

KANARANZI-LITTLE ROCK
WATERSHED DISTRICT

ADRIAN, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

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INTRODUCTORY SECTION

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
ORGANIZATIONAL INFORMATION
DECEMBER 31, 2018

WATERSHED DISTRICT
BOARD MEMBERS

MEMBER	POSITION	TERM EXPIRES
Layton Gruis	Chairman	10-07-21
Tim Taylor	1st Vice Chairman	10-07-19
Anthony Boyenga	2nd Vice Chairman	10-07-21
Jerry Brake	Treasurer	10-07-20
Coleen Gruis	Secretary	10-07-20

CONTRACTED EMPLOYEES

John Shea	Executive Secretary	Appointed
Sabrina Raddle	Administrative Assistant	Appointed

JOINT POWERS
BOARD MEMBERS

Lynn Darling	Chairman	Appointed
Coleen Gruis	Director	Appointed
Gene Metz	Director	Appointed
Don Reker	Director	Appointed

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the District Board
Kanananzi-Little Rock Watershed District
Adrian, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kanananzi-Little Rock Watershed District as of and for the year ended December 31, 2018, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Kanananzi-Little Rock Watershed District, as of December 31, 2018, and the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kanaranzi-Little Rock Watershed District's basic financial statements. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The introductory section and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 statement 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards* we have also issued our report dated June 20, 2019 on our consideration of Kanaranzi-Little Rock Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kanaranzi-Little Rock Watershed District's internal control over financial reporting and compliance.

Richard W. Holmberg, Ltd.

Richard W. Holmberg, Ltd.
Certified Public Accountants

June 20, 2019

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

This section of Kanaranzi-Little Rock Watershed District's annual financial report represents our discussion and analysis of the District's performance during the year ended December 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section:

The Management's Discussion and Analysis (MD&A) is an element of the reporting model that is required by the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL HIGHLIGHTS

The District's assets exceeded its liabilities by \$370,306 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$333,803.

The District's total combined net position increased by \$36,503 or 10.9% between 2017 and 2018.

Total net position is comprised of the following:

- (1) Net Investment in Capital Assets, of \$0 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Restricted net position of \$5,033 represents the portion to be used only on the Ditch 11 improvement project.
- (3) Unrestricted net position of \$365,273 represent the portion available to maintain the District's continuing obligations to citizens and creditors.

As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$369,268.

Overall revenues for 2018 were \$147,737 while overall expenses totaled \$111,234. Overall revenues for 2017 were \$188,050 while overall expenses totaled \$244,706. The decrease in revenues was due primarily to the decrease in reimbursements from ditch petitioners. The decrease in expenses was due to lower project costs for District projects and Ditch 11 improvements incurred during 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements comprise four components: 1) Independent Auditor's Report, 2) required supplementary information, which includes the management's discussion and analysis (this section), 3) the basic financial statements and 4) supplementary information.

The basic financial statements include two kinds of statements that present different views of the District:

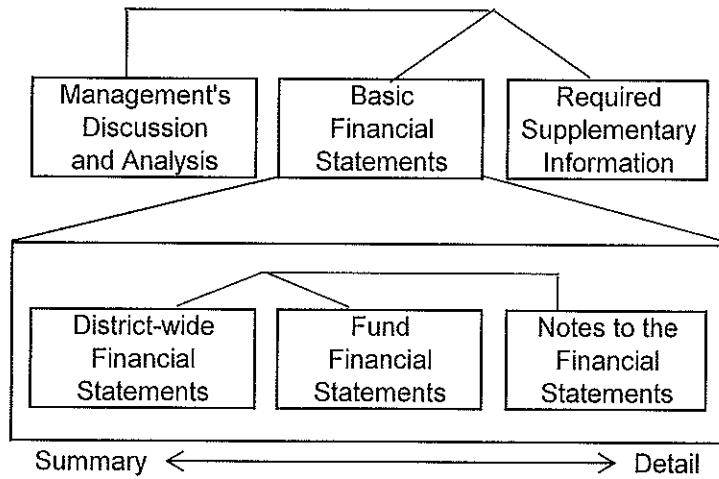
The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements. The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDING DECEMBER 31, 2018

The diagram below shows how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

Type of Statement	Government-wide	Fund Financial Statements
		Governmental Funds
Scope	Entire Agency's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Types of Assets/Liability Information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Types of Inflow/Outflow 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 the related liability is due and payable

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

Both government-wide financial statements distinctively report governmental activities of the District that are principally supported by taxes and intergovernmental revenues, such as grants. Governmental activities include general government administration and programs which includes conservation project costs.

The District's financial reporting entity includes the funds of the District (primary government) and organizations for which the District is accountable (component units). These legally separate organizations operate like District departments, serve as financing vehicles for District services, or are governed by a board which includes District board members. These organizations are blended into the primary government for financial reporting purposes. The District Joint Powers Board has been included in the District's financial statement as a blended component unit.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law or by bond covenants.

The Board may establish other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and state and federal grants.

