759

The remaining balance of *unrestricted net position* (\$19,079,390) may be used to meet the District's ongoing obligations.

At the end of the current fiscal year, the MCWD is able to report positive balances in both categories of net position.

Governmental Activities. Governmental activities increased in the District’s net position by \$3,939,759. Key elements of the changes are as follows:

MCWD’s Changes in Net Position

	Governmental Activities		
	2022	2021	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 83,978	\$ 58,886	\$ 25,092
Operating grants and contributions	250,029	267,463	(17,434)
Capital grants and contributions	303,459	339,399	(35,940)
General Revenues			
Taxes	9,644,359	9,629,883	14,476
Intergovernmental revenues not restricted to specific programs	1,411	1,699	(288)
Interest and investment income	69,241	4,202	65,039
Miscellaneous	110,228	61,976	48,252
Total Revenues	10,462,705	10,363,508	99,197
Expenses			
General government	3,273,565	2,883,043	390,522
Programs	1,117,812	703,882	413,930
Projects	1,802,712	1,856,475	(53,763)
Interest on long-term debt	328,857	439,089	(110,232)
Total Expenses	6,522,946	5,882,489	640,457
Change in Net Position	3,939,759	4,481,019	(541,260)
Net Position, January 1	39,099,650	34,618,631	4,481,019
Net Position, December 31	\$ 43,039,409	\$ 39,099,650	\$ 3,939,759

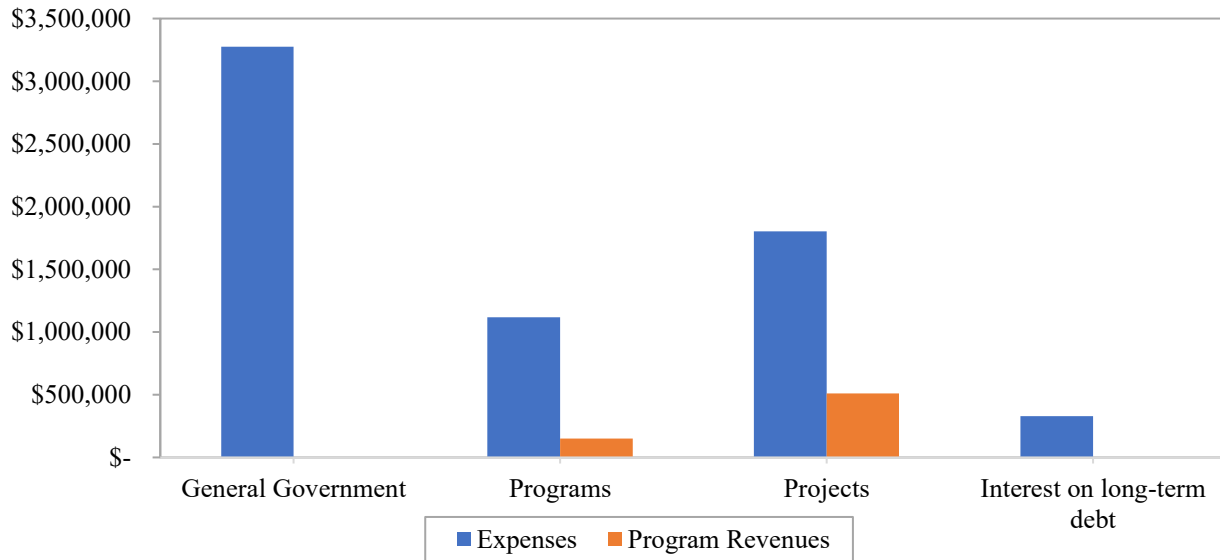
On the revenues side there were slight decreases in both operating and capital grants year over year. This is primarily due to the completion of two open grants, the FEMA flood repair project and carp management project. Final funds were collected and these grants are being closed out. Conversely, interest and investment income in 2022 versus 2021 saw a substantial increase due to bank interest rates achieving pre-pandemic levels.

Regarding expenses, the MCWD plans and implements its large-scale capital projects on an approximate five-year timeline, which creates dynamic levy and expenditure cycles. By planning over time, the levy for projected capital expenditures can be flattened to stabilize the annual levy and avoid substantial one-time increases. Planning in this manner creates dynamic income and expenditure cycles whereby capital projects take multiple years to develop prior to large construction expenses, which remain the bulk of the MCWD project costs. This cycle can and often does impact project expenses year over year, however in 2022 there was minimal change in expenditures from 2021.

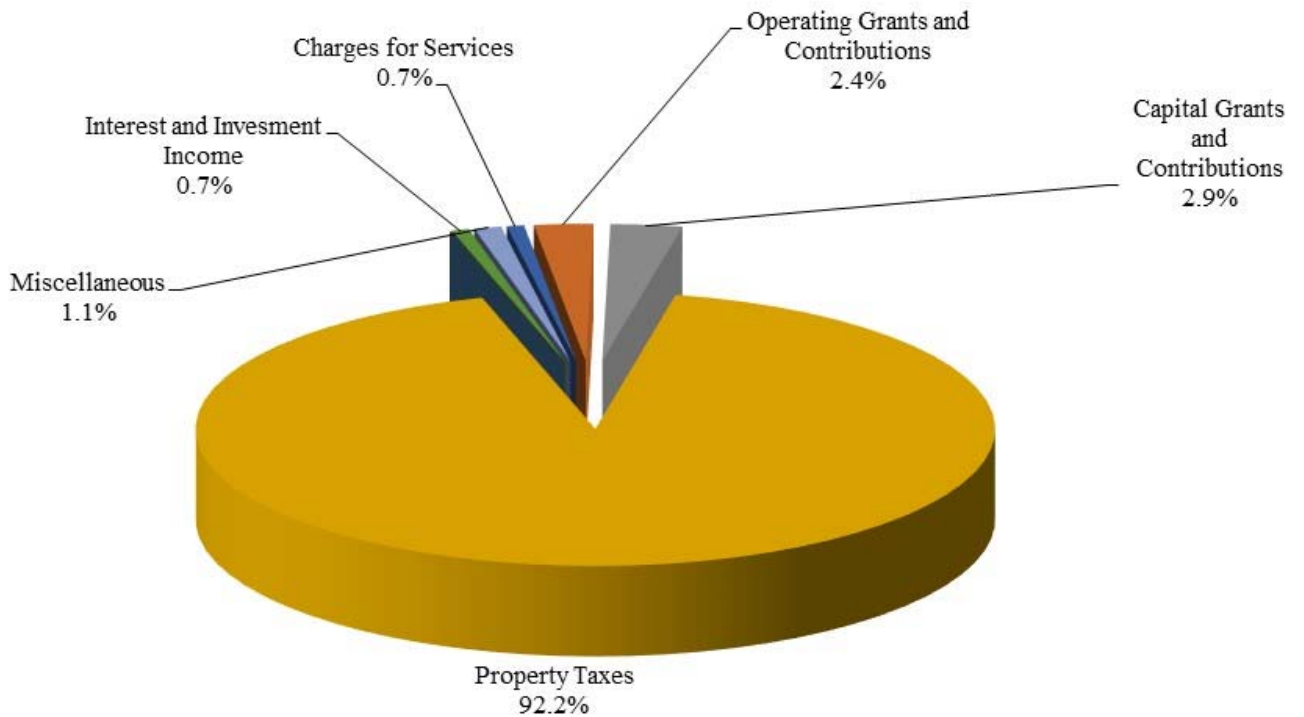
General government and programs did see significant increases from the previous year. General government’s total of \$390,522 over 2021 is attributed to a \$90,000 change in the PERA pension liability calculation. This is a paper only liability and one required by the State. Another \$32,000 is attributed to an increase in compensated absences over the previous year. The remainder of the increase is attributed to general increases in business expenses. The programs increase was a planned and budgeted increase in contracted services to cover the cost of the pilot model build project in the Research & Monitoring program that took place in 2022.

