

**HERON LAKE  
WATERSHED DISTRICT  
AUDITED FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2020**

# HERON LAKE WATERSHED DISTRICT

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# HERON LAKE WATERSHED DISTRICT

## SCHEDULE OF MANAGERS AND OFFICIALS

DECEMBER 31, 2020

		<u>Term Expires</u>
Wayne Rasche	President	2-24-23
Bruce Leinen	Vice President	2-24-21
Harvey Kruger	Secretary	2-24-21
Mark Bartosh	Treasurer	2-24-22
Cory Reith	Manager	2-24-23
Jan Voit	District Administrator	Indefinite
Catherine Wegehaupt	Watershed Technician	Indefinite

**DANIELLE L. BERG, LTD**  
**Certified Public Accountant**

PO Box 262  
Slayton, MN 56172

Danielle Berg, CPA

432 Legion Field Road  
Marshall, MN 56258

(507) 836-8505  
Fax 507-836-8505  
dlbergcpa@gmail.com

Pamela Jacobson  
Kristel Nelson

Wendy Forsberg  
Sabrina Vosberg

(507) 532-9674  
Fax 507-532-9676

INDEPENDENT AUDITOR'S REPORT

Heron Lake Watershed District  
PO Box 345  
Heron Lake, MN 56137

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Heron Lake Watershed District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Heron Lake Watershed District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Heron Lake Watershed District, as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Required Supplementary Information as listed in the table of contents 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 November 29, 2021, on our consideration of the Heron Lake 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 effectiveness of the Heron Lake Watershed District's 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 Heron Lake Watershed District's internal control over financial reporting and compliance.

Danielle L. Berg, Ltd.  
Certified Public Accountant

November 29, 2021

HERON LAKE WATERSHED DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash in Checking	\$ 349,406
Investment Certificates	204,657
Restricted Assets	
Restricted Cash	269,213
Loans Receivable	200,344
Accounts Receivable	3,563
Grants Receivable	5,474
Delinquent Taxes Receivable	1,820
Due from Other Governmental Units - HLWD Public Drainage System Projects	9,645,032
Capital Assets:	
Nondepreciable	18,000
Depreciable, Net of Accumulated Depreciation	3,075
Total Assets	<u>\$ 10,700,584</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources from PERA (GERF)	<u>\$ 15,165</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 10,715,749</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 550,162
Accrued Salaries and Wages	993
Accrued Interest Payable	358
Unearned Revenue	45,824
Accrued Compensated Absences	17,856
Lines of Credit	9,031,765
Long-Term Liabilities:	
Due to Other Governmental Units (MPCA)	
Due Within One Year	104,327
Due in More Than One Year	365,435
Net Pension Liability PERA (GERF and PEPFF)	89,932
Total Liabilities	<u>\$ 10,206,652</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Resources from PERA (GERF)	<u>\$ 16,421</u>
Total Deferred Inflows of Resources	<u>\$ 16,421</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 21,075
Restricted for Debt Service - Expendable	469,557
Unrestricted	2,044
Total Net Position	<u>\$ 492,676</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 10,715,749</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