The District has only one kind of fund:

Governmental funds—All of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explain the relationship (or differences) between them.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

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 footnotes to the financial statements are found on pages 19 - 23.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was \$370,306 on December 31, 2018 (see detail in Table A-1). This is up from \$333,803 at December 31, 2017.

Table A-1
Summary of Net Position

	2018	2017	Change
Current and Other Assets	\$ 386,521	\$ 443,238	-12.80%
Capital and Non-Current Assets	-	-	0.00%
Total Assets	\$ 386,521	\$ 443,238	-12.80%
Current Liabilities	\$ 16,215	\$ 109,435	-85.18%
Long-Term Liabilities	-	-	0.00%
Total Liabilities	\$ 16,215	\$ 109,435	-85.18%
Net Position			
Net Investment in Capital Assets	\$ -	\$ -	0.00%
Restricted	5,033	5,001	0.64%
Unrestricted	365,273	328,802	11.09%
Total Net Position	\$ 370,306	\$ 333,803	10.94%

A portion of the District's net position (\$5,033) is restricted to be used only for the Ditch 11 improvement project. This balance includes the remaining funds on hand received from the Ditch 11 petitioner's. The balance of the District's net position (\$365,273) is reported as unrestricted and therefore is available to fund future operations.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

Changes in net assets. The District's total governmental activities revenues were \$147,737 for the year ended December 31, 2018. Property taxes and unrestricted state aid accounted for 94 percent of the total revenue for the year. (See Figure A-3) The remaining 6 percent came from other revenues and restricted grants and contributions.

The total cost of governmental activities programs and services was \$111,234.

