YELLOW MEDICINE RIVER WATERSHED DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2023

YELLOW MEDICINE RIVER WATERSHED DISTRICT
MINNEOTA, MINNESOTA
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

YELLOW MEDICINE RIVER WATERSHED DISTRICT
MINNEOTA, MINNESOTA
BOARD OF MANAGERS AND APPOINTED OFFICIAL
DECEMBER 31, 2023

MANAGERS:

Name	Title
Randall Kamrath	President
Bill Briggs	Vice President
Darwyn Bach	Secretary
Tim Buysse	Treasurer
Faith Olsen	Public Relations

STAFF:

Michelle Overholser	Administrator

PETERSON COMPANY LTD
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Yellow Medicine River Watershed District
Minneota, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Yellow Medicine River Watershed District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Yellow Medicine River Watershed District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Yellow Medicine River Watershed District, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Yellow Medicine River Watershed District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Yellow Medicine River Watershed District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Yellow Medicine River Watershed District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Although not a part of the basic financial statements, such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules on pages 22-23, the defined benefit pension plan schedules on page 24, and the notes to the required supplementary information on pages 25-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information. The other information comprises the district's organizational information under the introductory section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2024, on our consideration of Yellow Medicine River Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of 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 the Yellow Medicine River Watershed District's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 12, 2024

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023

		Governmental Activities
Assets:		
Cash	$	470,055
Due from other governments		333,674
Prepaid expenses		1,260
Taxes receivables, current		3,857
Capital assets:		
Vehicle		10,682
Total Assets		819,528
Deferred Outflows of Resources:		
Deferred benefit pension plan		39,630
Combined Assets and Deferred Outflows of Resources	$	859,158
Liabilities:		
Current Liabilities:		
Accounts payable	$	1,396
Accrued wages and payroll taxes		9,861
Unearned revenue		25,000
Long-term Liabilities:		
Net pension liability		95,062
Compensated absences		21,947
Total Liabilities		153,266
Deferred Inflows of Resources:		
Deferred benefit pension plan		35,865
Combined Liabilities and Deferred Inflows of Resources	$	189,131
Net Position:		
Non-spendable - Prepaid expenses	$	1,260
Restricted - Ditches		130,618
Unrestricted		538,149
Total Net Position	$	670,027

See accompanying Notes to the Financial Statements.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023

		Program Revenues			Net (Expense) Revenue and Net Position
Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	$ 287,531	$ 6,817	$ -	$ -	$ (280,714)
Programs	941,672	-	943,618	-	1,946
Total Governmental Activities	$ 1,229,203	$ 6,817	$ 943,618	$ -	(278,768)
	General Revenues:				
	General property taxes/assessments				367,356
	Unrestricted interest earnings				847
	Miscellaneous				1,431
	Total General Revenues				369,634
	Change in Net Position				90,866
	Net Position - January 1				579,161
	Net Position - December 31				$ 670,027

See accompanying Notes to the Financial Statements.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	General Fund	Special Revenue Funds (Ditches)	Intra-Activity Elimination	Total Governmental Funds
Assets				
Cash	$ 470,055	$ -	$ -	$ 470,055
Taxes receivable, current	3,857	-	-	3,857
Due from other governments	333,674	-	-	333,674
Due from other funds	-	130,618	(130,618)	-
Prepaid expenses	1,260	-	-	1,260
Total Assets	$ 808,846	$ 130,618	$ (130,618)	$ 808,846
Liabilities:				
Accounts payable	$ 1,396	$ -	$ -	$ 1,396
Accrued wages and payroll taxes	9,861	-	-	9,861
Unearned revenue	25,000	-	-	25,000
Due to other funds	130,618	-	(130,618)	-
Total Liabilities	166,875	-	(130,618)	36,257
Fund Balances				
Restricted - Ditches	-	130,618	-	130,618
Unassigned	641,971	-	-	641,971
Total Fund Balances	641,971	130,618	-	772,589
Total Liabilities and Fund Balances	$ 808,846	$ 130,618	$ (130,618)	$ 808,846

See accompanying Notes to the Financial Statements.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2023