HERON LAKE WATERSHED DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020

	PROGRAM REVENUES				TOTAL
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	
<b>FUNCTIONS/PROGRAMS</b>					
Governmental Activities:					
General Government	\$ 228,346		\$ 1,887	\$ (226,459)	\$ (226,459)
Summer Interns	3,300			(3,300)	(3,300)
Continuation Loan Program	71,097	8,731	61,254	(1,112)	(1,112)
DNR PILT			2,116	2,116	2,116
DNR WMA Wetland Restoration	21,056		21,661	605	605
MDA Cover Crop Effect on Soil Moisture & Temperature	3,640		2,640	(1,000)	(1,000)
SHL TMDL Implementation	9,600		11,098	1,498	1,498
Heron Lake Area Conservation	19,888		21,379	1,491	1,491
MDA Pesticide Monitoring			2,600	2,600	2,600
USFWS Grant			40	40	40
Public Drainage Systems	1,056,174	1,083,453		27,279	27,279
Fulda Pond Project	40,000		12,000	(28,000)	(28,000)
L2L Project	1,707		3,325	1,618	1,618
Water Quality Monitoring Program	9,717		26	(9,691)	(9,691)
<b>Total Governmental Activities</b>	<b>\$ 1,464,525</b>	<b>\$ 1,092,184</b>	<b>\$ 140,026</b>	<b>\$ (232,315)</b>	<b>\$ (232,315)</b>
General Revenues:					
Property Taxes				\$ 243,790	\$ 243,790
Unrestricted State Aid				7,415	7,415
Miscellaneous				4,977	4,977
Unrestricted Investment Earnings				4,773	4,773
<b>Total General Revenues and Transfers</b>				<b>\$ 260,955</b>	<b>\$ 260,955</b>
Changes in Net Position				\$ 28,640	\$ 28,640
Net Position - Beginning				464,036	464,036
Net Position - Ending				<u>492,676</u>	<u>492,676</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HERON LAKE WATERSHED DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020

	<u>GENERAL FUND</u>
<b>ASSETS</b>	
Cash in Bank - Checking	349,406
Cash in Bank - Certificates of Deposit	204,657
Restricted Assets	
Cash and Cash Equivalents	269,213
Delinquent Taxes Receivable	1,820
Accounts Receivable	3,563
Grants Receivable	5,474
Loans Receivable - MPCA Loan Program	200,344
Due from Other Governmental Units - HLWD Public Drainage System Projects	<u>9,645,032</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>10,679,509</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 550,162
Accrued Payroll and Employee Benefits	993
Accrued Interest Payable	358
Lines of Credit	9,031,765
Unearned Revenue - Minnesota Department of Agriculture Sustainable Ag Grant Program - Cover Crop Effects on Soil Moisture and Soil Temperature	1,704
Unearned Revenue - TMDL Implementation	42,650
Unearned Revenue - Heron Lake Area Conservation Program	1,470
Due to Other Governmental Units: MPCA	<u>469,762</u>
Total Liabilities	<b>\$ <u>10,098,864</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows from Delinquent Taxes	\$ 1,820
Total Deferred Inflows of Resources	<u>\$ 1,820</u>
<b>FUND BALANCE</b>	
Nonspendable	\$ 200,344
Restricted for	
MPCA	269,213
MDA Sustainable Ag Grant Program - Cover Crop Effects on Soil Moisture and Soil Temperature	1,704
South Heron Lake TMDL Implementation	42,650
Heron Lake Area Conservation Program	1,470
Unassigned	<u>63,444</u>
Total Fund Balance	<b>\$ <u>578,825</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ <u>10,679,509</u></b>

The Accompanying Notes are an Integral Part of the Financial Statements



HERON LAKE WATERSHED DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2020

Total Fund Balances for Governmental Funds \$ 578,825

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

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

Land	\$	18,000	
Vehicles and Equipment, Net of \$32,014 Accumulated Depreciation		3,075	21,075

Governmental funds report delinquent and deferred property taxes as deferred income until such time as they are actually collected. In the statement of net assets, this item is not offset with a deferred liability.

Deferred Property Taxes	\$	1,820	1,820
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Long-term liabilities that pertain to governmental funds, including pensions payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year end are:

GERF Net Pension Liability	\$	(89,932)	
Compensated Absences Payable		(17,856)	(107,788)

Deferred Outflows of Resources and Deferred Inflows of Resource that pertain to the City's proportionate share in the GERS and PEPFF retirement plan are not recorded in the fund financial statements. Per GASB 68, these items must be recorded in the government-wide financial statements. The balances at year-end are:

Deferred Outflows of Resources Related to Pension	\$	15,165	
Deferred Inflows of Resources Related to Pensions		(16,421)	(1,256)

