

**RAMSEY-WASHINGTON METRO  
WATERSHED DISTRICT**

**AUDIT MANAGEMENT LETTER**

DECEMBER 31, 2023

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

We have completed our audit of the Ramsey-Washington Metro Watershed District (RWMWD) for the year ended December 31, 2023. In conjunction with that audit, we present this management letter on matters relating to the financial operations of RWMWD. 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 RWMWD. 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 RWMWD. We are available to discuss this report with you.

*Redpath and Company, LLC*

REDPATH AND COMPANY, LLC  
St. Paul, Minnesota

May 13, 2024

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## Cash and Investments

Cash and investment balances at December 31, 2023 and 2022 were as follows:

Fund	December 31,		Increase (Decrease)
	2023	2022	
General	\$4,387,700	\$3,889,781	\$497,919
Debt Service Funds:			
General Obligation Bonds	159,920	562,589	(402,669)
Capital Project Funds:			
Stormwater Impact Fund	1,408,139	363,688	1,044,451
Capital Projects CIB	8,759,840	8,888,957	(129,117)
Total	<u>\$14,715,599</u>	<u>\$13,705,015</u>	<u>\$1,010,584</u>

Investment income totaled \$670,527 for the year ended December 31, 2023 as compared to \$184,154 for the year ended December 31, 2022. As of December 31, 2023, the RWMWD's funds were earning 5.24% as compared to 3.93% as of December 31, 2022. The significant increase in investment income occurred because the full effect of rising interest rates was not felt until 2023.

## Taxes Receivable

Taxes receivable at December 31, 2023 and 2022 consisted of the following:

	December 31,		Increase (Decrease)
	2023	2022	
Delinquent	\$199,326	\$96,075	\$103,251
Due from County	7,955	42,466	(34,511)
Total	<u>\$207,281</u>	<u>\$138,541</u>	<u>\$68,740</u>

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Delinquent taxes receivable represent the balance of property taxes levied for collection in 2017 through 2023, but which remained unpaid by the property owner as of December 31, 2023. This uncollected portion of property taxes is also classified as unavailable revenue and is not part of fund balance at year-end. Accounting standards related to revenue recognition for governments require revenue to be both measurable and available. Delinquent property taxes are not considered to be available.

Due from County taxes receivable consist of amounts collected by Washington County during November and December of 2023, but not remitted to RWMWD until January 2024. As of December 31, 2023, Ramsey County overpaid RWMWD \$57,041. As a result, this amount has been recorded as a payable to Ramsey County at year-end.

RWMWD's overall property tax collection rate was 97.8% for the year ended December 31, 2023. The following table summarizes the 2023 levy and collections:

	Ramsey & Washington Counties
Total levy (pay 2023)	<u>\$7,116,500</u>
<u>2023 collections:</u>	
July 2023 collections	3,714,509
December 2023 collections	3,295,334
January 2024 collections	<u>(49,086)</u>
Total property tax revenue - 2023	<u>\$6,960,757</u>
Collection percentage - current and delinquent	<u>97.8%</u>

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### Fund Balance – All Funds

Fund balance represents the net current assets of each fund (i.e., cash plus receivables minus liabilities).

RWMWD'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.

At December 31, 2023 and 2022, fund balance was as follows:

Fund	December 31,		Increase (Decrease)
	2023	2022	
General	\$2,714,628	\$2,240,112	\$474,516
Debt Service Funds:			
General Obligation Bonds	435,851	562,589	(126,738)
Capital Project Funds:			
Stormwater Impact Fund	1,381,018	363,688	1,017,330
Capital Projects CIB	8,506,312	8,804,649	(298,337)
Total	<u>\$13,037,809</u>	<u>\$11,971,038</u>	<u>\$1,066,771</u>

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### General Fund

The fund balance of the General Fund increased by \$474,516 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		(\$600,000)
Actual revenue over (under) budgeted revenue:		
Property taxes	(\$81,554)	
Intergovernmental	16,020	
Investment income	169,205	
Permit escrow fees	10,047	
Refunds, reimbursements and other	46,030	
		<u>159,748</u>
Actual expenditures (over) under budget:		
Engineering	70,231	
Salaries/payroll taxes/benefits	120,579	
Project operations	148,371	
Watershed programs	315,123	
All other (net)	260,464	
		<u>914,768</u>
Net change in fund balance		<u><u>\$474,516</u></u>

For watershed programs, significant positive expenditure budget variances included project feasibility studies (\$123,740), lake studies/WRAPS/TMDL (\$134,172), and education programming (\$38,463).