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

Total Fund Balances - Governmental	$	772,589
Capital assets used in governmental funds are not financial resources and therefore are not reported in funds. The asset is:		
Vehicle		10,682
Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Compensated absences		(21,947)
Net pension liability		(95,062)
Governmental funds do not report long-term amounts related to pensions.		
Deferred outflow of resources		39,630
Deferred inflow of resources		(35,865)
Total Net Position - Governmental Activities	$	670,027

See accompanying Notes to the Financial Statements.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Special Revenue Funds	Total Governmental Funds
Revenues			
Intergovernmental			
Reimbursements/grants	$ 943,618	$ -	$ 943,618
Property taxes/assessments	306,353	61,003	367,356
Interest income	847	-	847
Charges for services	-	6,817	6,817
Miscellaneous	1,051	380	1,431
Total Revenues	1,251,869	68,200	1,320,069
Expenditures			
Current:			
General government:			
Audit	4,550	-	4,550
Beaver control	4,647	-	4,647
Dues and subscriptions	7,221	-	7,221
Insurance	6,082	-	6,082
Notice/publishing	171	-	171
Office expenses	4,860	-	4,860
Travel	3,164	-	3,164
Meetings	4,500	-	4,500
Mileage	3,103	-	3,103
Rent	8,400	-	8,400
Wages and per diem	154,242	-	154,242
Payroll taxes and benefits	49,663	-	49,663
Reimbursements	922	-	922
Supplies	5,220	-	5,220
Programs:			
Labor	5,327	-	5,327
Cost-Share	928,314	-	928,314
Technical assistance	2,431	-	2,431
Project materials	5,600	-	5,600
Total Expenditures	1,198,417	-	1,198,417
Net Change in Fund Balances	53,452	68,200	121,652
Fund Balances - January 1	588,519	62,418	650,937
Fund Balances - December 31	$ 641,971	$ 130,618	$ 772,589

See accompanying Notes to the Financial Statements.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
RECONCILIATION OF THE
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

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

Total Net Change in Fund Balances - Governmental Funds	$ 121,652
Long-term pension activity is not reported in governmental funds.	
Pension expense	(15,703)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Depreciation expense	(7,121)
Compensated absences	(7,962)
Change in Net Position - Governmental Activities	$ 90,866

See accompanying Notes to the Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Yellow Medicine River Watershed District (the “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 an area 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 purpose of the District is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitats and water recreational facilities.
- Secure all other benefits associated with the proper management of surface and groundwater.

The District was formed to meet the requirements of Minnesota Statutes 103D. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The financial statements present the District and its component units. The District includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or if there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

Blended Component Units – Reported as if they were part of the District.

Joint Ventures and Jointly Governed Organizations – The relationship of the District with the entity is disclosed.

Related Organization – The relationship of the District with the entity is disclosed.

As a result of applying the component unit definition criteria above, we have not identified any organizations that are considered to be component units of the District.

Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the District. Governmental activities are normally supported by intergovernmental revenues and tax revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Fund Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general government revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues to be available if they are collected within 60 days of the end of the current period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

The District reports the following major governmental funds:

> The General Fund is the District's general operating fund. It is used to account for financial resources to be used for general administrative expenditures and programs of the District.
>
> The Special Revenue Funds are used to account for the proceeds of specific revenue sources 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash

Cash consists of a checking account and a savings account.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Due from Other Governments

Due from other governments are recorded for state grant amounts that were received after year-end and all eligibility requirements were met.

Prepaid Expenses

Prepaid expenses are for items that will provide future benefit over the next twelve months.

Tax Receivable

The Board of Managers annually adopts a tax levy and certifies it to the County in September (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. The District has no ability to enforce payments of property taxes by property owners. The County possesses this authority. Taxes not collected as of December 31 each year are shown as tax receivable.

Capital Assets

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Vehicles are 5 years. The District does not currently have a threshold for capitalizing assets purchased.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”.

Unearned Revenue

Unearned revenue is recorded for amounts of state grants received prior to satisfying all eligibility requirements imposed by the providers.

Compensated Absences

Under the District’s personnel policies, employees are granted vacation and sick leave pay in varying amounts based on their length of service. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements, and are payable with expendable available resources.