Total Net Position of Governmental Activities \$ 492,676

HERON LAKE WATERSHED DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	GENERAL FUND
REVENUES	
General Property Taxes	\$ <u>243,790</u>
Intergovernmental Revenues	
State Aids:	
MV Credit Real/Agricultural	\$ 7,415
Continuation Loan Program	61,379
South Heron Lake TMDL Implementation	1,498
South Heron Lake TMDL Implementation Phase 3	9,600
Department of Natural Resources	
PILT	2,116
Toe WMA Wetland Restoration	21,661
Heron Lake Area Conservation Partnership	21,379
Minnesota Department of Agriculture Cover Crop	
Effects on Soil Moisture and Soil Temperature	2,640
Minnesota Department of Agriculture Pesticide Monitoring	2,600
Total State Aids	\$ <u>130,288</u>
Federal Aids	
USFWS Grant	\$ 40
Total Federal Aids	\$ <u>40</u>
Total Intergovernmental Revenues	\$ <u>130,328</u>
Other Revenues:	
Interest and Dividends	\$ 4,773
Interest - Continuation Loan Program	8,606
Donations	1,887
Jackson County Ditch 3	1,907
Jackson County Judicial Ditch 3	8,377
Jackson County Judicial Ditch 14	8,115
Jackson County Judicial Ditch Number 19	977,020
Jackson County Judicial Ditch Number 30	62,570
Jackson County Judicial Ditch Number 36	2,472
Jackson County Judicial Ditch 3 - Lateral O3	149
Jackson County Judicial Ditch 3 - Lateral S4	149
Jackson County Judicial Ditch 3 - Lateral A	182
Jackson County Judicial Ditch 3 - Lateral A1	182
Jackson County Judicial Ditch 3 - Lateral C	182
HLWD Project 2	19,003
HLWD Project 6	3,145
L2L Reimbursements	3,325
Fulda Pond Project Reimbursement	12,000
Water Quality Monitoring Program Reimbursement	26
Miscellaneous	4,977
Total Other Revenues	\$ <u>1,119,047</u>
TOTAL REVENUES	\$ <u><u>1,493,165</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

HERON LAKE WATERSHED DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	GENERAL FUND
EXPENDITURES	
General Government	
Advertising and Notices	\$ 1,015
Annual Financial Accountability Newsletter	1,736
Annual Report	1,644
Bank Charges	76
Board and Staff	172,150
Conferences and Seminars	511
Insurance and Bonding	3,980
Legal	29,040
Office Supplies	3,570
Membership Dues	6,030
Miscellaneous	227
Postage	752
Professional Fees	7,867
Rent	6,600
Telephone	1,471
Travel	996
PEBC Tour/Education	250
Vehicle Expense	3,124
Website	503
Capital Outlay - Equipment	2,380
State Grant Projects	
Minnesota Department of Agriculture Soil Temperature and Soil Moisture Grant	3,640
Minnesota Department of Natural Resources WMA Wetland Restoration	21,056
South Heron Lake TMDL Implementation	9,600
Heron Lake Area Conservation Program	19,888
Special Projects	
Watershed Management Plan	-
Cover Crop Research Plots	6,852
HLWD Project 2 -	
Legal	3,169
Engineering	11,091
Advertising and Notices	113
Miscellaneous	2,091
HLWD Project 6 -	
Appraisal Services	3,572
Administration	33
HLWD Project 84 - 4A	
Jackson County Ditch Number 3 -	
Administration	1,907
Jackson County Judicial Ditch Number 19 -	
Legal	5,231
Engineering	178,782
Construction	787,830
Advertising and Notices	27
Appraisal Services	75
Administration	475
Jackson County Judicial Ditch Number 30 -	
Legal	4,881
Engineering	1,065
Construction	52,880
Administration	480