Table A-2
Changes in Net Position

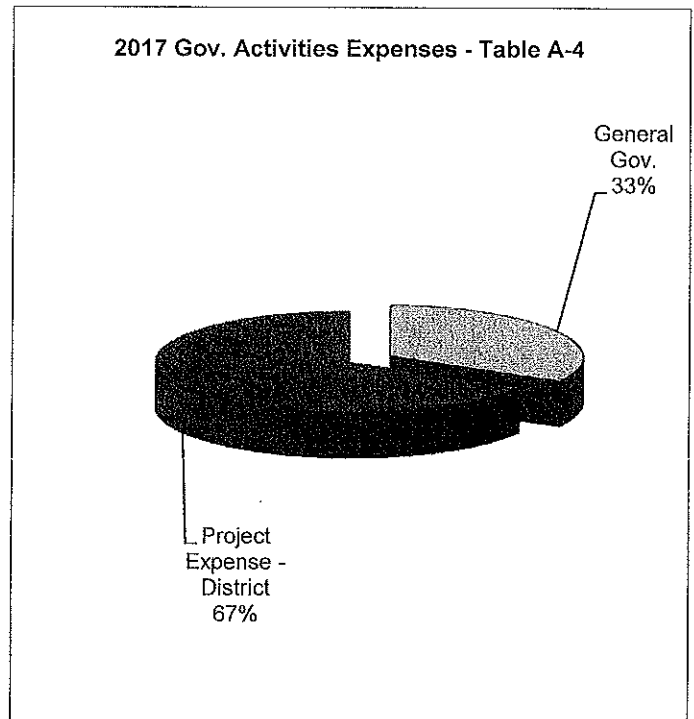
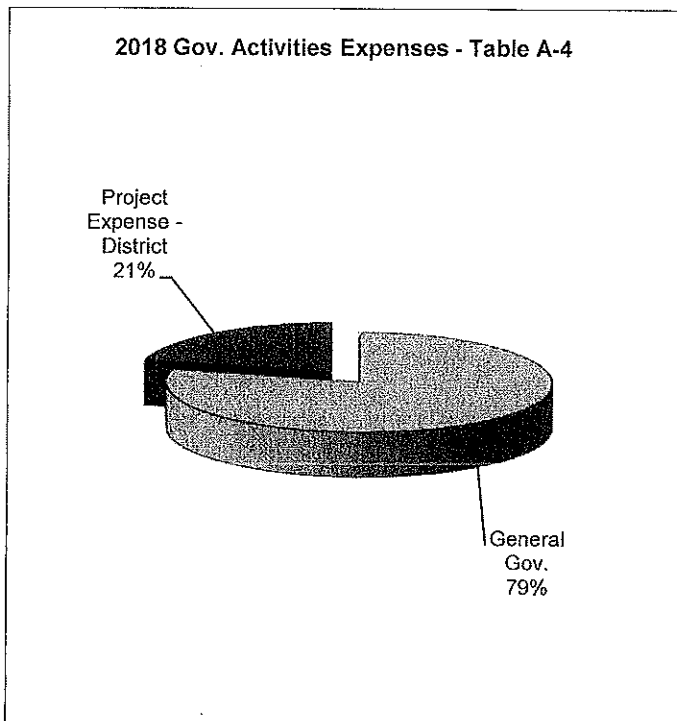
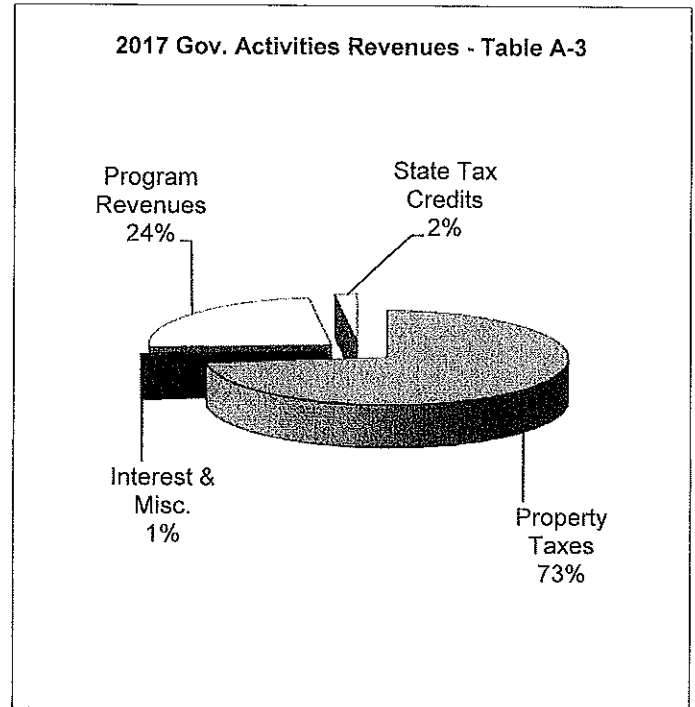
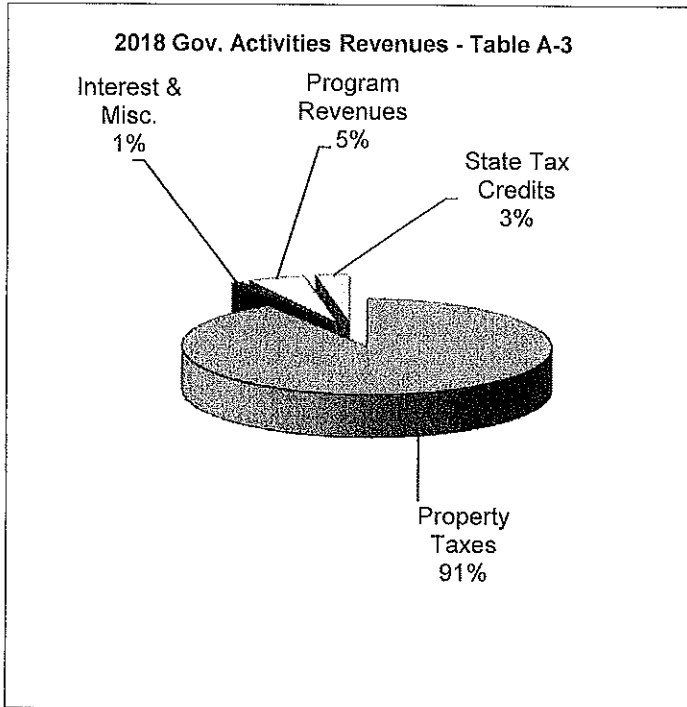
	Governmental Activities	Total 2018	Total 2017	Percentage Change
Revenues				
Program Revenues:				
Operating Grants and Gifts	\$ 8,390	\$ 8,390	\$ 44,370	-81.09%
General Revenues:				
Property Taxes	133,905	133,905	137,721	-2.77%
Unrestricted Federal/State Aid	4,345	4,345	4,787	-9.23%
Investment Earnings	1,097	1,097	1,172	-6.40%
Total Revenues	<u>\$ 147,737</u>	<u>\$ 147,737</u>	<u>\$ 188,050</u>	-21.44%
Expenses				
General Government Administration	\$ 87,554	\$ 87,554	\$ 81,724	7.13%
Program Expense				
District	23,680	23,680	162,982	-85.47%
Total Expenses	<u>\$ 111,234</u>	<u>\$ 111,234</u>	<u>\$ 244,706</u>	-54.54%
Increase (Decrease) in Net Position	\$ 36,503	\$ 36,503	\$ -56,656	-164.43%
Beginning Net Position	<u>333,803</u>	<u>333,803</u>	<u>390,459</u>	-14.51%
Ending Net Position	<u>\$ 370,306</u>	<u>\$ 370,306</u>	<u>\$ 333,803</u>	10.94%

The District's total revenues consisted of program revenues of \$8,390, property taxes of \$133,905, unrestricted aids and payments from the State of Minnesota of \$4,345 and interest revenues of \$1,097. Program revenues include \$8,390 received from petitioner's for the Nobles County Ditch 11 improvement project.

Expenses totaling \$111,234 consisted of general government administration expense of \$87,554 and program expense of \$23,680. Program expense included conservation cost share project expense of \$15,291 which was funded by the District and \$8,390 in Ditch 11 improvement project related cost which was funded by the petitioners.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

Pie charts for revenue and expense categories are presented in Tables A-3 and A-4.



KANARANZI-LITTLE ROCK WATERSHED DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDING DECEMBER 31, 2018

The net cost of governmental activities is their total cost less program revenue applicable to each category. Table A-5 presents these net costs.

