

**YELLOW MEDICINE RIVER
WATERSHED DISTRICT
AUDITED FINANCIAL REPORT
FOR THE YEAR ENDING
DECEMBER 31, 2018**

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
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FOR THE YEAR ENDING DECEMBER 31, 2018**

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**YELLOW MEDICINE RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018**

GOVERNING BOARD AND ADMINISTRATIVE PERSONNEL
December 31, 2018

Governing Board

President	Tim Buysse
Vice President	James Kraus
Secretary	John Boulton
Treasurer	Tim Dritz
Public Relations	Elmo Volstad

Administrative Personnel

Administrator	Michelle Overholser
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DANIELLE L. BERG, LTD.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Yellow Medicine River Watershed District
122 North Jefferson
Minneota, MN 56264

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund of Yellow Medicine River Watershed District, as of and for the fiscal year ending December 31, 2018, which collectively comprise the entity'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 provisions of the Minnesota Legal Compliance Audit Guide for Local Governments, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute 6.65. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 the major fund, the general fund, of the Yellow Medicine River Watershed District, as of December 31, 2018, and the respective changes in financial position for the fiscal year that ended in accordance 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 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 20, 2020 on our consideration of the Yellow Medicine River Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Danielle L. Berg, Ltd.
Certified Public Accountant

July 20, 2020

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018**

This section of the annual financial report of Yellow Medicine River Watershed District, (the Entity) presents a discussion and analysis of the Entity’s financial performance during the fiscal year ending December 31, 2018. Please read it in conjunction with the Entity’s basic financial statements following this section.

Financial Highlights

- The assets of the Entity exceeded liabilities by \$726,087. Of this amount, \$93,914 is restricted for future use in flood control projects by legal regulations or board designations.
- The Entity’s total net position for the current year increased by \$430,986.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$623,070 which adequately covers the total administrative expenditures of \$308,648.

Using the Financial Section of this Annual Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Entity as a whole and presents a longer-term view of the Entity’s finances. Fund financial statements are presented after the Statement of Activities. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Statement of Net Position and Statement of Activities – Cash Basis

Our analysis of Yellow Medicine River Watershed District, begins with the Statement of Net Position and the Statement of Activities, which can be found on pages 7 and 8 of this report. One of the most important questions asked about the Entity’s finances is, “Is the Entity as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities both report information about the Entity as a whole and about its activities in a way that helps answer this question. These financial statements include *all* assets and liabilities using the *cash basis of accounting*. The current year’s revenues and expenses are reported as received/paid with payroll tax liabilities being reported due to being a product of current year payroll expenditures.

These two statements report the Entity’s net position and changes in it. You can think of the Entity’s net position – the difference between assets and liabilities – as one way to measure the Entity’s financial health, or *financial position*. Over time, *increases or decreases* in the Entity’s net assets are one indicator of whether the Entity’s financial health is improving or deteriorating. You will need to consider other non-financial factors however, to assess the *overall health* of Yellow Medicine River Watershed District.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018**

Fund Financial Statements

Our analysis of Yellow Medicine River Watershed's major fund addresses the fund financial statements of the general fund and the special revenue funds. All of the Entity's basic services are reported in the governmental fund. Governmental funds focus on how money flows into and out of this fund and the balances left at the year-end that are available for spending. These funds are reported using the cash basis of accounting, which measures cash as it comes in as revenue and as it goes out as expenditures. The governmental fund statements provide a detailed short-term view of the Entity's general government operations. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the Entity's programs.

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 on pages 16-23 of this report.

Statement of Net Position – Cash Basis

Yellow Medicine River Watershed's net position increased from one year ago. Our analysis below focuses on the net assets (Table 1) of the Entity's governmental activities.