The Accompanying Notes are an Integral Part of the Financial Statements

HERON LAKE WATERSHED DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	GENERAL FUND
EXPENDITURES (cont.)	
General Government (cont.)	
Special Projects (cont.)	
Judicial Ditch Number 36 -	
Administration	2,472
Water Quality Monitoring Program	
MVTL Laboratories	3,689
Rushmore Industries	169
Department of Natural Resources	5,690
Supplies	169
Total General Government	
Fulda Pond Project	40,000
L2L	1,707
Continuation Loan Program	
Application Fees	283
Interest Expense	9,354
Project Costs	61,379
Miscellaneous	81
Total Continuation Loan Program	
 TOTAL EXPENDITURES	 \$ 1,483,653
 NET CHANGE IN FUND BALANCES	 \$ 9,512
 FUND BALANCE - January 1 (Restated)	 569,313
 FUND BALANCE - December 31	 \$ 578,825

The Accompanying Notes are an Integral Part of the Financial Statements

HERON LAKE WATERSHED DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2020

Net Changes in Fund Balance - Total Governmental Funds \$ 9,512

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. Also, governmental funds report the proceeds from fixed assets sales as a revenue. However, in the statement of activities, the proceeds from fixed asset sales are netted against the fixed assets book value (cost less accumulated depreciation) and either a gain or loss on the sale is recognized.

Capital Outlays	\$ 2,380	
Depreciation Expense	<u>(1,712)</u>	668

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During the year, the compensated absence liability decreased by \$1,468 1,468

The governmental funds report pension expense per the actuarial provided by the GERS retirement plan instead of the actual pension contributions paid by the city in the fund financial statements. The differences are as follows:

GERS Pension Plan expense Difference		15,764
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Delinquent property taxes receivable will be collected during the year but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the fund financials.

Change in Deferred Taxes		<u>1,228</u>
Change in Net Position of Governmental Activities	\$	<u><u>28,640</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Heron Lake Watershed District is a local unit of government established by petition on February 25, 1970, under provisions outlined in M.S. 112.34. The Heron Lake Watershed District is governed by a board of managers composed of five members appointed by the county commissioners in Nobles, Jackson, and Murray counties. Managers serve three-year terms at the will of the county commissioners.

The mission of the Heron Lake Watershed District is to protect and improve the water resources within its boundaries by supporting watershed residents through the use of education and financial programs.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

**B. Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds when applicable.

The government-wide financial statements are prepared 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 generally recognized as revenues in the fiscal year for which they levied. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Accounting (continued)**

**Government-Wide Financial Statements (continued)**

expenses identifies the extent to which each program is self-financing or draws from the general revenues of the district.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Fund Financial Statements**

The fund financial statements of the District include only one fund, the General Fund. The General Fund is accounted for by a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or thirty days thereafter to be used to pay liabilities of the current period. This differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**C. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 those estimates.

**D. Budget and Budgetary Accounting**

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

1. The Administrator submits to the District Board of Managers a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. A Budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Budget and Budgetary Accounting (continued)

6. Budgetary control is maintained at the object of the expenditure category level within each function or activity and in compliance with requirements. Also within this control is a management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly shown, an adjustment can be made by the Administrator or Board of Managers. Therefore, there is a constant review process. Expenditures are not approved until the following three items have been determined: (1) adequate funds were appropriated; (2) the expenditure is necessary; and (3) funds are available.
7. Budgeted amounts are as originally adopted, or as amended by the Board of Managers. Budgeted expenditure appropriations lapse at year-end unless a carryover of appropriations is completed.

E. Cash and Cash Equivalents

Heron Lake Watershed District recognizes cash as currency on hand along with 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.

Heron Lake Watershed 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.

Restricted cash are the funds received from loan borrowers for remittance to MPCA for the Continuation Loan Program.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity Accounts

1. Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Prepaid items include operating expenses that have been paid in advance of their due date.

Due from Other Governments includes amounts for shared projects and grants.

All capital assets are capitalized at cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.