Payments for vacation and sick leave pay will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave pay liabilities on December 31, 2023 are determined on the basis of current salary rates and include salary related payments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Pensions

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

Deferred Outflows of Resources

The financial statements for the District contain deferred outflows of resources. A deferred outflow of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has one type of deferred outflow which is pension related.

Deferred Inflows of Resources

The financial statements for the District contain deferred inflows of resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of deferred inflow which is pension related.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. These classifications are as follows:

Non-spendable – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributiors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

Committed – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision-making authority, which is the Board of Managers, and that remain binding unless removed by subsequent formal action of the Board of Managers.

Assigned – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the Administrative Fund, that are not classified as non-spendable, restricted, or committed. Assignments are made by the District's Administrator based on the Board of Manager's direction.

Unassigned – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of non-spendable, restricted, and committed fund balances exceed the total net resources of that fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Fund Balance Classifications (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

Change in Accounting Principle

Effective January 1, 2023, the District adopted GASB 96, *Subscription-Based Technology Arrangements*. The new standard establishes a right of use subscription asset and a corresponding liability that amortizes over the subscription term for all arrangement with terms longer than 12 months. The District only has short-term arrangements; therefore, this new standard will not affect them.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. As of December 31, 2023, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

The District did not have formal policies in place as of December 31, 2023, to address custodial credit risk for deposits. The District also did not have policies in place to address credit risk, concentration of credit risk, interest rate risk and custodial credit risk for investments.

Total deposits at December 31, 2023, were as follows:

Checking	$ 15,332
Savings	454,723
Total deposits	$ 470,055

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2023 was as follows:

	Beginning	Addition	Deletion	Ending
Vehicles	$ 35,606	$ -	$ -	$ 35,606
Less: Accumulated Depreciation	17,803	7,121	-	24,924
Net Capital Assets	$ 17,803			$ 10,682

Current year depreciation is $7,121.

NOTE 4 – UNEARNED REVENUE

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2023, consisted of 2023 One Watershed One Plan Mid-Point for $25,000.

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in the District’s long-term liabilities for the year ended December 31, 2023:

	January 1, 2023	Increases	Decreases	December 31, 2023
Net Pension Liability	$ 126,721	$ -	$ 31,659	$ 95,062
Compensated Absences	13,985	7,962	-	21,947
Total	$ 140,706	$ 7,962	$ 31,659	$ 117,009

Vacation and Sick Leave Pay

Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 8 hours per month. The limit on the accumulation of vacation leave is 240 hours and the limit on the accumulation of sick leave is 400 hours. Upon termination of employment from the District, in good standing, employees are paid accrued annual leave and 50% of any unused sick leave hours. If an employee terminates their position due to illness or death, they will be paid accrued annual leave and any unused sick leave hours, up to 400 hours. If an employee retires and has a minimum of 10 years with the District, they will be paid accrued annual leave and any unused sick leave hours, up to 400 hours.

Compensated Absences Payable

The amount of the estimated obligation at December 31, 2023 was $21,947. The District’s General Fund finances compensated absences when employees terminate their employment from the District.

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

The amount due to the Special Revenue Funds (Ditches) fund from the Administrative (General) fund represents accruals for short-term borrowing for cash flow purposes.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; workers' compensation claims; or natural disasters. The District has entered into an agreement with the League of Minnesota Cities to cover its liabilities for workers compensation and property and casualty. There were no significant reductions of insurance coverage from the prior year. There have been no settlements in excess of the District's insurance coverage for any of the past three years.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 Coordinated members is 1.20 percent for each of the first 10 years of service and 1.70 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.70 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before retirement age.

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2023, were $10,751. The District's contributions were equal to the required contributions as set by state statute.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs

At December 31, 2023, the District reported a liability of $95,062 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $2,550.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was .0017 percent at the end of the measurement period and .0016 percent for the beginning of the period.