Table 1 - Statement of Net Position

	<u>December 31, 2018</u>
Current and other assets	\$ 820,657
Total assets and deferred outflows	820,657
Accrued wages and payroll taxes	656
Due to Other Funds	93,914
Current and other liabilities	94,570
Net Position	
Unrestricted	632,173
Restricted	93,914
Total net position	726,087
Total liabilities and net position	\$ 820,657

Net position of the Entity's governmental activities increased by \$430,896. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints, increased primarily due to a large decrease in project expenditures combined with the receipt of implementation grant funds of \$275,856.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018**

Table 2 - Statement of Activities

	<u>December 31, 2018</u>
Revenues:	
County Assessments	\$ 373,427
Projects	81,592
Interest	611
Miscellaneous	1,159
State of Minnesota	283,365
	741,154
 Expenses:	
Administration	163,734
Project Expenses	147,382
Total Expenses	311,116
Change in Net Position	430,986
Net Position - Beginning	295,101
Net Position - Ending	\$ 726,087

Grant Funding:

The Yellow Medicine Watershed District received more grant funding compared to recent years, consisting of implementation grant funds of \$275,856.

Contacting the Entity's Financial Management:

This financial report is designed to provide the users with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have any questions about this report or need additional information, contact the office at 122 North Jefferson, Minneota, MN 56264. The telephone number is 507-872-6720.

Yellow Medicine River Watershed District
Statement of Net Position
Cash Basis
December 31, 2018

	Governmental Funds
ASSETS	2018
Cash and Cash Equivalents	
Unrestricted Cash	\$ 726,743
Due from Other Funds	93,914
Total Assets	\$ 820,657
LIABILITIES	
Accrued Wages and Payroll Taxes	656
Due to Other Funds	93,914
Total Liabilities	\$ 94,570
NET POSITION	
Restricted for:	
Ditches	93,914
Unrestricted	632,173
Total Net Position	726,087
Total Liabilities and Net Position	\$ 820,657

See Accompanying Notes to Financial Statements

Yellow Medicine River Watershed District
Statement of Activities
Cash Basis
December 31, 2018

<u>Functions</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Government Activities					
Administration	\$ 163,734	\$ 1,000			\$ (162,734)
Projects	147,382		\$ 357,449		210,067
Total	<u>\$ 311,116</u>	<u>\$ 1,000</u>	<u>\$ 357,449</u>	<u>\$ -</u>	<u>\$ 47,333</u>

General Revenues	
Property Taxes Levied for:	
General Purposes	373,427
Intergovernmental Revenue	7,508
Earnings on Investments	1,559
Miscellaneous	1,159
Total General Revenues	<u>383,653</u>
Change in Net Position	430,986
Net Position - Beginning	295,101
Net Position - Ending	<u>\$ 726,087</u>

See Accompanying Notes to Financial Statements

Yellow Medicine Watershed District
 Combined Balance Sheet
 Cash Basis
 December 31, 2018

ASSETS	General Fund	Major Special Revenue Funds				Non-Major Special Revenue Funds	Total Memo Only
		Ditch 2	Ditch 4	Ditch 7	Ditch 8		
Cash and Cash Equivalents							
Cash	\$ 726,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 726,743
Due from Other Governments							
Due from Other Funds	-	17,999	12,169	28,656	16,941	18,149	93,914
Total Assets	\$ 726,743	\$ 17,999	\$ 12,169	\$ 28,656	\$ 16,941	\$ 18,149	\$ 820,657
 LIABILITIES AND FUND BALANCES							
Liabilities:							
Accrued Wages and Payroll Taxes	\$ 656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 656
Due to Other Funds	93,914	-	-	-	-	-	93,914
Total Liabilities	\$ 94,570	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,570
 Fund Balances:							
Restricted	\$ -	\$ 17,999	\$ 12,169	\$ 28,656	\$ 16,941	\$ 18,149	\$ 93,914
Assigned	9,103	-	-	-	-	-	9,103
Unassigned	623,070	-	-	-	-	-	623,070
Total Fund Balances	\$ 632,173	\$ 17,999	\$ 12,169	\$ 28,656	\$ 16,941	\$ 18,149	\$ 726,087
Total Liabilities, Deferred Inflows of Future Resources, and Fund Balances	\$ 726,743	\$ 17,999	\$ 12,169	\$ 28,656	\$ 16,941	\$ 18,149	\$ 820,657

Yellow Medicine River Watershed District
Statement of Revenues, Expenditures, and Changes
in Fund Balance - All Governmental Fund Types - Cash Basis
December 31, 2018