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

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the MCWD 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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The *Management Planning fund* is the operating fund for the MCWD. At the end of the current year, the fund balance of the Management Planning fund was \$22,585,033. The District's Management Planning fund balance increased \$2,452,711 during the current fiscal year. As a measure of the Management Planning fund's liquidity, it may be useful to compare assigned fund balance to total budgeted expenditures. Total assigned fund balance represents 187.7% of total 2022 expenditures.

Management Planning Fund Budgetary Highlights

The District's Management Planning fund budget reflects a \$5,084,093 fund balance decrease. Actual fund balance increased \$2,452,711 from the prior year, creating a positive variance of \$7,536,804.

Overall, revenues were over budget by \$61,102. This is largely due to investment/interest income which exceeded budgeted amount.

Expenditures overall were under budget by \$6,475,702, with \$4,196,265 in unspent project funds due to on-going or delayed work on capital projects, including the MCWD's Campus improvement project, Blake Road Stormwater Management, Meadowbrook Golf Course, Cottageville Park, and Southwest LRT Connection.

District operations and personnel and programs were under budget by \$793,023 due to position vacancies throughout the organization. Other factors positively impacting the Programs budget included IT and Research & Monitoring contracted services work coming in under budget, website rebuild implementation delay and funds budgeted in 2022 for the Minnehaha Preserve Boardwalk rebuild that were not spent until 2023.

Capital Asset and Debt Administration

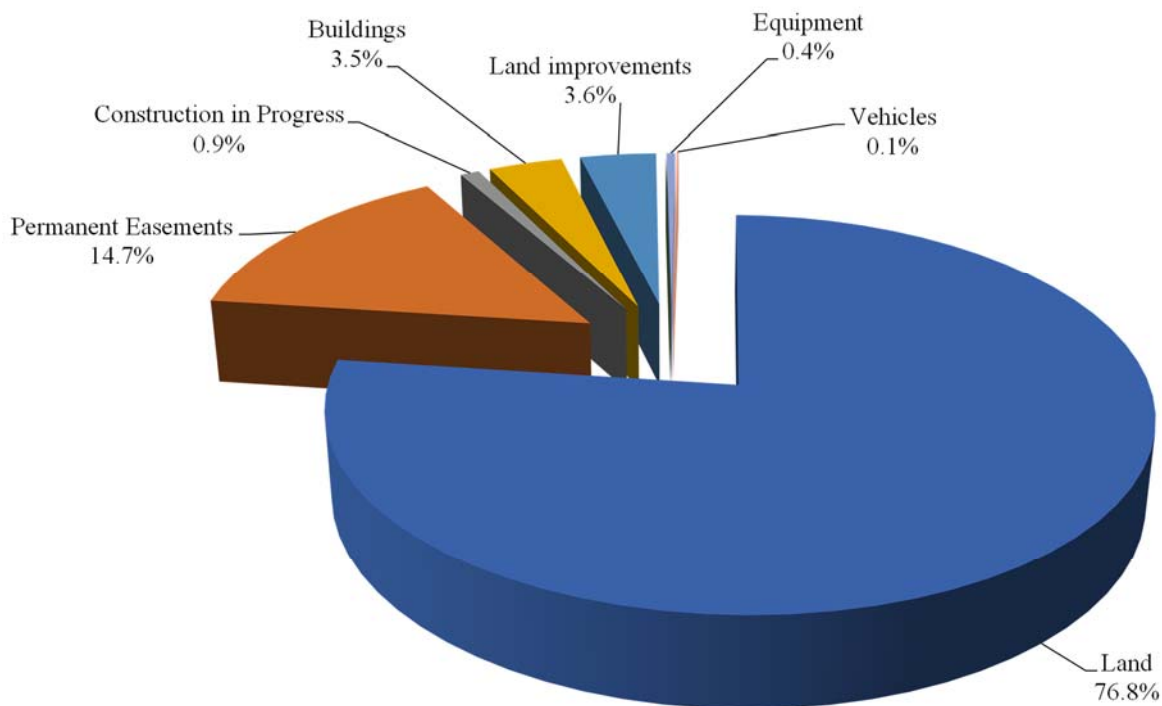
Capital Assets. The District’s investment in capital assets for its governmental fund as of December 31, 2022, amounts to \$36,325,564 (net of accumulated depreciation). This investment in capital assets includes land, permanent easements, construction in progress, buildings, land improvements, furniture, equipment, and vehicles.

Two capital asset projects began in fiscal year 2022 – the Six Mile Marsh Prairie Trail and the Minnehaha Preserve Boardwalk rebuild. A total of \$310,666 were spent on these projects (\$201,462 and \$109,204 respectively).

Additional information on the MCWD’s capital assets can be found in Note 5 of this report.

MCWD’s Capital Assets (Net of Depreciation)

	Governmental Activities		
	2022	2021	Increase (Decrease)
Land	\$ 27,887,121	\$ 28,944,552	\$ (1,057,431)
Permanent Easements	5,333,620	5,333,620	-
Construction in Progress	310,666	-	310,666
Buildings	1,278,483	1,340,980	(62,497)
Land improvements	1,304,065	1,352,370	(48,305)
Furniture	3,978	6,962	(2,984)
Equipment	158,991	222,931	(63,940)
Vehicles	48,640	47,708	932
Total	\$ 36,325,564	\$ 37,249,123	\$ (923,559)



Long-term Debt. At the end of the current fiscal year, the MCWD had total debt outstanding of \$13,120,888. The District agreed to service the debt of the City of Richfield that was used to construct a storm water treatment facility.

MCWD's Outstanding Debt

	Governmental Activities		
	2022	2021	Increase (Decrease)
Bonds and notes payable	\$ 11,358,174	\$ 13,589,036	\$ (2,230,862)
Due to the City of Richfield	1,762,714	1,911,644	(148,930)
Total	\$ 13,120,888	\$ 15,500,680	\$ (2,379,792)

The MCWD's total debt decreased during the current fiscal year due to scheduled principal payments.

Additional information on the District's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budgets and Rates

The MCWD has a comprehensive budgeting process which includes review by department heads and the MCWD Board of Managers. The District considers factors such as state and county grants, cost share grants with cities, and permit fees when reviewing revenues. Expenses are monitored based on any potential staffing, equipment, project, and program needs and changes in resources.

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 the District Administrator, Minnehaha Creek Watershed District, 15320 Minnetonka Blvd, Minnetonka, MN 55345.