Table A-5
 Net Cost of Services

	Total Cost of Services	Program Income	Net Cost of Services
General Government	\$ 87,554		\$ 87,554
Project Expense: District	23,680	\$ 8,390	15,290
Total	\$ 111,234	\$ 8,390	\$ 102,844

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements.

Fund Balance The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$369,268. This was up from \$332,532 at the end of the prior year, a decrease of \$36,736. The increase occurred primarily because of budgeted District funded cost share project expenditures that were not completed in 2018.

Revenues and Expenditures Revenues of the governmental funds totaled \$147,971 while total expenditures were \$111,234. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 below:

Table A-6
 Revenues and Expenditures - Governmental Funds

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 139,549	\$ 102,844	\$ -	\$ 36,705
Joint Powers Board	-	-	-	-
Nobles County Ditch #11 Bond Fund	8,422	8,390	-	32
Totals	\$ 147,971	\$ 111,234	\$ -	\$ 36,737

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2018

Budgetary Highlights

The District adopted a formal budget for the General Fund for 2018, but no budget was adopted for the Joint Powers. Budgets are prepared on the modified accrual basis of accounting which is consistent with how the governmental fund statements are presented. Actual revenues exceeded budgeted revenues by \$1,359 primarily due to interest and dividend income of \$1,065 that was not budgeted.

The actual expenditures and other financing uses were under the budget by \$144,756. Most of this favorable variance was due to lower than projected cost share project expenditures in the amount of \$129,709 and lower than projected legal fees of \$10,000.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District is highly dependent on federal and state grants and property tax levies to support its governmental activities. Property tax reforms, state budget deficits, and federal funding availability may have an impact on future project programs and may shift the local tax burden.

CONTACTING DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or would like additional information, contact John Shea, Executive Secretary at the District offices at 1567 McMillan Street, Suite 3, Worthington, MN 56187.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>TOTAL</u>
ASSETS		
Cash and Cash Equivalents		
Petty Cash	\$ 21.13	\$ 21.13
Cash in Checking and Savings	238,738.52	238,738.52
Undeposited Funds	2,172.76	2,172.76
Investment Certificates	140,768.24	140,768.24
Accrued Interest Receivable	348.55	348.55
Delinquent Taxes Receivable	3,114.65	3,114.65
Prepaid Expense	1,357.00	1,357.00
TOTAL ASSETS	\$ <u>386,520.85</u>	\$ <u>386,520.85</u>
LIABILITIES		
Accounts Payable	\$ <u>16,215.00</u>	\$ <u>16,215.00</u>
Total Liabilities	\$ <u>16,215.00</u>	\$ <u>16,215.00</u>
NET POSITION		
Restricted (Ditch 11 Improvement Project)	\$ 5,032.58	\$ 5,032.58
Unrestricted	365,273.27	365,273.27
Total Net Position	\$ <u>370,305.85</u>	\$ <u>370,305.85</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>386,520.85</u>	\$ <u>386,520.85</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Administration	\$ 87,553.58			\$ (87,553.58)
Project Expense				
District	<u>23,680.55</u>		\$ <u>8,389.60</u>	<u>(15,290.95)</u>
Total Governmental Activities	\$ <u>111,234.13</u>	\$ <u>0.00</u>	\$ <u>8,389.60</u>	\$ <u>(102,844.53)</u>
Total Government	\$ <u>111,234.13</u>	\$ <u>0.00</u>	\$ <u>8,389.60</u>	\$ <u>(102,844.53)</u>
General Revenues:				
Property Taxes				\$ 133,904.85
Intergovernmental Aid				4,345.52
Unrestricted Investment Earnings				<u>1,097.12</u>
Total General Revenues				\$ <u>139,347.49</u>
Change in Net Position				\$ 36,502.96
Net Position - Beginning				<u>333,802.89</u>
Net Position - Ending				\$ <u><u>370,305.85</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	GENERAL FUND	SPECIAL REVENUE		TOTAL
		JOINT POWERS	NOBLES COUNTY DITCH #11 BOND	
ASSETS				
Petty Cash	\$ 21.13			\$ 21.13
Cash in Checking and Savings	217,925.45	\$ 165.49	\$ 20,647.58	238,738.52
Undeposited Funds	2,172.76			2,172.76
Investment Certificates	140,768.24			140,768.24
Accrued Interest Receivable	348.55			348.55
Delinquent Taxes Receivable	3,114.65			3,114.65
Prepaid Expense	1,357.00			1,357.00
TOTAL ASSETS	\$ 365,707.78	\$ 165.49	\$ 20,647.58	\$ 386,520.85
LIABILITIES				
Accounts Payable	\$ 600.00		\$ 15,615.00	\$ 16,215.00
Total Liabilities	\$ 600.00	\$ 0.00	\$ 15,615.00	\$ 16,215.00
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	\$ 1,037.36			\$ 1,037.36
Total Deferred Inflow of Resources	\$ 1,037.36	\$ 0.00	\$ 0.00	\$ 1,037.36
FUND BALANCE				
Nonspendable	\$ 1,357.00			\$ 1,357.00
Restricted			\$ 5,032.58	5,032.58
Unassigned	362,713.42	\$ 165.49		362,878.91
Total Fund Balance	\$ 364,070.42	\$ 165.49	\$ 5,032.58	\$ 369,268.49
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE	\$ 365,707.78	\$ 165.49	\$ 20,647.58	\$ 386,520.85

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total Fund Balances for Governmental Funds \$ 369,268.49

Total net position reported for governmental activities in the statement of net position is different because:

Governmental funds report delinquent taxes receivable not collected within sixty days of year end as a deferred inflow. In the statement of net position, these items are recorded as a receivable when assessed and are not offset with a deferred liability.

