

**RAMSEY-WASHINGTON METRO
WATERSHED DISTRICT**

AUDIT MANAGEMENT LETTER

December 31, 2018

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To the Honorable Managers of the
Ramsey-Washington Metro Watershed District
Little Canada, Minnesota

We have completed our audit of the Ramsey-Washington Metro Watershed District (the District) for the year ended December 31, 2018, and have issued our report thereon. In conjunction with that audit, we present this management letter on matters relating to the financial operations of the District. We offer this report as an additional analytical perspective for the Board of Managers in monitoring the financial position and operations of the accounts and funds of the District. This report also contains required communications to those charged with governance.

Several reports are issued in conjunction with the audit. A summary is as follows:

- Opinion on Financial Statements – Unmodified (clean) opinion
- Report on Internal Control – No internal control findings
- Minnesota Legal Compliance Report – No compliance findings

Thank you for the opportunity to serve the District. We are available to discuss this report with you.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

April 5, 2019

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Cash and Investments

Cash and investment balances at December 31, 2018 and 2017 were as follows:

Fund	December 31,		Increase (Decrease)
	2018	2017	
General	\$5,257,503	\$5,044,853	\$212,650
Debt Service Funds:			
General Obligation Bonds	107,825	112,050	(4,225)
Certificates of Participation	123,186	123,186	-
Capital Project Funds:			
Capital Projects CIB	8,225,040	8,519,909	(294,869)
Total	<u>\$13,713,554</u>	<u>\$13,799,998</u>	<u>(\$86,444)</u>

Investment income totaled \$201,240 for the year ended December 31, 2018 as compared to \$81,958 for the year ended December 31, 2017.

Taxes Receivable

Taxes receivable at December 31, 2018 and 2017 consisted of the following:

	December 31,		Increase (Decrease)
	2018	2017	
Delinquent	\$84,232	\$77,383	\$6,849
Due from County	94,550	75,881	18,669
Total	<u>\$178,782</u>	<u>\$153,264</u>	<u>\$25,518</u>

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Delinquent taxes receivable at December 31, 2018 represent the balance of unpaid property taxes levied for collection in 2009 through 2018. The uncollected portion of property taxes has been classified as unavailable revenue and is not part of the fund balance at the end of the current fiscal year. Generally accepted accounting principles of the United States of America related to revenue recognition requires revenue to be both measurable and available.

Due from County consists of current and delinquent taxes collected by the County but not remitted to the District as of December 31, 2018. These amounts have been remitted to the District in January 2019.

The District's overall property tax collection rate was 99.8% for the year ended December 31, 2018. The following table details the District's 2018 levy and collections:

	Ramsey & Washington Counties
Total levy (pay 2018)	<u>\$6,871,386</u>
<u>2018 collections:</u>	
July 2018 collection	\$3,580,709
December 2018 collection	3,183,592
January 2019 collection	<u>93,336</u>
Total collections - 2018	<u>\$6,857,637</u>
Collection percentage - current and delinquent	<u>99.8%</u>

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Fund Balances

Fund balances represent net current assets of each fund (i.e., cash plus receivables minus liabilities).

The District's funds are all governmental type funds. Governmental type funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

The fund balances of the District were as follows at December 31, 2018 and 2017:

Fund	December 31,		Increase (Decrease)
	2018	2017	
General	\$4,464,553	\$4,329,905	\$134,648
Debt Service Funds:			
General Obligation Bonds	381,949	359,578	22,371
Certificates of Participation	131,513	133,637	(2,124)
Capital Project Funds:			
Capital Projects CIB	8,324,531	8,211,887	112,644
Total	<u>\$13,302,546</u>	<u>\$13,035,007</u>	<u>\$267,539</u>

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General Fund

The fund balance of the General Fund increased by \$134,648 during the year. Statement 6 of the Annual Financial Report details the General Fund budget versus actual operating results. A summary is presented below:

Budgeted change in fund balance		(\$1,365,950)
Actual revenue over (under) budgeted revenue:		
Property taxes	\$2,184	
Intergovernmental	20,785	
Investment income	56,735	
Permit escrow fees	(4,500)	
Stormwater impact payment	38,660	
Refunds, reimbursements and other	22,088	
		<u>135,952</u>
Actual expenditures (over) under budget:		
Engineering	35,177	
Salaries/payroll taxes/benefits	80,218	
Watershed programs	624,224	
All other - net	<u>625,027</u>	<u>1,364,646</u>
Net change in fund balance		<u><u>\$134,648</u></u>

The significant expenditure budget variance for watershed programs is primarily the result of the project feasibility studies and lake studies/WRAPS/TMDL's. The significant expenditure budget variance for all other – net is primarily the result of water quality monitoring being significantly under budget.

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Intergovernmental Revenue

Intergovernmental grants and aids, and cost sharing agreement revenue (in all funds) in 2018 includes the following:

State of Minnesota - BWSR:	
Spent Lime Treatment	\$224,680
Targeted Retrofits	59,508
State of Minnesota - MPCA:	
Stormwater BMP	4,456
Metropolitan Council - WOMP	19,165
State of Minnesota - MNDOT:	
Slope Stabilization	32,535
Other	<u>10,163</u>
 Total intergovernmental revenue cost share agreements and stormwater impact payment	 <u><u>\$350,507</u></u>

Pension Liability

In 2015, the District implemented GASB Statement No. 68, which required the reporting of the District's proportionate share of the PERA Net Pension Liability (NPL). During 2018, the District's share of PERA's NPL decreased by \$93,448 to \$704,544. During 2018, the District paid its required contribution to the Plan. The required contribution is a percentage of eligible wages.

103.B Levy Authority

Beginning with the 1998 tax levy, the District levied under Minnesota Statutes 103B.241 authority. As such, the District's General Fund is not limited by the \$250,000 tax levy authorized in Minnesota Statutes 103.D. The District no longer employs the Special Revenue Funds to account for maintenance and projects and instead levies for all non-CIB Fund projects out of the General Fund. Minnesota Statutes Section 103B.241 Subd.1 reads in part as follows:

103B.241 LEVIES

*Subdivision 1. **Watershed plans and projects.** Notwithstanding chapter 103D, a local government unit or watershed management organization may levy a tax to pay the increased costs of preparing a plan under sections 103B.231 and 103B.235 or for projects identified in an approved and adopted plan necessary to implement the purposes of section 103B.201. The proceeds of any tax levied under this section shall be deposited in a separate fund and expended only for the purposes authorized by this section. Watershed management organizations and local government units may accumulate the proceeds of levies as an alternative to issuing bonds to finance improvements.*

In 1998, the District closed the Survey and Data Acquisition, Water Management Planning and Water Maintenance and Repair Special Revenue Funds and accounts for all non-CIB projects in the General Fund budget process.

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The fund balance of the General Fund for the past ten years has been as follows:

	Amount	Increase (Decrease)
December 31, 2009	\$1,928,216	\$309,422
December 31, 2010	1,979,029	50,813
December 31, 2011	2,493,960	514,931
December 31, 2012 *	1,363,334	(1,130,626)
December 31, 2013	1,725,348	362,014
December 31, 2014	2,211,684	486,336
December 31, 2015	2,901,187	689,503
December 31, 2016	3,420,562	519,375
December 31, 2017	4,329,905	909,343
December 31, 2018	4,464,553	134,648

* Restated for prior period adjustment

In 1998, the District began levying for and expending all non-CIB Fund projects out of the General Fund. The District now sets the General Fund tax levy and budgeted expenditures at a level consistent with the District's reserve balance policy. In 2018, the District's final budget reflected a decrease of \$1,365,950 in General Fund reserves. Actual reserves increased by \$134,648 as detailed previously.