**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity Accounts (continued)

2. Assets (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. Since surplus assets are sold for an immaterial amount when declared as no longer needed by the District, no salvage value is taken into consideration for depreciation purposes. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	5 years
Furniture and Fixtures	5 years
Vehicles	5 years

Capital assets not being depreciated include land and any construction in progress.

3. Liabilities

Liabilities of the District include accounts payable, accrued payroll and related taxes, accrued interest payable, compensated absences, unearned revenue, lines of credit, due to other governmental units, and net pension liability.

Long-Term Obligations

In the government-wide and fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick time-off benefits. All vacation benefits that are vested are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured. In accordance with the provisions of government accounting standards for compensated absences, no liability is recorded for non-vesting accumulating rights to receive personal sick leave benefits.

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, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The District

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity Accounts (continued)

4. Deferred Outflows/Inflows of Resources (continued)

reports deferred outflows of resources associated with pension. These outflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows 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 or reduction of expense) until that time. For the District, deferred inflows of resources consist of pensions and property taxes. The District reports deferred inflows of resources associated with pension benefits. For the District, unavailable revenue included delinquent property taxes on the balance sheet. This inflow arises only under the full accrual basis of accounting and, accordingly, is reported only in the statement of net position.

5. Equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position – Consists of net assets with constraints placed on the use either by (1) external groups such as grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – “All other net position that does not meet the definition.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified in accordance with GASB 54. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The classifications are defined by GASB as the following:

- a. Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes but not limited to: prepaid expenses, inventory, and loans receivable.
- b. Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- c. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes internally imposed by formal action of the Board of Managers. It requires formal action by the Board of Managers to remove or change the constraints placed on these resources.
- d. Assigned – Amounts in the assigned fund balance classification are intended to be used by the Board of Managers for specific purposes but do not meet the criteria to be classified as restricted or committed.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity Accounts (continued)

5. Equity (continued)

Fund Financial Statements (continued)

- e. Unassigned – Unassigned fund balance is the residual classification of the General Fund and includes all spendable amounts not contained in the other classifications.

The District applies restricted resources first when an expenditure is incurred for purposes for which restricted and unrestricted resources are available. The District considers committed, assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the fund balance classifications could be used.

The Heron Lake Watershed District has not formally adopted a fund balance policy.

G. Revenues and Expenses

1. Revenues

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal values, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving value in return, includes grants and donations. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year in which use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

a. Intergovernmental

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenue is recognized when the corresponding expenses are incurred.

b. General Property Taxes

General property taxes are accrued and recognized in the year collectible. Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both nonagricultural and agricultural property and the second payment is due on October 15 for nonagricultural and November 15 for agricultural property. Personal property taxes may be paid on February 28 and June 30. The counties are the collection agents for the levies. Taxes not collected as of December 31 are then classified as taxes receivable-delinquent.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

G. Revenues and Expenses (continued)

1. Revenues (continued)

c. Investment Income

Investment income and revenue from outlet and permit fees are recognized when earned since they are measurable and available. Other revenues are generally recognized when they are received in cash because they are usually not measurable until that time.

2. Expenses

a. Project Expenses

Project expenses represent costs that are funded from Federal, State, or district revenues. State project expenses consist of grants to participants for the Cost-Share Program other state-authorized projects. District project expenses are costs of materials and supplies in the sale of trees, tree planting, and other District projects.

**2. DEPOSITS AND INVESTMENTS**

A. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorizes the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.02 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. All deposits are in category 1, low risk type investments.

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 standards 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.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

As of December 31, 2020, the carrying amount of the District’s deposits with financial institutions was \$823,276, and the bank balance was \$1,033,430. The bank balance is categorized as follows:

Insured by FDIC Insurance	\$612,278
Covered by Collateral	421,152
Uninsured/Uncollateralized	<u>0</u>
Total	<u>\$1,033,430</u>

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**2. DEPOSITS AND INVESTMENTS (continued)**

**B. Investments**

The District may also invest idle funds as authorized by Minnesota Statutes as follow: direct obligations or 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 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 obligations 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 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 investments policies that would further limit investment choices.