Unavailable Revenue - Delinquent Taxes 1,037.36

Total Net Position of Governmental Activities \$ 370,305.85

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>GENERAL FUND</u>	<u>JOINT POWERS</u>	<u>SPECIAL REVENUE NOBLES COUNTY DITCH #11 BOND</u>	<u>TOTAL</u>
REVENUES				
General Property Taxes	\$ 134,138.46			\$ 134,138.46
Intergovernmental Aid - State	4,345.52			4,345.52
Interest and Dividends	1,064.74		\$ 32.38	1,097.12
Refunds and Reimbursements			8,389.60	8,389.60
TOTAL REVENUES	<u>\$ 139,548.72</u>	<u>\$ 0.00</u>	<u>\$ 8,421.98</u>	<u>\$ 147,970.70</u>
EXPENDITURES				
Administration	\$ 87,553.08			\$ 87,553.08
Project Expense:				
District	15,290.95		\$ 8,390.10	23,681.05
TOTAL EXPENDITURES	<u>\$ 102,844.03</u>	<u>\$ 0.00</u>	<u>\$ 8,390.10</u>	<u>\$ 111,234.13</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 36,704.69	\$ 0.00	\$ 31.88	\$ 36,736.57
FUND BALANCE - January 1	<u>327,365.73</u>	<u>165.49</u>	<u>5,000.70</u>	<u>332,531.92</u>
FUND BALANCE - December 31	<u>\$ 364,070.42</u>	<u>\$ 165.49</u>	<u>\$ 5,032.58</u>	<u>\$ 369,268.49</u>

The Accompanying Notes are an Integral Part of the Financial Statements

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance - Total Governmental Funds \$ 36,736.57

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

Governmental funds report delinquent taxes receivable as a deferred inflow if not collected within sixty days of year end. In the statement of activities, tax revenues are recorded in the year assessed and are not deferred until such time as collection occurs.

Delinquent Taxes Receivable Deferred as of 12/31/17	\$ (1,270.97)	
Delinquent Taxes Receivable Deferred as of 12/31/18	<u>1,037.36</u>	<u>(233.61)</u>

Change in Net Position of Governmental Activities \$ 36,502.96

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET</u>
REVENUES			
General Property Taxes	\$ 138,190.00	\$ 134,138.46	\$ (4,051.54)
Intergovernmental Aid		4,345.52	4,345.52
Interest and Dividends		1,064.74	1,064.74
TOTAL REVENUES	<u>\$ 138,190.00</u>	<u>\$ 139,548.72</u>	<u>\$ 1,358.72</u>
EXPENDITURES			
Administration:			
Board Compensation	\$ 5,000.00	\$ 2,775.00	\$ (2,225.00)
Payroll Taxes	-	212.29	212.29
Mileage and Travel	2,500.00	1,899.61	(600.39)
Soil and Water Conservation District Contracted Services	70,000.00	70,000.00	0.00
Insurance and Bonds	2,600.00	2,574.00	(26.00)
Audit	3,000.00	2,600.00	(400.00)
Legal Fees	10,000.00	-	(10,000.00)
Dues (MAWD and LMC)	6,000.00	5,743.00	(257.00)
Publications and Hearings	2,000.00	1,255.39	(744.61)
Supplies and Postage	500.00	481.79	(18.21)
Other Services and Charges	1,000.00	12.00	(988.00)
Project Expenditures:			
District	145,000.00	15,290.95	(129,709.05)
TOTAL EXPENDITURES	<u>\$ 247,600.00</u>	<u>\$ 102,844.03</u>	<u>\$ (144,755.97)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (109,410.00)	\$ 36,704.69	\$ 146,114.69
FUND BALANCE - January 1	<u>327,365.73</u>	<u>327,365.73</u>	<u>0.00</u>
FUND BALANCE - December 31	<u><u>\$ 217,955.73</u></u>	<u><u>\$ 364,070.42</u></u>	<u><u>\$ 146,114.69</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. INTRODUCTION

The Board of Supervisors composed of five members governs the Kanaranzi-Little Rock Watershed District. The District was established to conserve the land and water resources of the Kanaranzi-Little Rock Watershed. The Kanaranzi-Little Rock Watershed District, in cooperation with the United States Departments of Agriculture's Soil Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in applying conservation practices. These practices are intended to reduce costly waste of natural resources resulting from soil erosion, sedimentation, pollution and improper land use.