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BASIC FINANCIAL STATEMENTS

MINNEHAHA CREEK WATERSHED DISTRICT
STATEMENT OF NET POSITION
December 31, 2022
With Comparative Totals For December 31, 2021

Statement 1

	Governmental Activities	
	2022	2021
Assets:		
Cash and investments	\$24,914,613	\$23,066,385
Accounts receivable - net	2,279	-
Due from other governments	429,168	350,507
Prepaid items	57,872	76,821
Property taxes receivable:		
Delinquent	84,551	94,863
Due from county	63,595	85,663
Capital assets - net of accumulated depreciation:		
Nondepreciable	33,531,407	34,278,172
Depreciable	2,794,157	2,970,951
Total assets	<u>61,877,642</u>	<u>60,923,362</u>
Deferred outflows of resources related to pensions	<u>524,312</u>	<u>715,653</u>
Liabilities:		
Accounts payable	196,683	279,460
Salaries payable	79,304	70,262
Due to other governments	1,014,589	1,007,756
Contracts payable	18,113	108,103
Unearned revenue	290,331	510,477
Surety deposits payable	1,283,474	1,470,996
Accrued interest payable	54,662	70,852
Unamortized loan premiums	1,007,371	1,114,703
Compensated absences payable:		
Due within one year	8,486	6,757
Due in more than one year	197,916	167,934
Bonds and notes payable:		
Due within one year	3,752,817	2,230,862
Due in more than one year	7,605,357	11,358,174
Due to the City of Richfield:		
Due within one year	161,380	148,930
Due in more than one year	1,601,334	1,762,714
Net pension liability:		
Due in more than one year	1,710,727	995,014
Total liabilities	<u>18,982,544</u>	<u>21,302,994</u>
Deferred inflow of resources:		
Related to pensions	99,017	924,167
Related to debt refundings	280,984	312,204
Total deferred inflows of resources	<u>380,001</u>	<u>1,236,371</u>
Net position:		
Net investment in capital assets	23,960,019	22,545,384
Unrestricted	19,079,390	16,554,266
Total net position	<u>\$43,039,409</u>	<u>\$39,099,650</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2022
With Comparative Totals For the Year Ended December 31, 2021

Statement 2

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2022	2021
Primary government:						
Governmental activities:						
General government	\$3,273,565	\$ -	\$7,483	\$ -	(\$3,266,082)	(\$2,880,593)
Programs	1,117,812	83,978	62,640	-	(971,194)	(551,743)
Projects	1,802,712	-	179,906	303,459	(1,319,347)	(1,345,316)
Interest on long-term debt	328,857	-	-	-	(328,857)	(439,089)
Total governmental activities	<u>\$6,522,946</u>	<u>\$83,978</u>	<u>\$250,029</u>	<u>\$303,459</u>	<u>(5,885,480)</u>	<u>(5,216,741)</u>
General revenues:						
Property taxes					9,644,359	9,629,883
Grants and contributions not restricted to specific programs					1,411	1,699
Unrestricted investment earnings					69,241	4,202
Miscellaneous other					110,228	61,976
Total general revenues					<u>9,825,239</u>	<u>9,697,760</u>
Change in net position					3,939,759	4,481,019
Net position - January 1					<u>39,099,650</u>	<u>34,618,631</u>
Net position - December 31					<u>\$43,039,409</u>	<u>\$39,099,650</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022
With Comparative Totals For December 31, 2021

Statement 3

	Management Planning Fund	
	2022	2021
Assets:		
Cash and investments	\$24,914,613	\$23,066,385
Accounts receivable - net	2,279	-
Due from other governments	429,168	350,507
Prepaid items	57,872	76,821
Property taxes receivable:		
Delinquent	84,551	94,863
Due from county	63,595	85,663
Total assets	<u>\$25,552,078</u>	<u>\$23,674,239</u>
Liabilities:		
Accounts payable	\$196,683	\$279,460
Salaries payable	79,304	70,262
Due to other governments	1,014,589	1,007,756
Contracts payable	18,113	108,103
Unearned revenue	290,331	510,477
Surety deposits payable	1,283,474	1,470,996
Total liabilities	<u>2,882,494</u>	<u>3,447,054</u>
Deferred inflows of resources:		
Unavailable revenue	<u>84,551</u>	<u>94,863</u>
Fund balance:		
Nonspendable	57,872	76,821
Committed	5,611,423	4,422,159
Assigned	16,915,738	15,633,342
Total fund balance	<u>22,585,033</u>	<u>20,132,322</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$25,552,078</u>	 <u>\$23,674,239</u>
Fund balance reported above	\$22,585,033	\$20,132,322
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	36,325,564	37,249,123
Deferred outflows of resources related to pensions are not current financial resources and, therefore, are not reported in the funds.	524,312	715,653
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(16,100,050)	(17,855,940)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	84,551	94,863
Deferred inflows of resources related to pensions and debt refundings are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(380,001)</u>	<u>(1,236,371)</u>
Net position of governmental activities	<u>\$43,039,409</u>	<u>\$39,099,650</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

Statement 4

For The Year Ended December 31, 2022

With Comparative Totals For the Year Ended December 31, 2021

	Management Planning Fund	
	2022	2021
Revenues:		
General property taxes	\$9,654,671	\$9,648,237
Intergovernmental - cost share	-	323,880
Intergovernmental - other	547,416	282,231
Permits	83,978	58,886
Investment income	69,241	4,202
Mortgage payoff	-	339,890
Other	110,228	15,902
Total revenues	<u>10,465,534</u>	<u>10,673,228</u>
Expenditures:		
Current:		
General government	3,045,527	2,909,840
Programs	1,072,337	650,811
Projects	1,518,663	1,802,210
Debt service:		
Principal	2,379,792	2,336,876
Interest	483,599	599,797
Capital outlay	512,905	41,059
Total expenditures	<u>9,012,823</u>	<u>8,340,593</u>
Revenues over (under) expenditures	<u>1,452,711</u>	<u>2,332,635</u>
Other financing sources (uses):		
Proceeds from sale of land	1,000,000	-
Transfers in	1,693,620	2,261,008
Transfers out	<u>(1,693,620)</u>	<u>(2,261,008)</u>
Total other financing sources (uses)	<u>1,000,000</u>	<u>0</u>
Net change in fund balance	2,452,711	2,332,635
Fund balance - January 1	<u>20,132,322</u>	<u>17,799,687</u>
Fund balance - December 31	<u><u>\$22,585,033</u></u>	<u><u>\$20,132,322</u></u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2022
With Comparative Totals For the Year Ended December 31, 2021

Statement 5

	<u>2022</u>	<u>2021</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$2,452,711	\$2,332,635
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	512,905	41,059
Capital outlay not capitalized	(172,063)	-
Depreciation expense	(206,970)	(207,781)
In the statement of activities, only the gain/loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold.	(1,057,431)	-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in delinquent property taxes	(10,312)	(18,354)
Change in mortgage receivable	-	(293,816)
The issuance of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Loan principal repayments	2,230,862	2,163,957
Due to the City of Richfield repayments	148,930	172,919
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Changes in these expense accruals are as follows:		
Change in accrued interest payable	16,190	22,156
Amortization of bond premium	107,332	107,332
Amortization of deferred inflows related to debt refundings	31,220	31,220
Change in compensated absences payable	(31,711)	(11,597)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities. This is the amount by which pension expense differed from pension contributions:		
Pension contributions	\$126,575	
Pension expense	(208,479)	141,289
	<u>(81,904)</u>	<u>141,289</u>
Change in net position of governmental activities (Statement 2)	<u>\$3,939,759</u>	<u>\$4,481,019</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Minnehaha Creek Watershed District conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