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	2018
	Fund	Funds	
Revenues:			
County Assessments	\$ 373,427	\$ -	\$ 373,427
Interest	611	948	1,559
Miscellaneous	1,159	-	1,159
Permit Fines	1,000	-	1,000
Projects	81,592	-	81,592
State of Minnesota	283,365	-	283,365
Total Revenues	741,154	948	742,102
Expenditures:			
Dues and Fees	6,875	-	6,875
Education	6,001	-	6,001
Insurance	6,293	-	6,293
Meals	1,948	-	1,948
Meetings	150	-	150
Mileage	5,560	-	5,560
Office Expense	4,464	-	4,464
Payroll Taxes and Benefits	19,385	-	19,385
Professional Fees	26,025	-	26,025
Publishing	584	-	584
Rent	6,000	-	6,000
Projects	144,914	2,468	147,382
Salaries	77,480	-	77,480
Telephone	2,969	-	2,969
Total Expenditures	308,648	2,468	311,116
Excess (Deficiency) of Revenues Over Expenditures	432,506	(1,520)	430,986
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	432,506	(1,520)	430,986
Fund Balance - January 1	199,667	95,434	295,101
Fund Balance - December 31	\$ 632,173	\$ 93,914	\$ 726,087

Yellow Medicine Watershed District
General Fund
Balance Sheet - Cash Basis
Administrative and Named Projects
December 31, 2018

	Administration	River Maintenance	Beaver Control	MPCA Contract	PRAP Grant	FEMA 2014	Ditch 39 Petition	Ditch 38 Petition	One Watershed One Plan	BWSR Terrain Analysis Grant	Elimination of Intermittent Transactions	Total (Memo Only)
ASSETS AND OTHER DEBITS												
Assets:												
Cash	\$ 726,743							\$ 9,103			\$ (9,103)	\$ 726,743
Due from Special Revenue Funds								9,103			(9,103)	
TOTAL ASSETS	<u>726,743</u>							<u>9,103</u>			<u>(9,103)</u>	<u>726,743</u>
LIABILITIES AND FUND EQUITY												
Liabilities:												
Payroll Liabilities	656											656
Due to Special Revenue Fund	79,580						23,437				(9,103)	93,914
TOTAL LIABILITIES	<u>80,236</u>						<u>23,437</u>				<u>(9,103)</u>	<u>94,570</u>
EQUITY												
Fund Equity:												
Fund Balance												
Assigned								9,103				9,103
Unassigned	646,507						(23,437)					623,070
TOTAL FUND BALANCE	<u>646,507</u>						<u>(23,437)</u>					<u>623,070</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 726,743</u>						<u>\$ -</u>	<u>\$ 9,103</u>			<u>\$ (9,103)</u>	<u>\$ 726,743</u>

Yellow Medicine River Watershed District
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Cash Basis
 December 31, 2018

	Administration	River Maintenance	Beaver Control	MPCA Contract	PRAP Grant	FEMA 2014	Ditch 39 Petition	Ditch 38 Petition	One Watershed Plan	BWSR Terrain Analysis Grant	Total (Memo Only)
Receipts											
County Assessments	\$ 244,704						\$ 79,685	\$ 49,038			\$ 373,427
Interest	611										611
Miscellaneous	1,159										1,159
Permit Fees	1,000										1,000
Projects	19,776					101	61,715				81,592
State of Minnesota	283,365										283,365
Total Revenues	550,615					79,786	110,753				741,154
Disbursements											
Dues and Fees	6,875										6,875
Education	6,001										6,001
Insurance	6,293										6,293
Interest								497			497
Meetings	150										150
Mileage	5,560										5,560
Office Expense	4,464										4,464
Payroll Taxes and Benefits	19,385										19,385
Professional Fees	25,326										25,326
Publishing	410										410
Rent	6,000										6,000
Projects	53,316		\$ 3,360								56,676
Salaries	77,480										77,480
Supplies											
Telephone											
Travel	2,969										2,969
Total Expenditures	214,229		3,360			45,720	45,339				308,648
Other Financing Resources											
Transfers In											
Transfers Out	(11,418)	(5,812)	(9,112)	(155)	9,578	(547)			4,168	13,298	27,044
Total Other Financing Sources (Uses)	(11,418)	(5,812)	(9,112)	(155)	9,578	(547)			4,168	13,298	(27,044)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	324,968	(5,812)	(12,472)	(155)	9,578	(547)	34,066	65,414	4,168	13,298	432,506
Fund Balance January 1	321,539	5,812	12,472	155	(9,578)	547	(56,311)	(56,311)	(4,168)	(13,298)	159,667
Fund Balance December 31	\$ 646,507	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,103	\$ -	\$ -	\$ -	\$ 632,173