The District's proportionate share of the net pension liability	$	95,062
State of Minnesota's proportionate share of the net pension liability associated with the District		2,550
Total	$	97,612

For the year ended December 31, 2023, the District recognized pension expense of $15,703 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $11 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2023, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,079	$ 578
Changes in actuarial assumptions	14,659	26,056
Net difference between projected and actual investment earnings	-	9,231
Changes in proportion	16,068	-
Contributions paid to PERA subsequent to the measurement date	5,824	-
Total	$ 39,630	$ 35,865

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs (Continued)

The $5,824 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2024	$ 9,387
2025	(11,956)
2026	2,995
2027	(2,485)

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Domestic Equity	33.5	5.10
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Total	100.00	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.00 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.00 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of $170.10 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of the GERF net pension liability:	$ 168,172	$ 95,062	$ 34,926

Pension Plan Fiduciary Net Position

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

NOTE 10 - SUBSEQUENT EVENTS

The District has evaluated events and transactions for potential recognition or disclosure through November 12, 2024, the date the financial statements were available to be issued.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental				
Reimbursements/grants	$ 25,000	25,000	$ 943,618	$ 918,618
Property taxes/assessments	248,044	248,044	306,353	58,309
Interest income	500	500	847	347
Permit/fines	1,500	1,500	-	(1,500)
Miscellaneous	500	500	1,051	551
Total Revenues	275,544	275,544	1,251,869	976,325
Expenditures				
Current:				
General government:				
Audit	5,000	5,000	4,550	450
Beaver control	5,000	5,000	4,647	353
Dues and subscriptions	7,000	7,000	7,221	(221)
Education	10,000	10,000	-	10,000
Equipment	4,000	4,000	-	4,000
Insurance	5,000	5,000	6,082	(1,082)
Legal fees	5,000	5,000	-	5,000
Notice/publishing	250	250	171	79
Office expenses	5,500	5,500	4,860	640
Travel	-	-	3,164	(3,164)
Meetings	5,000	5,000	4,500	500
Mileage	7,000	7,000	3,103	3,897
Rent	8,400	8,400	8,400	-
Wages and per diem	172,000	172,000	154,242	17,758
Payroll taxes and benefits	70,000	70,000	49,663	20,337
Software	3,000	3,000	-	3,000
Reimbursements	-	-	922	(922)
Supplies	2,000	2,000	5,220	(3,220)
Programs:				
Labor	-	-	5,327	(5,327)
Cost-Share	65,000	65,000	928,314	(863,314)
Technical assistance	-	-	2,431	(2,431)
Project materials	-	-	5,600	(5,600)
Total Expenditures	379,150	379,150	1,198,417	(819,267)
Net Change in Fund Balances	(103,606)	(103,606)	53,452	157,058
Fund Balances - January 1	588,519	588,519	588,519	-
Fund Balances - December 31	$ 484,913	$ 484,913	$ 641,971	$ 157,058

See accompanying Notes to the Required Supplementary Information.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Projects	$ 10,000	$ 10,000	$ 6,817	$ (3,183)
Property tax/assessments	-	-	61,003	61,003
Miscellaneous	-	-	380	380
Total Revenues	10,000	10,000	68,200	58,200
Net Change in Fund Balances	10,000	10,000	68,200	58,200
Fund Balances - January 1	62,418	62,418	62,418	-
Fund Balances - December 31	$ 72,418	$ 72,418	$ 130,618	$ 58,200

See accompanying Notes to the Required Supplementary Information.

YELLOW MEDICINE RIVER WATERSHED DISTRICT
MINNEOTA, MINNESOTA

SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2023

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 1,385	$ 1,385	$ -	$ 18,467	7.50%
2016	$ 4,318	$ 4,318	$ -	$ 57,573	7.50%
2017	$ 7,986	$ 7,986	$ -	$ 106,480	7.50%
2018	$ 4,726	$ 4,726	$ -	$ 63,013	7.50%
2019	$ 5,357	$ 5,357	$ -	$ 71,427	7.50%
2020	$ 7,266	$ 7,266	$ -	$ 96,881	7.50%
2021	$ 8,450	$ 8,450	$ -	$ 112,667	7.50%
2022	$ 9,405	$ 9,405	$ -	$ 125,400	7.50%
2023	$ 10,751	$ 10,751	$ -	$ 143,372	7.50%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each year-end were determined December 31.