Minnehaha Creek Watershed District (the District) was created in 1967 under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District is operated by a seven member Board of Managers appointed by the Hennepin and Carver County Boards of Commissioners for three year terms. Approximately 150 square miles of the District is in Hennepin County, while 30 square miles is in Carver County. The District includes all or part of 27 cities and 3 townships. In accordance with Governmental Accounting Standards Board (GASB) pronouncements and generally accepted accounting principles, the financial statements of the reporting entity should include the primary government and its component units. The District (primary government) does not have any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*. There are no business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

The District reports the following major governmental fund:

Management Planning Fund Minn. Stat. Sec. 103B.241, subd. 1 - was established for the preparation of an overall plan for projects and improvements, and for projects and improvements to implement the approved plan. The Fund collects an ad valorem tax levy. The District levies out of Minnesota Statute Section 103B. Exhibit 1 shows the breakdown between projects.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

D. BUDGETARY DATA

The Board of Managers adopts an annual budget for the Management Planning Fund on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. 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 performances on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

Encumbrance accounting, under which purchase orders, contracts, and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed.

E. CASH AND INVESTMENTS

Investments are stated at fair value, except investments in external investment pools that meet GASB Statement No. 79 requirements are stated at amortized cost. The District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

F. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the County in October (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, 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. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) are classified as due from County. Taxes not collected by the County by December 31 are classified as delinquent taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

G. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

H. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. The District does not maintain material amounts of inventories of goods and supplies.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets, and intangible assets such as computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings, structures and land improvements	30 years
Equipment	5 years
Vehicles	5 years
Furniture	5 years

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and accumulated sick leave benefits that are vested as severance pay are accrued when incurred in the government-wide financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. In the fund financial statement, governmental fund types reported the face amount of debt issued as another financing source.

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources expense until that time. The District has one item that qualifies for reporting in this category. It is the pension related deferred outflows of resources reported in the government-wide Statement of Net Position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. They are the pension related deferred inflows of resources and the unamortized gain from a bond refunding transaction. The District also has a 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 fund balance sheet. The governmental funds report unavailable revenues from delinquent property taxes receivable.

M. DEFINED BENEFIT PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to and deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. FUND BALANCE CLASSIFICATIONS

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

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

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

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Board.

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

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Unassigned - is the residual classification for a general fund and also reflects negative residual amounts in other funds.

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

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

O. USE OF ESTIMATES

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

P. COMPARATIVE TOTALS

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District’s financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Q. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The detail of this (\$16,100,050) difference is as follows:

Bonds and notes payable	\$11,358,174
Unamortized loan premium	1,007,371
Accrued interest payable	54,662
Compensated absences	206,402
Due to the City of Richfield	1,762,714
Net pension liability	<u>1,710,727</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$16,100,050</u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains its deposits at depository banks authorized by the Board of Managers. All such banks are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Securities pledged as collateral are required to be held in safekeeping by the District or in a financial institution other than that furnishing the collateral. Minnesota Statute 118A.03 identifies allowable forms of collateral.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At December 31, 2022, the carrying amount of the District's deposits was \$24,914,613 and the bank balance was \$24,936,490. The entire bank balance was covered by federal depository insurance, surety bonds or perfected collateral held by the District's agent in the District's name.

B. INVESTMENTS

Subject to rating, yield, maturity and issuer requirements as prescribed by statute, Minnesota Statutes 118A.04 and 118A.05 authorize the District to invest in United States securities, state and local securities, commercial paper, time deposits, temporary general obligation bonds, repurchase agreements, Minnesota joint powers investment trust and guaranteed investment contracts.

The District did not invest in any of the above listed investments during 2022.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. The District follows State Statutes in regards to credit risk of investments. The District's investment policy states the District will cross-check all depositories under consideration against existing investments to ensure that funds in excess of insurance limits are not deposited with the same institution unless collateralized.

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rates of debt investments could adversely affect the fair value of an investment. The District's investment policy states that the District will minimize interest rate risk by structuring its investment portfolio to ensure that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the District's investment in a single issuer. The District's investment policy states that they will diversify their investments according to type and maturity and will attempt to match investments with anticipated cash flow requirements.

Custodial Credit Risk- Investments. For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investment securities that is in the possession of an outside party. The District's investment policy states they will obtain collateral for all uninsured amounts on deposit.

The District uses a 3rd party financial advisor to ensure compliance with the above MN State Statutes.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2022 are as follows:

	<u>Management Planning</u>
Delinquent property taxes	<u><u>\$50,000</u></u>

Note 4 UNAVAILABLE REVENUES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	<u>Delinquent Property Taxes</u>
Management Planning Fund	<u><u>\$84,551</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$310,666	\$ -	\$310,666
Land	28,944,552	-	(1,057,431)	27,887,121
Permanent Easements	5,333,620	-	-	5,333,620
Total capital assets, not being depreciated	<u>34,278,172</u>	<u>310,666</u>	<u>(1,057,431)</u>	<u>33,531,407</u>
Capital assets, being depreciated:				
Buildings and improvements	1,874,912	-	-	1,874,912
Land improvements	1,658,805	-	-	1,658,805
Furniture	137,836	-	-	137,836
Equipment	577,681	-	(90,460)	487,221
Vehicle	235,905	30,176	(21,388)	244,693
Total capital assets, being depreciated	<u>4,485,139</u>	<u>30,176</u>	<u>(111,848)</u>	<u>4,403,467</u>
Less accumulated depreciation for:				
Buildings and improvements	533,932	62,497	-	596,429
Land improvements	306,435	48,305	-	354,740
Furniture	130,874	2,984	-	133,858
Equipment	354,750	63,940	(90,460)	328,230
Vehicle	188,197	29,244	(21,388)	196,053
Total accumulated depreciation	<u>1,514,188</u>	<u>206,970</u>	<u>(111,848)</u>	<u>1,609,310</u>
Total capital assets being depreciated - net	<u>2,970,951</u>	<u>(176,794)</u>	<u>0</u>	<u>2,794,157</u>
Governmental activities capital assets - net	<u>\$37,249,123</u>	<u>\$133,872</u>	<u>(\$1,057,431)</u>	<u>\$36,325,564</u>

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

Governmental activities:	
General government	\$106,940
Program	45,475
Projects	54,555
Total	<u>\$206,970</u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 6 LONG TERM DEBT

Proceeds from long-term debt were used to provide funds for the acquisition of land and buildings. The District also agreed to service the debt of the City of Richfield that was used to construct a storm water treatment facility.