Yellow Medicine Watershed District
Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget to Actual
 Cash Basis
 December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>
Receipts				
County Assessments	\$ 240,000	\$ 240,000	\$ 373,427	\$ 133,427
Interest	500	500	1,559	1,059
Miscellaneous	-	-	1,159	1,159
Permit Files	1,800	1,800	1,000	(800)
Projects	226,400	226,400	81,592	(144,808)
Rent	800	800	-	(800)
State of Minnesota	-	-	283,365	283,365
Total Revenues	<u>469,500</u>	<u>469,500</u>	<u>742,102</u>	<u>272,602</u>
Disbursements				
Dues and Fees	5,000	5,000	6,875	(1,875)
Education	15,000	15,000	6,001	8,999
Insurance	5,000	5,000	6,293	(1,293)
Meals	-	-	1,948	(1,948)
Meetings	15,000	15,000	150	14,850
Mileage	-	-	5,560	(5,560)
Office Expense	10,000	10,000	4,464	5,536
Payroll Taxes and Benefits	-	-	19,385	(19,385)
Professional Fees	15,000	15,000	26,025	(11,025)
Publishing	-	-	584	(584)
Rent	6,000	6,000	6,000	-
Projects	82,000	82,000	147,382	(65,382)
Salaries	105,000	105,000	77,480	27,520
Supplies	4,800	4,800	-	4,800
Telephone	3,000	3,000	2,969	31
Total Expenditures	<u>\$ 265,800</u>	<u>\$ 265,800</u>	<u>\$ 311,116</u>	<u>\$ (45,316)</u>
Excess of Revenues and Other Financing				
Sources Over (Under) Expenditures	<u>\$ 203,700</u>	<u>\$ 203,700</u>	\$ 430,986	\$ 227,286
Fund Balance January 1			<u>295,101</u>	
Fund Balance December 31			<u>\$ 726,087</u>	

Yellow Medicine Watershed District
 Special Revenue Funds
 Combining Balance Sheet
 Cash Basis
 December 31, 2018

	Ditch #1	Ditch #2	Ditch #4	Ditch #5	Ditch #7	Ditch #8	Ditch #16	Ditch #17	Ditch #18	Total (Memo Only)
ASSETS AND OTHER DEBITS										
Assets:										
Due from Administrative Fund	\$ 6,432	\$ 17,999	\$ 12,169	\$ 4,733	\$ 28,656	\$ 16,941	\$ 1,153	\$ 1,810	\$ 4,021	\$ 93,914
TOTAL ASSETS	<u>\$ 6,432</u>	<u>\$ 17,999</u>	<u>\$ 12,169</u>	<u>\$ 4,733</u>	<u>\$ 28,656</u>	<u>\$ 16,941</u>	<u>\$ 1,153</u>	<u>\$ 1,810</u>	<u>\$ 4,021</u>	<u>\$ 93,914</u>
LIABILITIES AND FUND EQUITY										
Liabilities:										
Due to Administrative Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EQUITY										
Fund Equity:										
Fund Balance	\$ 6,432	\$ 17,999	\$ 12,169	\$ 4,733	\$ 28,656	\$ 16,941	\$ 1,153	\$ 1,810	\$ 4,021	\$ 93,914
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EQUITY	<u>\$ 6,432</u>	<u>\$ 17,999</u>	<u>\$ 12,169</u>	<u>\$ 4,733</u>	<u>\$ 28,656</u>	<u>\$ 16,941</u>	<u>\$ 1,153</u>	<u>\$ 1,810</u>	<u>\$ 4,021</u>	<u>\$ 93,914</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 6,432</u>	<u>\$ 17,999</u>	<u>\$ 12,169</u>	<u>\$ 4,733</u>	<u>\$ 28,656</u>	<u>\$ 16,941</u>	<u>\$ 1,153</u>	<u>\$ 1,810</u>	<u>\$ 4,021</u>	<u>\$ 93,914</u>