Cash and investment balances at December 31, 2020, are as follows:

Investment Type	Custodial Credit Risk Category			Carrying Value	Fair Value
	1	2	3		
Commercial Paper	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agencies	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment in Nonparticipating interest earning certificates of deposit				\$ 204,657	\$ 204,657
Total Investments				\$ 204,657	\$ 204,657
Deposits				\$ 828,773	
Total cash and investments				\$1,033,430	

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**3. NOTES RECEIVABLE**

MPCA Continuation Loan –

The notes receivable for the MPCA Continuation Loan Program that began in 2000 is money that was borrowed for the purpose of assisting landowners with updates to septic systems and the purchase of equipment. The amount outstanding as of December 31, 2020, is \$469,762. The equipment and septic loans have a repayment period of seven years. This amount will be paid back within the designated period per individual loan.

**4. DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units-local county public drainage system projects is in place to hold the costs for the local county public drainage system projects in process. Heron Lake Watershed District is the administrator of the projects. Each project requires a bond which holds the petitioners liable for any costs should a project get dismissed. If the projects are ultimately completed the County will assess the costs of each project to the landowner’s affected by each project. The County will then collect from the landowners and reimburse Heron Lake Watershed from the costs of the projects.

**5. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020, was as follows:

	<u>1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2020</u>
Capital Assets Not Being Depreciated				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Capital Assets Being Depreciated				
Office Equipment	\$ 16,040	2,380		18,420
Vehicles	16,669			16,669
Total	<u>50,709</u>	<u>2,380</u>	<u>-</u>	<u>53,089</u>
Accumulated Depreciation	<u>(30,302)</u>	<u>(1,712)</u>		<u>(32,014)</u>
Governmental Capital Assets, Net	<u>\$ 20,407</u>	<u>\$ 668</u>	<u>\$ -</u>	<u>\$ 21,075</u>

Depreciation expense of \$1,712 for the year ended December 31, 2020, was charged to general government expense.

**6. UNEARNED REVENUE**

Unearned revenue represents advances from the State of Minnesota for various conservation projects. Revenues will be recognized when the related program expenses are recorded. Unearned revenue for the year ended December 31, 2020, consists of the following:

MN Dept of Agriculture – Cover Crop Effects	\$ 1,704
TMDL Implementation	\$ 42,650
Heron Lake Area Conservation Program	\$ 1,470

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**7. COMPENSATED ABSENCES**

Changes in compensated absences for the period ended December 31, 2020, are:

Balance – January 1, 2020	\$19,324
Increase (Decrease) in compensated absences	<u>(1,468)</u>
Balance – December 31, 2020	\$17,856

There were no compensated absences payable to terminated employees as of December 31, 2020. However, the balance at the end of the year is considered to be short-term in nature as employees eligible for payouts both subsequently resigned at the beginning of 2021.

**8. LINES OF CREDIT**

The District opened a line of credit with Bremer Bank for up to \$9,300,000 for the purpose of covering costs of the public drainage system project implementations. The stated interest rate is 2.4% and is paid semi-annually. The note is secured by special assessments on the landowners. The balance due was \$7,830,097 as of December 31, 2020. The line will mature on September 1, 2022.

The District opened lines of credit with Currie State Bank for up to \$1,644,000 for the purpose of covering costs of the public drainage system project implementations. The stated interest rate is 4.5% and is paid semi-annually. The note is secured by certificates of deposit and savings accounts held by the District. The balance due was \$1,201,668 as of December 31, 2020. The lines will mature on November 1, 2021.