As of December 31, 2022, the long-term debt of the District consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/2022
Direct borrowings:					
Bonds and notes payable:					
2013B Hennepin Co bonds	2.00 - 3.00%	06/01/2013	12/01/2032	\$7,075,000	\$4,000,000
2018 Wells Fargo note	3.74%	10/01/2018	10/01/2023	8,000,000	3,000,000
2019 Bremer Bank note	2.56%	11/01/2019	11/01/2034	1,300,000	1,078,174
2020B Hennepin Co bonds	5.00%	09/24/2020	12/01/2031	3,825,000	3,280,000
Due to the City of Richfield		03/21/2013	02/1/2033	3,455,258	1,762,714
				<u>23,655,258</u>	<u>13,120,888</u>
Compensated absences payable					<u>206,402</u>
Total District indebtedness				<u>\$23,655,258</u>	<u>\$13,327,290</u>

	2013B Hennepin Co Bonds		2018 Wells Fargo Note		2019 Bremer Bank Note		2020B Hennepin Co Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$360,000	\$100,138	\$3,000,000	\$112,200	\$77,817	\$27,106	\$315,000	\$164,000
2024	370,000	92,938	-	-	79,822	25,102	330,000	148,250
2025	375,000	85,538	-	-	81,878	23,045	345,000	131,750
2026	385,000	78,038	-	-	83,988	20,935	365,000	114,500
2027	390,000	69,375	-	-	86,152	18,772	380,000	96,250
2028-2032	2,120,000	191,550	-	-	465,217	59,398	1,545,000	184,000
2033-2034	-	-	-	-	203,300	6,547	-	-
Total	<u>\$4,000,000</u>	<u>\$617,577</u>	<u>\$3,000,000</u>	<u>\$112,200</u>	<u>\$1,078,174</u>	<u>\$180,905</u>	<u>\$3,280,000</u>	<u>\$838,750</u>

According to the terms of the loan agreement between the District and Bremer Bank, in the event of default (as defined in the loan agreement) the outstanding unpaid principal balance of the note and any accrued interest thereon shall automatically become immediately due and payable.

During 2013, the District entered into a cooperative agreement with the City of Richfield. The agreement called for the City to finance and design a regional storm water treatment facility. The City issued bonds in the amount of \$2,770,000 to finance the construction, which per the agreement, the District agreed to service. The agreement requires the District to cover the annual debt service payments, both principal and interest.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Total amount due to the City of Richfield at December 31, 2022 was as follows:

<u>Due to the City of Richfield</u>	
2023	\$161,380
2024	158,680
2025	160,930
2026	158,130
2027	160,280
2028-2032	802,194
2033	<u>161,120</u>
Total	<u>\$1,762,714</u>

It is not practicable to determine the specific year for payment of long-term accrued compensated absences.

DEFERRED INFLOW OF RESOURCES RELATED TO DEBT REFUNDINGS

During 2020, Hennepin County and the City of Richfield issued refunding bonds associated with the District's debt. As a result of the refunding transactions, the District recorded a deferred inflow of resources on its statement of net position equal to the difference between the reacquisition price and the net carrying amount of the old debt. The deferred inflow will be amortized through the year 2031, resulting in a reduction to interest expense of \$31,220 per year.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2022 was as follows:

	<u>Balance</u> <u>1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>	<u>Due Within</u> <u>One Year</u>
Direct borrowings:					
2013B Hennepin County bonds	\$4,355,000	\$ -	(\$355,000)	\$4,000,000	\$360,000
2018 Wells Fargo note	4,500,000	-	(1,500,000)	3,000,000	3,000,000
2019 Bremer Bank note	1,154,036	-	(75,862)	1,078,174	77,817
2020B Hennepin County bonds	3,580,000	-	(300,000)	3,280,000	315,000
Due to City of Richfield - 2020B	1,911,644	-	(148,930)	1,762,714	161,380
Compensated absences *	<u>174,691</u>	<u>31,711</u>	<u>-</u>	<u>206,402</u>	<u>8,486</u>
Total	<u>\$15,675,371</u>	<u>\$31,711</u>	<u>(\$2,379,792)</u>	<u>\$13,327,290</u>	<u>\$3,922,683</u>

* The change in the compensated absences liability is presented as a net change.

Note 7 DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. CONTRIBUTIONS

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2022 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended December 31, 2022 were \$126,575. The District's contributions were equal to the required contributions as set by state statute.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

D. PENSION COSTS

At December 31, 2022, the District reported a liability of \$1,710,727 for its proportionate share of GERP’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the District totaled \$50,078.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The District’s proportionate share 0.0216% at the end of the measurement period and 0.0233% for the beginning of the period.

District’s proportionate share of the net pension liability	\$1,710,727
State of Minnesota’s proportionate share of the net pension liability associated with the District	<u>50,078</u>
Total	<u><u>\$1,760,805</u></u>

For the year ended December 31, 2022, the District recognized pension expense of \$208,479 for its proportionate share of the GERP’s pension expense. In addition, the District recognized an additional \$7,483 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the GERP.

At December 31, 2022, the District reported its proportionate share of the GERP’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$14,289	\$18,210
Changes in actuarial assumptions	387,169	6,684
Difference between projected and actual investment earnings	27,892	-
Changes in proportion	28,844	74,123
Contributions paid to PERA subsequent to the measurement date	<u>66,118</u>	<u>-</u>
Total	<u><u>\$524,312</u></u>	<u><u>\$99,017</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

The \$66,118 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense</u>
2023	\$144,891
2024	138,801
2025	(79,225)
2026	154,710
2027	-
Thereafter	-

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25% per year
Investment Rate of Return	6.50%

The long-term investment rate of return is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates deemed to be reasonable by the actuary. An investment return of 6.50% was deemed to be within that range of reasonableness for financial reporting purposes.

Benefit increases after retirement are assumed to be 1.25% for the GERP.

Salary growth assumptions range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

Mortality rates were based on the Pub-2010 General Employee Mortality Table, with slight adjustments to fit PERA's experience.

Actuarial assumptions for GERP are reviewed every four years. The most recent four-year experience study was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	25.0%	5.90%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2022 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rate set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERS was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY SENSITIVITY

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.5%)	Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Proportionate share of the net pension liability	\$2,702,183	\$1,710,727	\$897,580

H. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 8 CONTINGENCIES

The District has indicated that any existing or pending lawsuits, claims or other actions in which the District is a defendant are either covered by insurance; of an immaterial amount; or, in the judgement of the District, remotely recoverable by plaintiffs.

Note 9 FUND BALANCE CLASSIFICATIONS

At December 31, 2022, fund balance classifications for the Management Planning Fund are as follows:

	<u>Fund Balance</u>
Nonspendable - prepaid items	\$57,872
Committed for water management	5,611,423
Assigned for water management	<u>16,915,738</u>
Total	<u><u>\$22,585,033</u></u>

Note 10 FEDERAL AND STATE ASSISTED PROGRAMS - COMPLIANCE AUDITS

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2022.

Note 11 RISK MANAGEMENT

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The District pays an annual premium to LMCIT and is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. The District's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The District pays an annual premium to the LMCIT and is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The District retains risk for the deductible portions. Deductibles are considered immaterial to the financial statements.

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

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 12 COMMITTED CONTRACTS

At December 31, 2022, the District had commitments of \$2,028,609 for uncompleted construction contracts.

Note 13 RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96 *Subscription-Based Information Technology Arrangements*. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 99 *Omnibus 2022*. The provisions of this Statement contain multiple effective dates, the first being for reporting periods beginning after June 15, 2022.