Each year the District develops a work plan that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kanaranzi-Little Rock Watershed District, conform to generally accepted accounting principles as applicable to governmental units. The District adopted Governmental Accounting Standards Board (GASB) Statement 34 during 2004. The following is a summary of the more significant policies.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Included in the Reporting Entity as a Blended Component Unit:

Joint Powers Board

The District with Nobles and Rock Counties formed a joint powers board which administers and applies for federal assistance to local individuals, businesses, and organizations for conservation practices. The Kanaranzi-Little Rock Watershed District has funded the Joint Powers Board with levied funds to cover technical and administrative costs which are contracted from Nobles County Soil Conservation Services and Southwest Conservation District. The Joint Powers Board does not issue separate financial statements.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from activities for the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities. The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Currently, the District has only governmental type funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Due to the limited number of funds that the District maintains, all funds are considered to be major funds.

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

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation Cont.

basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues when levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims, are recorded only when payment is due.

The District reports deferred inflows on its governmental fund combined balance sheet. Deferred inflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred inflows is removed from the combined balance sheet and revenue is recognized.

Major revenues that are susceptible to accrual include property taxes, intergovernmental revenues, charges for services and interest on investments.

The District reports the following funds all of which are considered major funds:

Governmental Fund Types

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes.

Joint Powers Board Fund - The Joint Powers Board Fund has been established to account for all assets, revenues and expenditures related to the District's joint powers activity with Nobles and Rock Counties.

Nobles County Ditch #11 Bond Fund - The District has established the Nobles County Ditch #11 Bond Fund to account for resources received from the ditch petitioners.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance, is not employed by the District.

Cash and Temporary Investments

Cash balances are invested to the extent available in money market savings and certificates of deposit. Earnings from investments are recorded in the respective funds. Certificates of deposit are stated at cost plus interest earned and added which approximates market value.

Taxes Receivable

Property tax levies are set by the Board in September each year, and are certified to Nobles County and Rock County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Real property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County provides tax settlements to all taxing districts three times a year. Generally, the settlements are received in January, June, and December.

Real Estate taxes become a lien on January 1 and are recorded as receivable by the District on that date. Taxes which remain unpaid within 60 days after December 31, are classified as deferred inflows in the fund financial statements because they are not available to finance current expenditures.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Fixed Assets

Fixed assets, which include property and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$250 or more and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated value if historical cost is not available.

The cost of normal maintenance and repairs that do not add to the value or materially extend the assets useful life are not capitalized.

Depreciation on exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided on the straight-line basis over the following estimated useful lives:

Equipment and Furniture	3 - 10 Years
-------------------------	--------------

The District currently has no capitalized fixed assets.

Compensated Absences

The District contracts employee services with the Nobles County Soil and Water Conservation District. Accordingly, no liability for compensated absences is applicable.

Fund Balances/Net Assets

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because it is 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 amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the District Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to Board Resolution, the District Board and/or Executive Secretary may be authorized to establish assignments of fund balance.

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

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has not formally adopted a fund balance policy for the General Fund.

Net Position

In the government-wide financial statements, net position represent the difference between assets and liabilities. Net position is displayed in three components:

- a. Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted - Consist of net position restricted when there are limitations imposed on their use imposed by creditor's, grantors, laws or regulations of other governments.
- c. Unrestricted - All remaining net position that does not meet the definition of "restricted" or "net investment in capital assets".

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

Fair Values

The carrying amounts for cash, short-term investments, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 20, 2019, the date the financial statements were available to be issued.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are prepared on the modified accrual basis of accounting. The District's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The District's managers prepare the budget for the following year sometime before October 31.
2. The proposed budget is presented to the District's Board for review. The board holds a public hearing on its tax levy established based upon its budget prior to the date the levy is required to be certified to the county auditor.
3. The annual budget finally agreed upon sets forth in detail the complete financial plan of the District for the ensuing fiscal year for the funds budgeted and is approved by the majority of the full Board when adopted.
4. The Board adopts the budget, according to state guidelines, by a resolution that sets forth the total for each budgeted fund on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at year-end.
6. The budgetary data presented represents the original adopted budget. No budget amendments were made during 2018.

4. CASH AND INVESTMENTS

Cash balances of the primary government and component unit are invested to the extent available in various investments authorized by state statutes. The District's investing activities are managed by the executive secretary upon the approval of the board. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below.

Deposits and Investments

Minnesota statutes require that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of FDIC insurance. As of December 31, 2018, the carrying amount of the District's deposits with financial institutions was \$379,506.76 and the bank balance was \$379,775.68.