The District budget includes a higher level of program activity in the General Fund, and as such requires a levy. Schedules and completion of projects is variable and often results in carryover fund balances and unspent levy amounts. These program funds are generally spent in the following budget year if not spent in the current budget year. Excess budget balances are considered in the following year levy/budget process to reduce ensuing year tax levies by spending down available fund balances. Past management reports have discussed the purposes and benefits of maintaining adequate cash flow reserve balances. A summary of these purposes and benefits is as follows:

1. Cash flow reserve. The District receives revenue from property taxes primarily in December and July. The District, however, incurs expenditures throughout the entire twelve month operating period. Timing differences in the receipt of property taxes should be compensated for with adequate operating reserves. The District targets 50% of the ensuing year's expenditure budget as end of year minimum unassigned fund balance. The unassigned balance at December 31, 2018 was \$4,451,617 or 107.93% of the ensuing year's expenditure budget.
2. Emergency and/or unanticipated expenditures. Operating budgets are estimates only. The District requires a surplus to finance unforeseen events. One method of measuring the amount of this type of surplus is to use a percent of the District's annual operating budget (i.e., 10% to 15% or more, depending upon the budget philosophy of the District).
3. Preliminary project funding. Feasibility studies of potential projects require financing. The District does receive such preliminary funding for certain projects. Other minor projects may be more efficiently funded through available reserves.

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CIB Authority

This fund was established to account for the Capital Improvement Budget (CIB) process of the District. A summary of financial activity of this fund from inception is presented in Exhibit 2 of the Annual Financial Report.

Beginning in 1993 with the removal of levy limits and under authorities provided by State Statute Section 103B.241, the District is authorized to levy ad valorem taxes for the purposes of financing the CIB projects. The District has levied the following amounts for the CIB projects over the past ten years:

Collectible Year	CIB Levy Certified
2009	\$1,380,481
2010	1,150,481
2011	859,379
2012	1,584,379
2013	2,268,479
2014	2,945,481
2015	3,513,200
2016	3,839,885
2017	3,205,383
2018	3,859,885

These levies have financed the CIB projects detailed in Exhibit 2 of the Annual Financial Report. A summary of the District's ad valorem tax levies is presented in Exhibit 1 of the Annual Financial Report. Additionally, a breakdown of the District's CIB Fund levy by project is presented in Exhibit 2 of the Annual Financial Report.

Long-Term Debt

The District entered into three separate G.O. Bond/loan agreements in 2012 and 2016 that remain outstanding as follows:

- G.O. Bonds of 2012 – Public Facilities Authority (PFA)
- Certificates of Participation, Series 2012B
- G.O. Drainage Bonds of 2016A

The G.O. Bonds of 1998 matured in 2018. Detail and descriptions of the above G.O. Bonds/loans is presented in Note 7 to the financial statements. The schedule of indebtedness and deferred tax levies associated are presented in Exhibits 3 and 4 of the Annual Financial Report.

The District has established a Debt Service Fund for the \$711,431 G.O. Bonds of 1998 (matured in 2018), the \$1,177,217 G.O. Bonds of 2012 and the \$3,860,000 G.O. Drainage Bonds of 2016A. The District established a Debt Service Fund for the \$2,440,000 Certificates of Participation during 2005 (called for early redemption during 2013), which now includes the Refunding Certificates of Participation, 2012B.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and each major fund of Ramsey-Washington Metro Watershed District for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 20, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ramsey-Washington Metro Watershed District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by Ramsey-Washington Metro Watershed District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Governmental Activities financial statements are management's estimates of the net pension liability, the pension related deferred outflows

and inflows of resources and pension expense. Management's estimates relating to the net pension liability, pension related deferred outflows and inflows of resources and pension expense are based on actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Determining sensitivity is subjective, however, we believe the disclosure most likely to be considered sensitive is Note 5 – Defined Benefit Pension Plans.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. There were no corrected misstatements identified during the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 5A, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule and pension information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund financial statements and supplementary financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and other information sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reports

Various reports on compliance and internal controls are contained in the Other Required Reports section of the audited financial statements document.

Restriction on Use

This information is intended solely for the information and use of management and Ramsey-Washington Metro Watershed District's Board, and is not intended to be, and should not be, used by anyone other than these specified parties.