Statement No. 100 *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62. The provisions of this Statement are effective for reporting periods beginning after June 15, 2023.

The effect these standards may have on future financial statements is not determinable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND
For The Year Ended December 31, 2022
With Comparative Actual Amounts For The Year Ended December 31, 2021

Statement 6

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)	2021 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$9,675,994	\$9,675,994	\$9,654,671	(\$21,323)	\$9,648,237
Intergovernmental - cost share	-	-	-	-	323,880
Intergovernmental - other	647,218	647,218	547,416	(99,802)	282,231
Permits	60,000	60,000	83,978	23,978	58,886
Investment income	10,000	10,000	69,241	59,241	4,202
Mortgage payoff	-	-	-	-	339,890
Other	11,220	11,220	110,228	99,008	15,902
Total revenues	<u>10,404,432</u>	<u>10,404,432</u>	<u>10,465,534</u>	<u>61,102</u>	<u>10,673,228</u>
Expenditures:					
District operations and personnel	3,737,607	3,737,607	3,045,527	692,080	2,909,840
Programs	1,166,676	1,173,280	1,072,337	100,943	650,811
Project implementation	5,614,928	5,714,928	1,518,663	4,196,265	1,802,210
Debt service	2,863,391	2,863,391	2,863,391	-	2,936,673
Capital outlay	1,644,930	1,999,319	512,905	1,486,414	41,059
Total expenditures	<u>15,027,532</u>	<u>15,488,525</u>	<u>9,012,823</u>	<u>6,475,702</u>	<u>8,340,593</u>
Revenues over (under) expenditures	<u>(4,623,100)</u>	<u>(5,084,093)</u>	<u>1,452,711</u>	<u>6,536,804</u>	<u>2,332,635</u>
Other financing sources (uses):					
Proceeds from sale of land	-	-	1,000,000	1,000,000	-
Transfers in	1,533,745	1,533,745	1,693,620	159,875	2,261,008
Transfers out	<u>(1,533,745)</u>	<u>(1,533,745)</u>	<u>(1,693,620)</u>	<u>(159,875)</u>	<u>(2,261,008)</u>
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>0</u>
Net change in fund balance	<u>(\$4,623,100)</u>	<u>(\$5,084,093)</u>	<u>2,452,711</u>	<u>\$7,536,804</u>	<u>2,332,635</u>
Fund balance - January 1			<u>20,132,322</u>		<u>17,799,687</u>
Fund balance - December 31			<u>\$22,585,033</u>		<u>\$20,132,322</u>

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY -
 GENERAL EMPLOYEES RETIREMENT FUND
 For The Last Ten Years

Statement 7

Measurement Date June 30	Fiscal Year Ending December 31	District's Proportionate (Percentage) of the Net Pension Liability	District's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)	Covered Payroll (c)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2015	0.0241%	\$1,248,987	\$ -	\$1,248,987	\$1,419,427	88.0%	78.2%
2016	2016	0.0277%	2,249,103	29,414	2,278,517	1,690,960	134.7%	68.9%
2017	2017	0.0243%	1,551,296	19,498	1,570,794	1,564,790	100.4%	75.9%
2018	2018	0.0228%	1,264,851	41,581	1,306,432	1,533,239	85.2%	79.5%
2019	2019	0.0220%	1,216,331	37,832	1,254,163	1,554,991	80.7%	80.2%
2020	2020	0.0229%	1,372,960	42,326	1,415,286	1,632,352	86.7%	79.1%
2021	2021	0.0233%	995,014	30,371	1,025,385	1,677,075	61.1%	87.0%
2022	2022	0.0216%	1,710,727	50,078	1,760,805	1,614,630	109.1%	76.7%

The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS -
GENERAL EMPLOYEES RETIREMENT FUND
For The Last Ten Years

Statement 8

Fiscal Year Ending December 31	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$114,171	\$114,171	\$ -	\$1,522,278	7.5%
2016	121,071	121,071	-	1,614,270	7.5%
2017	118,539	118,539	-	1,580,527	7.5%
2018	114,075	114,075	-	1,521,002	7.5%
2019	121,394	121,394	-	1,618,594	7.5%
2020	123,495	123,495	-	1,646,432	7.5%
2021	125,153	125,153	-	1,668,710	7.5%
2022	126,575	126,575	-	1,687,118	7.5%

The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

See accompanying notes to the required supplementary information.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2022

Note A LEGAL COMPLIANCE – BUDGETS

The Management Planning Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the Management Planning Fund.

Note B PENSION INFORMATION

PERA – General Employees Retirement Fund

2022 Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were decreased 0.25% and assumed rates of retirement were changed resulting in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination and disability were also changed.
- Base mortality tables were changed from RP-2014 tables to Pub-2010 tables, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2020 Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

2019 Changes in the Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2022

2017 Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

SUPPLEMENTARY FINANCIAL INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2022

	1002 General	1003 Information Technology	1005 Facility Maintenance	2001 Permit Administration
Revenues:				
General property taxes	\$1,126,728	\$335,000	\$ -	\$678,644
Intergovernmental - cost share	-	-	-	-
Intergovernmental - other	1,410	-	-	-
Permits	-	-	-	83,978
Investment income	69,241	-	-	-
Mortgage payoff	-	-	-	-
Other	109,180	-	-	36
Total revenues	<u>1,306,559</u>	<u>335,000</u>	<u>0</u>	<u>762,658</u>
Expenditures:				
General government:				
District operations and personnel	842,038	226,137	-	449,491
Programs	-	-	-	489,570
Projects	30,362	-	-	-
Debt service:				
Principal	75,862	-	-	-
Interest	29,061	-	-	-
Capital outlay	17,176	-	-	-
Total expenditures	<u>994,499</u>	<u>226,137</u>	<u>0</u>	<u>939,061</u>
Revenues over (under) expenditures	<u>312,060</u>	<u>108,863</u>	<u>0</u>	<u>(176,403)</u>
Other financing sources (uses):				
Proceeds from sale of land	-	-	-	-
Transfers in	-	-	-	176,403
Transfers out	(190,556)	(134,506)	-	-
Total other financing sources (uses)	<u>(190,556)</u>	<u>(134,506)</u>	<u>0</u>	<u>176,403</u>
Net change in fund balance	121,504	(25,643)	0	0
Fund balance - January 1	<u>2,236,671</u>	<u>122,006</u>	<u>385,253</u>	<u>-</u>
Fund balance - December 31	<u>\$2,358,175</u>	<u>\$96,363</u>	<u>\$385,253</u>	<u>\$0</u>

2002 Planning & Projects	2003 Maintenance	2004 Land Conservation	2007 Rules Revision	3106 Six Mile Marsh Prairie Restoration
\$1,226,937	\$1,974,213	\$2,631,904	\$ -	\$ -
-	-	-	-	-
26,252	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,012	-	-	-	-
<u>1,254,201</u>	<u>1,974,213</u>	<u>2,631,904</u>	<u>0</u>	<u>0</u>
811,184	152,420	-	-	-
-	-	-	-	-
224,715	296,386	1,372	42,997	18,702
-	-	2,303,930	-	-
-	-	454,538	-	-
-	294,267	-	-	201,462
<u>1,035,899</u>	<u>743,073</u>	<u>2,759,840</u>	<u>42,997</u>	<u>220,164</u>
218,302	1,231,140	(127,936)	(42,997)	(220,164)
-	-	-	-	-
-	-	-	41,473	64,647
<u>(175,715)</u>	<u>(284,510)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(175,715)</u>	<u>(284,510)</u>	<u>0</u>	<u>41,473</u>	<u>64,647</u>
42,587	946,630	(127,936)	(1,524)	(155,517)
144,808	456,979	9,077,469	45,778	306,242
<u>\$187,395</u>	<u>\$1,403,609</u>	<u>\$8,949,533</u>	<u>\$44,254</u>	<u>\$150,725</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2022