The bank balance is categorized as follows:

Insured or collateralized with securities held by the District or its agent in the District's name	\$ 379,775.68
Not Covered by Collateral	
Total Bank Balance	\$ 379,775.68

5. RELATED PARTY TRANSACTIONS

The District paid for services to certain members of the organization. The individuals and amounts paid for the year ending December 31, 2018 are as follows:

	PER DIEM	EXPENSE
Jerry Brake	\$ 675.00	\$ 288.25
Coleen Gruis	825.00	157.52
Layton Gruis	750.00	275.65
Tim Taylor	225.00	22.75
Boyenga, Anthony	300.00	40.33
	\$ 2,775.00	\$ 784.50

6. RISK MANAGEMENT

Significant losses are covered by commercial insurance for property coverage, workers compensation, general liability and auto liability. There have been no significant reductions in insurance coverage from prior years.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

7. FEDERAL GRANTS

The District applies for federal grant monies as reimbursement for projects completed in accordance with Watershed Protection Flood Prevention (PL 566) (Federal Domestic Assistance Number 10.904) as administered by the U.S. Department of Agriculture. No Federal awards were received or expended during the year ended December 31, 2018.

8. CONTRACTED SERVICES

The District currently contracts with Nobles Soil and Water Conservation District for PL 566 project services, special EQIP/KLR program services, technical services and joint powers board expense. The District approved the addition of administrative services to the 2015 contract. Contracted service payments made during 2018 under this contract were \$70,000.00 for technical and administrative services.

9. CONTINGENCIES

The District previously received significant financial assistance from federal, state and local government 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 are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability to the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2018.

SUPPLEMENTARY INFORMATION

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
GENERAL FUND
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Petty Cash	\$ 21.13	\$ 21.13
Cash in Checking and Savings - Adrian State Bank	217,925.45	278,591.66
Undeposited Funds	2,172.76	-
Certificate of Deposit - Adrian State Bank	21,010.70	20,937.42
Certificate of Deposit - Exchange State Bank	119,757.54	119,279.94
Accrued Interest Receivable	348.55	290.60
Delinquent Taxes Receivable	3,114.65	3,770.37
Prepaid Insurance	<u>1,357.00</u>	<u>1,352.00</u>
TOTAL ASSETS	<u>\$ 365,707.78</u>	<u>\$ 424,243.12</u>
LIABILITIES		
Accounts Payable	\$ 600.00	\$ 95,606.42
Total Liabilities	<u>\$ 600.00</u>	<u>\$ 95,606.42</u>
DEFERRED INFLOW OF RESOURCES		
Unavailable Revenue - Delinquent Taxes	\$ 1,037.36	\$ 1,270.97
Total Deferred Inflow of Resources	<u>\$ 1,037.36</u>	<u>\$ 1,270.97</u>
FUND BALANCE		
Nonspendable	\$ 1,357.00	\$ 1,352.00
Unassigned	<u>362,713.42</u>	<u>326,013.73</u>
Total Fund Balance	<u>\$ 364,070.42</u>	<u>\$ 327,365.73</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE	<u>\$ 365,707.78</u>	<u>\$ 424,243.12</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
General Property Taxes	\$ 134,138.46	\$ 137,642.64
State Market Value Credit Aid	4,345.52	4,787.11
Interest and Dividend Income	1,064.74	1,166.16
	<u>139,548.72</u>	<u>143,595.91</u>
TOTAL REVENUES	\$ 139,548.72	\$ 143,595.91
EXPENDITURES		
ADMINISTRATION:		
Board Compensation	\$ 2,775.00	\$ 3,750.00
Payroll Taxes	212.29	286.87
Mileage and Travel	1,899.61	1,880.82
Soil and Water Conservation District Contracted Service	70,000.00	65,000.00
Insurance and Bonds	2,574.00	2,415.00
Audit	2,600.00	2,550.13
Legal Fees	-	211.00
Dues (MAWD and LMC)	5,743.00	4,355.96
Publications and Hearings	1,255.39	1,257.49
Supplies and Postage	481.79	4.53
Other Services and Charges	12.00	12.00
Total Administration	<u>\$ 87,553.08</u>	<u>\$ 81,723.80</u>
PROJECT EXPENDITURES:		
District	\$ 15,290.95	\$ 118,476.42
Total Project Expenditures	<u>\$ 15,290.95</u>	<u>\$ 118,476.42</u>
TOTAL EXPENDITURES	<u>\$ 102,844.03</u>	<u>\$ 200,200.22</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 36,704.69	\$ (56,604.31)
FUND BALANCE - January 1	<u>327,365.73</u>	<u>383,970.04</u>
FUND BALANCE - December 31	<u>\$ 364,070.42</u>	<u>\$ 327,365.73</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
JOINT POWERS
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash in Checking	\$ <u>165.49</u>	\$ <u>165.49</u>
TOTAL ASSETS	\$ <u><u>165.49</u></u>	\$ <u><u>165.49</u></u>
LIABILITIES		
Total Liabilites	\$ <u>0.00</u>	\$ <u>0.00</u>
FUND BALANCE		
Unassigned	\$ <u>165.49</u>	\$ <u>165.49</u>
Total Fund Balance	\$ <u><u>165.49</u></u>	\$ <u><u>165.49</u></u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>165.49</u></u>	\$ <u><u>165.49</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
JOINT POWERS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
TOTAL REVENUES	\$ <u>0.00</u>	\$ <u>0.00</u>
EXPENDITURES		
PROJECT EXPENDITURES:		
Total Project Expenditures	\$ <u>0.00</u>	\$ <u>0.00</u>
TOTAL EXPENDITURES	\$ <u>0.00</u>	\$ <u>0.00</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 0.00	\$ 0.00
FUND BALANCE - January 1	<u>165.49</u>	<u>165.49</u>
FUND BALANCE - December 31	<u><u>165.49</u></u>	<u><u>165.49</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
NOBLES COUNTY DITCH #11 BOND FUND
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash in Savings - Adrian State Bank	\$ 20,647.58	\$ 5,000.70
Other Receivable - Petitioners	<u>-</u>	<u>13,829.00</u>
TOTAL ASSETS	\$ <u>20,647.58</u>	\$ <u>18,829.70</u>
LIABILITIES		
Accounts Payable	\$ 15,615.00	\$ 13,829.00
Total Liabilities	<u>\$ 15,615.00</u>	<u>\$ 13,829.00</u>
FUND BALANCE		
Restricted	\$ 5,032.58	\$ 5,000.70
Total Fund Balance	<u>\$ 5,032.58</u>	<u>\$ 5,000.70</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>20,647.58</u>	\$ <u>18,829.70</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NOBLES COUNTY DITCH #11 BOND FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Other Miscellaneous (Ditch Petitioners)	\$ 8,389.60	\$ 44,369.31
Interest and Dividend Income	<u>32.38</u>	<u>5.99</u>
TOTAL REVENUES	<u>\$ 8,421.98</u>	<u>\$ 44,375.30</u>
EXPENDITURES		
PROJECT EXPENDITURES:		
Professional Services	\$ <u>8,390.10</u>	\$ <u>44,505.96</u>
Total Project Expenditures	<u>\$ 8,390.10</u>	<u>\$ 44,505.96</u>
TOTAL EXPENDITURES	<u>\$ 8,390.10</u>	<u>\$ 44,505.96</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 31.88	\$ (130.66)
FUND BALANCE - January 1	<u>5,000.70</u>	<u>5,131.36</u>
FUND BALANCE - December 31	<u>\$ 5,032.58</u>	<u>\$ 5,000.70</u>