	Beginning Balance	Increases	Decreases	Ending Balance
Line of Credit Bremer Bank	\$ 1,790,899	\$ 6,039,198	\$ -	\$ 7,830,097
Line of Credit Currie State Bank	804,149	397,519		1,201,668
Total	<u>\$ 2,595,048</u>	<u>\$ 6,436,717</u>	<u>-</u>	<u>\$ 9,031,765</u>

**9. ACCRUED LIABILITIES**

Accrued liabilities consist of the following at December 31, 2020:

Accrued Interest Payable	\$ 358
Accrued Payroll and Employee Benefits	<u>993</u>
Total Accrued Liabilities	\$ 1,351

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**10. DUE TO OTHER GOVERNMENTAL UNITS**

Due to other governmental units-MPCA is for the loan program of updating septic systems and purchase of equipment by landowners. Of the original loan amounts totaling \$1,267,360, the balance receivable from recipients as of December 31, 2020, is \$200,344. Of total loan proceeds received by the District, payments remain on \$469,762. The proceeds are split between four separate MPCA loans, which each have their own payback schedule. The first is due in semiannual installments of \$28,215, including interest at 2%, to December 2021. The second is due in semiannual installments of \$18,317, including interest at 2%, to June 2026. The third is due in semiannual installments of \$26,184, including interest at 2%, to June 2024. The fourth is due to begin payback in June 2022. The original repayment schedule of this loan has set repayment terms due in semiannual installments of \$3,817 for ten years.

The contract states that the MPCA will review the fourth agreement in 2021, after the total amount of requested funds have been spent. Once the MPCA reviews exactly how much of the loan was extended, the MPCA will have the option to revise the amortization schedule and terms. We used the current terms as stated in the loan agreement to future payment table below. This is subject to change.

	Beginning Balance <u>1/1/2020</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>12/31/2020</u>
Due to Other Governmental Units:	<u>\$ 501,448</u>	<u>\$ 61,379</u>	<u>\$ (93,065)</u>	<u>\$ 469,762</u>
MPCA				

Repayment for Future Years is as Follows:

2021	\$ 104,327
2022	55,849
2023	56,848
2024	57,868
2025	58,907
2026-2030	129,825
2031	<u>6,138</u>
Total	<u>\$ 469,762</u>

**11. RESTRICTED FUND BALANCE**

Restricted fund balance at December 31, 2020 consists of the following:

Restricted for MPCA – The fund balance restriction represents accumulated resources available to provide for the loan program of updating septic systems and purchase of equipment by landowners.

Restricted for Grant Programs – Cover Crop Effects on Soil and Moisture and Soil Temperature, South Heron Lake TMDL Implementation, and Heron Lake Area Conservation Program.



**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**12. PENSION PLAN**

Defined Benefit Pension Plan

A. Plan Description

The Heron Lake Watershed District participates in the following cost-sharing multiple-employer defined benefit pension plans 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.

General Employees Retirement Plan

All Full-time and certain part-time employees of the Heron Lake Watershed District, Minnesota, are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

General Employees Plan Benefits

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 1.2 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 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 1.5 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 prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the rule of 90 are exempt from the delay to normal retirement.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**12. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.

General Employees Plan Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the Heron Lake Watershed District was required to contribute 7.50 percent for Coordinated Plan members. The Heron Lake Watershed District's contributions to the General Employees Fund for the year ended December 31, 2020, were \$9,255. The Heron Lake Watershed District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2020, the Heron Lake Watershed District reported a liability of \$89,932 for its proportionate share of the General Employees Fund's net pension liability. The Heron Lake Watershed District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2020. 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 Heron Lake Watershed District totaled \$2,690. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Heron Lake Watershed District's proportionate share of the net pension liability was based on the Heron Lake Watershed District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the Heron Lake Watershed District's proportionate share was .0015% which was no change from its proportionate share measured as of June 30, 2019.