Yellow Medicine River Watershed District

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Cash Basis

December 31, 2018

	Ditch #1	Ditch #2	Ditch #4	Ditch #5	Ditch #7	Ditch #8	Ditch #16	Ditch #17	Ditch #18	Total (Memo Only)
Receipts										
Interest	\$ 64	\$ 179	\$ 121	\$ 48	\$ 285	\$ 168	\$ 11	\$ 31	\$ 41	\$ 948
Total Revenues	\$ 64	\$ 179	\$ 121	\$ 48	\$ 285	\$ 168	\$ 11	\$ 31	\$ 41	\$ 948
Disbursements										
Projects				\$ 418				\$ 1,712	\$ 338	\$ 2,468
Total Expenditures	-	-	-	\$ 418	-	-	-	\$ 1,712	\$ 338	\$ 2,468
Excess of Revenues Over (Under) Expenditures	\$ 64	\$ 179	\$ 121	\$ (370)	\$ 285	\$ 168	\$ 11	\$ (1,681)	\$ (297)	\$ (1,520)
Fund Balance January 1	6,368	17,820	12,048	5,103	28,371	16,773	1,142	3,491	4,318	95,434
Fund Balance December 31	\$ 6,432	\$ 17,999	\$ 12,169	\$ 4,733	\$ 28,656	\$ 16,941	\$ 1,153	\$ 1,810	\$ 4,021	\$ 93,914

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Yellow Medicine River Watershed District was organized August 27, 1971, under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District covers areas within the following three counties: Yellow Medicine, Lincoln, and Lyon. A five-member Board appointed by the respective County Boards of Commissioners for staggered three-year term operates the District.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. Basis of Presentation

1. Government-Wide Statements

The government-wide financial statements (the statement of net cash position and the statement of activities arising from cash transactions) display information about the District taken as a whole. The District shows all operations as governmental activities, because generally, governmental activities are financed through taxes, intergovernmental revenues, and nonexchange revenues.

In the government-wide statement of net cash position, the governmental activities: (a) are presented on a consolidated basis, and (b) are reported on the cash basis of accounting. The District's net position is reported in two parts: (1) restricted net position, and (2) unrestricted net position. The District first utilizes restricted resources to finance qualifying activities.

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

The statement of activities arising from cash transactions demonstrates the degree to which the direct expenses of each function of the District's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, charges paid by the recipients of goods, services, or privileges provided by a given function or activity, and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

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

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Proprietary funds are used to report business-type activities carried on by a governmental unit. Not activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

2. Fund Financial Statements

Governmental fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses.

Funds are organized into one major category: governmental. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.

Governmental Funds

General Fund – To account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects); that are restricted or committed to expenditures for specified purposes. These funds include the Ditch #1, #2, #4, #5, #7, #8, #16, #17, and #18 funds.

C. Budgets and Budgetary Accounting

Prior to September 1st, the Board of Managers adopts an annual budget for expenditures. This budget is used as the basis for current year property tax levies. Public hearings are conducted to obtain taxpayer comments. The budget versus actual is presented only for the general fund and does not include expected revenues or detail for some expenditures.

D. Measurement Focus and Basis of Accounting

The District's financial statements are prepared on the cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The government-wide financial statements are reported using the current resources measurement focus, within the limitations of the cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions.

Governmental fund financial statements are reported using the current financial resources measurement focus as applied to the cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenditures when they result from cash transactions. As a result of the use of the cash

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payables, unpaid goods and services received in the current year, and accrued expenses) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the government-wide financial statements would be presented on the accrual basis of accounting.

E. Assets, Liabilities, and Cash Fund Balance

1. Cash and Cash Equivalents

The District recognizes as cash currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposit, which do not have penalties or terms with them that effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

The District recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

The District pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements.

2. Cash Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in Governmental Funds.

- a. **Governmental Cash Fund Balances:** In the governmental fund financial statements, cash fund balances are classified as follows:
 - **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. There is no nonspendable cash fund balance at December 31, 2018.
 - **Restricted** – Amounts that can be spent only for specific purposes, because of state or federal laws, or externally imposed conditions by grantors or creditors.