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

To the District Board
Kanananzi-Little Rock Watershed District
Adrian, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Kanananzi-Little Rock Watershed District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kanananzi-Little Rock Watershed District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kanananzi-Little Rock Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 one deficiency in internal control that we consider to be a material weakness and one deficiency 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 consider the deficiency described in the accompany schedule of findings and responses to be a material weakness. See finding 18-001.

A *significant deficiency* is a deficiency, or 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 one deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. See finding 18-002.

Compliance and Other Matters

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

Kanaranzi-Little Rock Watershed District's Response to Findings

Kanaranzi-Little Rock Watershed District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Richard W. Holmberg, Ltd.

Richard W. Holmberg, Ltd.
Certified Public Accountants

June 20, 2019

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND REPOSSES
FOR THE YEAR ENDED DECEMBER 31, 2018

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Kanaranzi-Little Rock Watershed District.
2. One material weakness and one significant deficiency in internal controls was disclosed during the audit of the financial statements and reported in the annual financial report as explained below.
3. No instances of noncompliance material to the financial statements of Kanaranzi-Little Rock Watershed District were disclosed during the audit.

INTERNAL CONTROL FINDINGS - FINANCIAL STATEMENT AUDIT

18-001 Material Weakness in Internal Control

Condition: There is a lack of proper segregation of accounting functions.

Criteria: A proper segregation of accounting functions is necessary to assure adequate internal accounting control.

Cause: The limited number of office personnel prevents a proper segregation of accounting functions.

Effect: Errors or irregularities could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: Procedures should be implemented to include supervisory review of all accounting functions.

Response: There is no disagreement with the audit finding. Due to cost restraints, it is not practical for the District to add office staff to obtain a proper segregation of duties. The Board and executive secretary will continue to approve and review all expenditures and bank statements.

18-002 Significant Deficiency in Internal Control

Condition: The District does not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Criteria: The District must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Cause: The District relies on the audit firm to prepare the annual financial report and related note disclosures. However, they have reviewed and approved the annual financial report and and related footnote disclosures.

Effect: No effect on the financial statements.

Recommendation: The District should continue to evaluate its internal staff, expertise, and assigned duties to determine if there is sufficient expertise to review and approve the annual financial report and related footnote disclosures.

Response: The District will continue to rely upon the audit firm to prepare the financial report and related footnote disclosures; however, the District will continue to review and approve the annual financial report and related footnote disclosures prior to issuance.

RICHARD W. HOLMBERG, LTD.
Certified Public Accountants

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

To the District Board
Kanananzi-Little Rock Watershed District
Adrian, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Kanananzi-Little Rock Watershed District, as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise Kanananzi-Little Rock Watershed District's basic financial statements, and have issued our report thereon dated June 20, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the District does not have tax increment financing districts.

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

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

Richard W. Holmberg, Ltd.

Richard W. Holmberg, Ltd.
Certified Public Accountants

June 20, 2019