	3145 Blake Road Stormwater Management	3146 Cottageville Park	3148 FEMA Flood Repair	3150 Meadowbrook Golf Course
Revenues:				
General property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental - cost share	-	-	-	-
Intergovernmental - other	277,207	-	2,400	-
Permits	-	-	-	-
Investment income	-	-	-	-
Mortgage payoff	-	-	-	-
Other	-	-	-	-
Total revenues	<u>277,207</u>	<u>0</u>	<u>2,400</u>	<u>0</u>
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	693,252	30,946	2,670	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>693,252</u>	<u>30,946</u>	<u>2,670</u>	<u>0</u>
Revenues over (under) expenditures	<u>(416,045)</u>	<u>(30,946)</u>	<u>(270)</u>	<u>0</u>
Other financing sources (uses):				
Proceeds from sale of land	1,000,000	-	-	-
Transfers in	255,474	986,321	-	-
Transfers out	-	-	(8,744)	-
Total other financing sources (uses)	<u>1,255,474</u>	<u>986,321</u>	<u>(8,744)</u>	<u>0</u>
Net change in fund balance	839,429	955,375	(9,014)	0
Fund balance - January 1	<u>3,024,888</u>	<u>326,679</u>	<u>17,489</u>	<u>200,673</u>
Fund balance - December 31	<u>\$3,864,317</u>	<u>\$1,282,054</u>	<u>\$8,475</u>	<u>\$200,673</u>

3152 SWLRT Trail Connection	3153 Wassermann West Project	3155 Minneapolis Stormwater Mgmt	3156 Wassermann Internal Load Mgmt	3157 Louisiana Trail Greenspace & Stormwater
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	177,506	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>0</u>	<u>0</u>	<u>0</u>	<u>177,506</u>	<u>0</u>
-	-	-	-	-
-	-	-	-	-
-	9,728	-	167,533	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>0</u>	<u>9,728</u>	<u>0</u>	<u>167,533</u>	<u>0</u>
<u>0</u>	<u>(9,728)</u>	<u>0</u>	<u>9,973</u>	<u>0</u>
-	-	-	-	-
93,212	-	-	-	-
-	(61,419)	-	(10,792)	-
<u>93,212</u>	<u>(61,419)</u>	<u>0</u>	<u>(10,792)</u>	<u>0</u>
93,212	(71,147)	0	(819)	0
510,000	95,894	1,500,000	2,968	300,000
<u>\$603,212</u>	<u>\$24,747</u>	<u>\$1,500,000</u>	<u>\$2,149</u>	<u>\$300,000</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2022

	3158 - Turbid-Lunsten Wetland Restoration	3159 - County Round 6 Pond Retrofit	3500 Responsive CIP	4001 Stewardship Grant Program
Revenues:				
General property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental - cost share	-	-	-	-
Intergovernmental - other	-	-	-	-
Permits	-	-	-	-
Investment income	-	-	-	-
Mortgage payoff	-	-	-	-
Other	-	-	-	-
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures:				
General government:				
District operations and personnel	-	-	-	-
Programs	-	-	-	-
Projects	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Revenues over (under) expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other financing sources (uses):				
Proceeds from sale of land	-	-	-	-
Transfers in	-	74,831	-	-
Transfers out	-	-	(150,000)	-
Total other financing sources (uses)	<u>0</u>	<u>74,831</u>	<u>(150,000)</u>	<u>0</u>
Net change in fund balance	0	74,831	(150,000)	0
Fund balance - January 1	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>8,129</u>
Fund balance - December 31	<u>\$250,000</u>	<u>\$74,831</u>	<u>\$100,000</u>	<u>\$8,129</u>

4002 Outreach	4005 Cost Share Program	5001 Research & Monitoring	5007 SMCHB-Carp Management	Total All Projects
\$516,665	\$ -	\$1,164,580	\$ -	\$9,654,671
-	-	-	-	-
-	-	3,095	59,546	547,416
-	-	-	-	83,978
-	-	-	-	69,241
-	-	-	-	-
-	-	-	-	110,228
<u>516,665</u>	<u>0</u>	<u>1,167,675</u>	<u>59,546</u>	<u>10,465,534</u>
160,186	-	404,071	-	3,045,527
137,906	-	384,056	60,805	1,072,337
-	-	-	-	1,518,663
-	-	-	-	2,379,792
-	-	-	-	483,599
-	-	-	-	512,905
<u>298,092</u>	<u>0</u>	<u>788,127</u>	<u>60,805</u>	<u>9,012,823</u>
218,573	0	379,548	(1,259)	1,452,711
-	-	-	-	1,000,000
-	-	-	1,259	1,693,620
<u>(192,898)</u>	<u>-</u>	<u>(484,480)</u>	<u>-</u>	<u>(1,693,620)</u>
<u>(192,898)</u>	<u>0</u>	<u>(484,480)</u>	<u>1,259</u>	<u>1,000,000</u>
25,675	0	(104,932)	0	2,452,711
<u>140,922</u>	<u>405,799</u>	<u>323,675</u>	<u>-</u>	<u>20,132,322</u>
<u>\$166,597</u>	<u>\$405,799</u>	<u>\$218,743</u>	<u>\$0</u>	<u>\$22,585,033</u>

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OTHER INFORMATION SECTION - UNAUDITED

MINNEHAHA CREEK WATERSHED DISTRICT
MARKET VALUES BY WATERSHED - UNAUDITED

For Taxes Payable in 2022

Watershed	Estimated Market Value		
	Personal	Real	Total
1 Nine Mile Creek	\$38,383,700	\$23,499,412,400	\$23,537,796,100
2 Elm Creek WMO	146,598,200	16,829,467,000	16,976,065,200
3 Lower MN River	561,899,100	4,275,665,200	4,837,564,300
4 Minnehaha Creek	155,512,500	59,411,144,100	59,566,656,600
5 Riley Purgatory	65,268,800	12,787,855,500	12,853,124,300
6 Rice Creek	996,500	210,548,000	211,544,500
7 Middle Mississippi	139,972,300	37,669,130,200	37,809,102,500
8 Bassett Creek	76,147,200	17,119,944,500	17,196,091,700
9 Shingle Creek	49,519,900	17,135,915,100	17,185,435,000
10 West Mississippi Watershed	30,044,400	8,473,627,800	8,503,672,200
County total	<u>\$1,264,342,600</u>	<u>\$197,412,709,800</u>	<u>\$198,677,052,400</u>