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2023

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0013%	$ 67,373	$ -	$ 67,373	$ 76,177	88.44%	78.19%
2016	0.0006%	$ 48,717	$ 628	$ 49,345	$ 40,497	121.85%	68.90%
2017	0.0015%	$ 95,759	$ 1,239	$ 96,998	$ 97,617	99.37%	75.90%
2018	0.0012%	$ 66,571	$ 2,114	$ 68,685	$ 79,438	86.46%	79.50%
2019	0.0009%	$ 49,759	$ 1,500	$ 51,259	$ 62,394	82.15%	80.20%
2020	0.0011%	$ 65,950	$ 1,973	$ 67,923	$ 82,848	81.99%	79.10%
2021	0.0015%	$ 64,057	$ 2,025	$ 66,082	$ 105,540	62.61%	87.00%
2022	0.0016%	$ 126,721	$ 3,609	$ 130,330	$ 114,608	113.72%	76.70%
2023	0.0017%	$ 95,062	$ 2,550	$ 97,612	$ 131,240	74.38%	83.10%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30.

NOTE 1 – DEFINED BENEFIT PENSION PLAN – CHANGES IN ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS

The following changes were reflected in the valuation of the General Employees Retirement Plan performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

2023 -

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

2022 –

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

2021 –

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

2020 -

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality project scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

NOTE 1 – DEFINED BENEFIT PENSION PLAN – CHANGES IN ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS (CONTINUED)

2017 - The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent for year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

NOTE 2 – DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS

The following changes were reflected in the valuation of the General Employees Retirement Plan performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

2023 -

- An additional one-time direct state aid contribution of $170.10 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 – There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State’s special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

NOTE 2 – DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS (CONTINUED)

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State’s contribution for the Minneapolis Employees Retirement Fund equals $16.0 million in 2017 and 2018, and $6.0 million thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21.0 million to $31.0 million in calendar years 2019 to 2031. The state’s contribution changed from $16.0 million to $6.0 million in calendar years 2019 to 2031.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Managers adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures $1,198,417; Budget $379,150; Excess $819,267.

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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*

To the Board of Managers
Yellow Medicine River Watershed District
Minneota, 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 Yellow Medicine River Watershed District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Yellow Medicine River Watershed District's basic financial statements, and have issued our report thereon dated November 12, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yellow Medicine River Watershed District's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Yellow Medicine River Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Yellow Medicine River Watershed District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001, 2023-002, and 2023-003, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine River Watershed District's financial statements are free from 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 financial statements. 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.*

Yellow Medicine River Watershed District's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the internal control findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Yellow Medicine River Watershed District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely 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 the effectiveness of the entity's internal control over financial reporting 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.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 12, 2024

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

To the Board of Managers
Yellow Medicine River Watershed District
Minneota, 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 Yellow Medicine River Watershed District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Yellow Medicine River Watershed District's basic financial statements, and have issued our report thereon dated November 12, 2024.

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

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

November 12, 2024

2023-001: Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition and Context: Substantially all accounting procedures are performed by one person.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective way.

Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud, including misappropriation of assets, could occur and not be detected within a timely basis.

Prior Year Finding: Yes, 2022-001.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of account. Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Managers.

2023-002: Financial Statement Presentation

Criteria: The District's management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition and Context: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management has accepted responsibility for the financial statements and reviewed them.

Cause: The District has a limited number of personnel with financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the District to report its financial data consistently with the assertions of the management in the financial statements.

Prior Year Finding: Yes, 2022-002.

Recommendation: We recommend that the District be aware of the requirements for fair presentation of the financial statements in accordance with the generally accepted accounting principles. Should the District elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us; complete the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

Management Response: The District understands that this is required communications for the preparation of the financial statements.

2023-003: Audit Adjustments

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions, including account coding, reporting of accruals, and net position.

Condition and Context: As part of the audit, we proposed material adjustments and reclassified transactions to the proper accounts for preparing note disclosures. Management has reviewed and approved the audit adjustments.

Cause: The District has a limited number of personnel with financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the District to provide accurate accrual basis financial information.

Prior Year Finding: Yes, 2022-003.

Recommendation: We recommend that District management be constantly aware of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

Management Response: The District will continue to work at eliminating the need for audit adjustments.