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Cash Fund Balance (Continued)

2. Cash Fund Balance (Continued)

The District has the following restricted fund balances as of December 31, 2018:

Special Revenue Funds	
Ditch #1	\$ 6,432
Ditch #2	17,999
Ditch #4	12,169
Ditch #5	4,733
Ditch #7	28,656
Ditch #8	16,941
Ditch #16	1,153
Ditch #17	1,810
Ditch #18	4,021
Total All Funds	\$93,914

- **Committed** – Amounts that can be used only for specific purposes, determined by a formal action; by the Board of Managers ordinance or resolution. There is no committed cash fund balance at December 31, 2018.
- **Assigned** – Amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed.

The District has the following assigned fund balances as of December 31, 2018:

General Fund	
Named Projects	\$9,103

- **Unassigned** – All amounts not included in other spendable classifications.

The District has the following unassigned balances as of December 31, 2018:

General Fund	
Administration	\$623,070

- a. **Governmental Cash Fund Balances:** The District has not formally adopted a fund balance policy for the General Fund.

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. Use of Restricted Resources: The District does not have a fund balance policy. If resources from more than one fund balance classification could be spent, it is expected that the Board of Managers will spend resources from fund balance classifications in the following order (first to last, according to the hierarchy set forth by the standard): restricted, committed, assigned, and unassigned or, as special circumstances arise, pending Board approval.

3. Capital Assets

In the Fund Financial Statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental funds upon acquisition. The District owns office furniture that is housed in their primary workspace in Minnesota. Due to the immateriality, these assets are not reported as Capital Assets.

F. Receipts and Disbursements

1. Receipts

Property Tax Revenue

The District levies its property taxes within the District for the subsequent year during the month of December. Lyon, Yellow Medicine, and Lincoln counties are the collecting agencies for the levy and remit these collections to the District. The District receives its taxes in two installments in July and December.

The District also levies special assessments through the counties against property owners who obtain direct benefits from projects. The special assessment collections are recorded in a manner similar to that for property taxes.

2. Disbursements

The District disburses funds as approved by the District's Board of Managers.

G. Budgetary Information

Annual budgets for the General Fund are adopted on the cash basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or as amended by the Board of Managers. The original and final budget for the General Fund is presented in the supplementary information. All annual appropriations lapse at year-end.

2 DETAILED NOTES ON ACCOUNTS

A. Deposits and Investments

Deposits:

Minnesota Statute 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institutions banking day, not covered by insurance or bonds.

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. DETAILED NOTES ON ACCOUNTS (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better, irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department at a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

As of December 31, 2018, the carrying amount of the District’s demand deposits with financial institutions was \$726,743 and the bank balance was \$727,993. All of the bank balance was covered by federal depository insurance at year-end.

A reconciliation of cash as shown on the Combined Balance Sheet for the District as of December 31, 2018, follows:

Checking	\$	1,413	
Savings		<u>726,580</u>	
Carrying Amount of Deposits	\$	<u>727,993</u>	

Investments:

The District may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligation rated “AA’ or better; general obligations of the Minnesota Housing Agency rated “A” or better; bankers’ acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment contracts guaranteed by a United States commercial bank, domestic branch, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District does not have any investment policies that would further limit investment choices.

The District does not carry any investments on its financial statements as of December 31, 2018.

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the Yellow Medicine River Watershed District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (accounted for in the General Employees Fund), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for members of the General Employees Plan vest after five years of credited service. The defined benefit retirement plan benefits are based on a member's highest average salary for any 60 successive months of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated Plan 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 a Coordinated Plan members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary 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 participants each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1 percent. A benefit recipient who has been receiving a benefit for at least 12 months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state Legislature. The Yellow Medicine River Watershed District makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Coordinated Plan members were required to contribute 6.5 percent, respectively, of their annual covered salary in 2018. In 2018, the Yellow Medicine River Watershed District was required to contribute the following percentages of annual covered payroll: 7.5 percent for Coordinated Plan members.

**Yellow Medicine River Watershed
District
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. DEFINED BENEFIT PENSION PLANS – STATEWIDE – (Continued)

The Yellow Medicine River Watershed District contributions to the General Employees Fund for the year ending December 31, 2018 was \$4,726.

C. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

4. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The District's management is not aware of any incurred but not reported claims.

B. Statement of Orders Issued

The District publishes the minutes showing to whom and for what orders are drawn. For this reason this schedule is not included in the financial statements.

DANIELLE L. BERG, LTD.

Certified Public Accountant

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

Members of the Council
Yellow Medicine River Watershed Conservation District
Minneota, Minnesota

We have audited, in accordance with the 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, the business-type activities, each major fund, and the aggregate remaining fund information of Yellow Medicine River Watershed Conservation District, Minnesota as of and for the year ended December 31, 2018, and the related remaining fund information of Yellow Medicine River Watershed Conservation District, Minnesota's basic financial statements and have issued our report thereon dated July 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Yellow Medicine River Watershed Conservation District, Minnesota'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 the Yellow Medicine River Watershed Conservation District, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Yellow Medicine River Watershed Conservation District, Minnesota's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2018-001 and 2018-002.

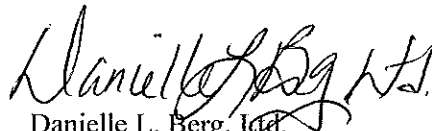
A *significant deficiency* is a *deficiency*, or combination of deficiencies, in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine River Watershed Conservation District, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under *Government Auditing Standards*.

The Yellow Medicine River Watershed Conservation District, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Yellow Medicine River Watershed Conservation District, Minnesota'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.

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.


Danielle L. Berg, Iad.
Certified Public Accountant

July 20, 2020

Yellow Medicine River Watershed District
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING DECEMBER 31, 2018

Prior Audit:

2017-001: Segregation of Duties is repeated as item 2018-001.

2017-002: Lack of Expertise is repeated as item 2018-002.

Yellow Medicine River Watershed District
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

CURRENT AUDIT YEAR FINDINGS AND RESPONSES

Internal Controls:

2018-001 Lack of segregation of duties

Deficiency: The District has limited personnel available to perform accounting duties

Criteria: A good internal control contemplates an adequate segregation of duties so that no one individual handles transactions from inception to completion.

Cause: The District indicated that it has a limited number of employees. Therefore, the District cannot adequately segregate accounting duties.

Effect: As a result of the lack of segregation of duties, personnel are performing duties for which, internal control purposes, should be performed by separate individuals.

Recommendation: While we recognize that the District is not large enough to permit adequate segregation of duties in all respects, it is important that you be aware of this deficiency and design internal controls to provide for proper segregation of duties where possible. This comment should not reflect negatively on the staff and is based solely on staff size.

Response: This is not unusual in a organization of this size. The District has studied the situation and found that it is not economically feasible to design the system of internal controls to adequately provide for the segregation of duties.

Corrective Plan of Action: The Board will monitor personnel duties.

2018-002 Lack of expertise by District personnel to prepare accrual basis financial statements

Condition: The District personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles. The District auditor prepared the financial statements as of December 31, 2018.

Criteria: Internal controls should be in place that provide reasonable assurance that the financial statements are prepared in accordance with generally accepted accounting principles.

Cause: The District could put together the financial statements on the accrual basis of accounting, however, they have requested assistance in ensuring all required disclosures are properly included and changes made by GASB are implemented.

Effect: The District's personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Recommendation: The District should provide personnel with adequate training to develop expertise to prepare financial statements in accordance with generally accepted accounting principles.

Response: This is not unusual in an organization of this size. It is not economically feasible for the District to provide the necessary training for personnel to acquire and maintain this expertise.

Corrective Plan of Action: The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

DANIELLE L. BERG, LTD.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE


Board of Directors
Yellow Medicine River Watershed District
122 North Jefferson
Minneota, MN 56264

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 Yellow Medicine River Watershed District, as of and for the year ending December 31, 2018 and the related notes to the financial statements, and have issued our report thereon dated July 20, 2020.

The *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, contains seven 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 study included all of the listed categories except tax increment financing and public indebtedness that does not apply to this Entity.

In connection with our audit, nothing came to our attention to indicate that the Yellow Medicine River Watershed District, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*. 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 Yellow Medicine River Watershed District, 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, is not suitable for any other purpose.


Danielle L. Berg, Ltd.
Certified Public Accountant

July 20, 2020