Source: Hennepin County Taxpayer Services - Property Tax - Tax Accounting

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
\$38,383,700	\$23,201,172,044	\$23,239,555,744	\$38,383,700	\$23,345,846,325	\$23,384,230,025
146,598,200	16,578,534,897	16,725,133,097	146,598,200	16,412,654,250	16,559,252,450
561,899,100	4,194,297,468	4,756,196,568	557,203,700	4,232,490,600	4,789,694,300
155,512,500	58,771,482,524	58,926,995,024	155,512,500	58,259,794,425	58,415,306,925
65,268,800	12,632,281,598	12,697,550,398	65,268,800	12,711,805,325	12,777,074,125
996,500	208,163,825	209,160,325	996,500	210,098,000	211,094,500
139,929,628	37,185,029,720	37,324,959,348	135,467,200	37,208,993,225	37,344,460,425
76,147,200	16,805,016,479	16,881,163,679	76,147,200	17,000,577,775	17,076,724,975
49,519,900	16,547,135,367	16,596,655,267	49,519,900	16,948,817,625	16,998,337,525
30,044,400	8,197,294,989	8,227,339,389	30,044,400	8,325,724,450	8,355,768,850
<u>\$1,264,299,928</u>	<u>\$194,320,408,911</u>	<u>\$195,584,708,839</u>	<u>\$1,255,142,100</u>	<u>\$194,656,802,000</u>	<u>\$195,911,944,100</u>

MINNEHAHA CREEK WATERSHED DISTRICT
SCHEDULE OF EXPENDITURES - LAND CONSERVATION AND COLD STORAGE - UNAUDITED
ACCOUNTS 2004 AND 6001

	<u>Prior Years</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Land Conservation and Cold Storage					
Expenses:					
Operations and projects	\$3,669,670	\$1,645,924	\$1,512,166	\$1,567,901	\$1,458,808
Capital outlay:					
Whitman property	900,000	-	-	-	-
Walders property	90,000	-	-	-	-
Chute Property	1,539,050	-	-	-	-
Dierks Property	2,710,383	-	-	-	-
Waldera Property	539,963	-	-	-	-
Rye Property	418,026	-	-	-	-
Weis Property	1,030,000	-	-	-	-
Barkus Property	220,094	-	-	-	-
Broing Property	1,128,206	-	-	-	-
Ugorets Property	351,044	-	-	-	-
Nemar Property	331,514	-	-	-	-
Halstead Drive (Halverson)	2,316,264	-	-	-	-
Cold Storage Facility	15,118,964	-	-	-	-
7701 Halstead Drive	2,278,518	-	-	-	-
1308 Lake Street	192,235	-	-	-	-
1312 Lake Street	182,436	-	-	-	-
Katy Hills Easement	56,774	-	-	-	-
Jane and James Hesse Easement	-	-	-	-	80,000
Farmhill Circle	-	-	-	-	-
Capitalized for audit	29,403,471	-	-	-	80,000
Building purchases not capitalized*	2,045,000	-	-	-	-
Total capital outlay	31,448,471	0	0	0	80,000
Total expenditures**	\$35,118,141	\$1,645,924	\$1,512,166	\$1,567,901	\$1,538,808

* This was the portion of the Ugorets and Nemar properties that was not capitalized for the audit. The amount is related to the price of the buildings on the property, which were being demolished and, therefore, were not capital assets to depreciate.

** The total expenditures does not include debt service payments, issuance expense, and transfers out.

<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>	<u>Total</u>
Land Conservation and Cold Storage						
<u>\$1,511,482</u>	<u>\$757,023</u>	<u>\$2,726</u>	<u>\$22,687</u>	<u>\$1,414</u>	<u>\$1,372</u>	<u>\$12,151,173</u>
-	-	-	-	-	-	900,000
-	-	-	-	-	-	90,000
-	-	-	-	-	-	1,539,050
-	-	-	-	-	-	2,710,383
-	-	-	-	-	-	539,963
-	-	-	-	-	-	418,026
-	-	-	-	-	-	1,030,000
-	-	-	-	-	-	220,094
-	-	-	-	-	-	1,128,206
-	-	-	-	-	-	351,044
-	-	-	-	-	-	331,514
-	-	-	-	-	-	2,316,264
-	-	-	-	-	-	15,118,964
-	-	-	-	-	-	2,278,518
-	-	-	-	-	-	192,235
-	-	-	-	-	-	182,436
-	-	-	-	-	-	56,774
-	-	-	-	-	-	80,000
-	452,096	-	-	-	-	452,096
-	452,096	-	-	-	-	29,935,567
-	-	-	-	-	-	2,045,000
<u>0</u>	<u>452,096</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>31,980,567</u>
<u>\$1,511,482</u>	<u>\$1,209,119</u>	<u>\$2,726</u>	<u>\$22,687</u>	<u>\$1,414</u>	<u>\$1,372</u>	<u>\$44,131,740</u>

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OTHER REQUIRED REPORTS

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REPORT ON INTERNAL CONTROL

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Minnehaha Creek Watershed District as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Minnehaha Creek Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnehaha Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnehaha Creek Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-1 to be a significant deficiency.

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

This communication is intended solely for the information and use of the Board of Managers, management, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

April 19, 2023

MINNEHAHA CREEK WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2022

2022-1 Financial Statement Corrections

Criteria: An entity's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition: Audit procedures detected one misstatement in the amount of \$221,900 relating to the Preserve Boardwalk Reconstruction project. Prior to correction, this amount was accrued and recorded as a 2022 expenditure. However, it was determined the project did not begin until 2023. An adjustment was made to record the expenditure in 2023.

Cause: Originally, the Preserve Boardwalk Reconstruction project was scheduled to begin in 2022. Also, the contractor's invoice did not indicate when the work was performed.

Effect: Inadequate controls over the year-end closing process results in an increased risk that financial statement misstatements may occur and not be detected on a timely basis.

Recommendation: We recommend project related invoices near year-end be reviewed by an individual familiar with the timing of the project so that expenditures are coded to the correct period. Additionally, we recommend that all vendor work orders include service/work performed dates along with the signed agreement or work order.

Views of Responsible Officials and Corrective Action Plan: The Preserve Boardwalk reconstruction invoice finding was due to the MCWD's accountant recording a 2023 invoice as a 2022 expenditure. While staff's payment voucher was dated correctly, the District's accountant made the decision to adjust based on the context that (1) The Preserve Boardwalk Reconstruction project was originally scheduled to begin in 2022; (2) The contractor's invoice did not indicate when the work was performed; (3) Construction work billed so early in the new year typically is for work undertaken in the prior fiscal year. That said, MCWD staff and Abdo Financial Services team will implement several new/additional steps into the financial workflow to help ensure future accuracy. First, transactions relating to end of year activities will require additional reviews beyond the Program Manager and Administrator sign offs. The accounting team will verify with the District Operations team that transactions are on the correct payment voucher, and when services were performed and/or good purchased dates. Additionally, all vendor work orders must include service/work performed date along with the signed agreement or work order.

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MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Managers
Minnehaha Creek Watershed District
Minnetonka, 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 Minnehaha Creek Watershed District as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Minnehaha Creek Watershed District's basic financial statements, and have issued our report thereon dated April 19, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that Minnehaha Creek Watershed District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Minnehaha Creek Watershed District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of Minnehaha Creek Watershed District and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, Ltd.
REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 19, 2023

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