Heron Lake Watershed District proportionate share of net pension liability	\$89,932
State of Minnesota's proportionate share of the net pension	
Liability associated with the Heron Lake Watershed District	2,690
Total	\$92,622

For the year ended December 31, 2020, the District recognized pension expense of \$7,986 for its proportionate share of General Employee Plan's pension expense. In addition, the District recognized an additional \$234 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.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**12. PENSION PLAN (continued)**

**D. Pension Costs (continued)**

At June 30, 2020, the District reported its proportionate share of 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 projected and actual investment earnings	\$9,093	8,310
Changes in actuarial assumptions	-	\$3,401
Net Difference between expected and actual economic experience	\$823	340
Change in proportionate share of net pension liability.	-	\$4,370
Contributions paid to PERA subsequent to the measurement date	\$5,249	-
<b>Total</b>	<b>\$15,165</b>	<b>\$16,421</b>

\$5,249 reported as deferred outflows of resources related to pensions resulting from Heron Lake Watershed District, Minnesota's contributions to the General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

Year Ended June 30:	Pension Expense Amount
2021	(\$8,803)
2022	(\$1,585)
2023	\$1,711
2024	\$2,172

**Total Pension Expense**

The total pension expense for all plans recognized by the Heron Lake Watershed District for the year ended December 31, 2020, was (\$15,764).

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

Salary increases were based on a service related table. Mortality rates for active members, retirees, survivors and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan for males or females, appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**12. PENSION PLAN (continued)**

E. Actuarial Assumptions (continued)

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019.

The following changes in actuarial assumptions and planned provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.5% to 2.25%
- The payroll growth assumption was decreased from 3.25% to 3.00%
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average .25% 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 were based on service and are generally lower than the previous rates for years 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% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

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

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**12. PENSION PLAN (continued)**

E. Actuarial Assumptions (continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Bonds	20.0%	0.75%
Alternative Assets	25.0%	5.90%
Cash	<u>2.0%</u>	0.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the corporation's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERF net pension liability:	\$144,130	\$89,932	\$45,223

H. 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](http://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.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**13. RELATED PARTY TRANSACTIONS**

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. All transactions were conducted on terms consistent with transactions with unrelated parties. The amounts of such transactions are not material to the financial statements.

**14. COMMITMENTS AND CONTINGENCIES**

Grants and Aids

The District receives significant financial assistance from numerous federal, state, and local government agencies in the form of grants and aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Leases

The District leases, on a month to month basis, office and meeting room facilities within the City of Heron Lake Community Center. Rental expense for 2020 was \$6,600.

The expected minimum rental amount to be expensed under the above arrangement for 2021 is \$6,600.

**15. PRIOR PERIOD ADJUSTMENTS**

Net position and fund balance at the beginning of the year have been adjusted for the following item:

Deferred Revenue – Prior year reported deferred revenue was understated by \$30,750 with grant revenue being overstated by \$30,750. This was due to TMDL Implementation grant funds that were received but had not been expended at December 31, 2019.

Due from Other Governmental Units – Prior year reported due from other governmental units was understated by \$225,914. This was due to expenses paid by the District for infrastructure projects that were previously written off as District expense but are actually to be reimbursed by other governmental units in 2021.

The net effect of the above mentioned adjustments was an increase in fund balance of \$195,164 from the prior reported fund balance of \$374,149.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**15. PRIOR PERIOD ADJUSTMENTS (continued)**

Pension Liability – Prior year reported liability for Pensions was understated by \$40,643. Accordingly, net position required a decrease in this amount. Combined with the aforementioned \$195,164 increase in fund balance, the net restatement of net position was an increase of \$154,521 from the originally reported net position of \$309,515.

**16. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. As a result, economic uncertainties may negatively impact net income. Other financial considerations could also impact the District. As of the date of these financial statements, there has been little impact on the District and any future impacts are unknown due to the continued uncertainty of the pandemic. No adjustments have been made as a result of this uncertainty.

**HERON LAKE WATERSHED DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2020**

Basis of Presentation

The budgetary comparison schedule has been prepared on the modified accrual basis of accounting.

Budgetary Legal Requirements

Budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is used during the fiscal year as a tool to monitor actual revenues and expenditures.

The budget is adopted through the passage of a resolution by the board of trustees. Any revision that alters the total expenditures of any fund must be approved by the board of trustees. Appropriations lapse at the end of each year.