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## Intergovernmental Revenue

Intergovernmental grants and aids, and cost sharing agreement revenue (in all funds) in 2023 include the following:

WBIF Arbogast St Filtration System grant	\$140,295
Battle Creek Middle School Restoration grant	40,000
Met Council WOMP grant	11,000
No Child Left Inside grant	5,000
Other	<u>20</u>
Total intergovernmental revenue	<u><u>\$196,315</u></u>

## Stormwater Impact Payments

Stormwater impact payment revenue totaled \$1,004,991 for the year ended December 31, 2023 as compared to \$49,113 for the year ended December 31, 2022.

## Pension Liability

GASB Statement No. 68 requires RWMWD to report its proportionate share of PERA's net pension liability. During 2023, RWMWD's share of PERA's net pension liability decreased by \$394,414 to 833,191. RWMWD paid its required contribution of \$90,234 to the Plan, which was equal to 7.5% of eligible wages. RWMWD is not obligated to "pay off" the net pension liability.

**103B Levy Authority**

RWMWD levies taxes under the authority of Minnesota Statute 103B.241. As such, the General Fund is not limited by the \$250,000 tax levy authorized in Minnesota Statute 103D. RWMWD no longer employs Special Revenue Funds to account for maintenance and projects and instead levies for all non-CIB Fund projects out of the General Fund. Minnesota Statute 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.*

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## General Fund Balance

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

<u>Year Ended December 31</u>	<u>Amount</u>	<u>Increase (Decrease)</u>
2023	\$2,714,628	\$474,516
2022	2,240,112	(142,668)
2021	2,382,780	(1,982,184)
2020	4,364,964	(268,203)
2019	4,633,167	168,614
2018	4,464,553	134,648
2017	4,329,905	909,343
2016	3,420,562	519,375
2015	2,901,187	689,503
2014	2,211,684	486,336

RWMWD sets the General Fund tax levy and budgets expenditures at a level consistent with its fund balance reserve policy. In 2023, the final budget reflected a decrease of \$600,000 in General Fund reserves. Actual reserves increased by \$474,516 as detailed previously. In comparison, during 2022 RWMWD budgeted to use \$1,000,000 of General Fund reserves while actual usage of reserves was \$142,668.

The RWMWD 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. RWMWD receives revenue from property taxes primarily in December and July. However, expenditures are incurred throughout the year. Timing differences in the receipt of property taxes should be compensated for with adequate operating reserves. RWMWD targets 50% of the ensuing year's expenditure budget as the end of year minimum unassigned fund balance. The unassigned balance at December 31, 2023 was \$2,703,706 or 62% of the ensuing year's expenditure budget.
2. Emergency and/or unanticipated expenditures. Operating budgets are estimates only. RWMWD 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 annual operating budget (i.e., 10% to 15% or more, depending upon the budget philosophy).
3. Preliminary project funding. Feasibility studies of potential projects require financing. RWMWD 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. A summary of financial activity of this fund from inception is presented in Exhibit 2 of the Annual Financial Report.

Under the authorities provided by State Statute 103B.241, RWMWD is authorized to levy ad valorem taxes for the purposes of financing the CIB projects. RWMWD has levied the following amounts for CIB projects over the past ten years:

<u>Collectible Year</u>	<u>CIB Levy Certified</u>
2023	\$3,390,000
2022	3,540,000
2021	3,962,337
2020	4,211,885
2019	3,754,885
2018	3,859,885
2017	3,205,383
2016	3,839,885
2015	3,513,200
2014	2,945,481

These levies have financed the CIB projects as well as debt service payments on the Certificates of Participation (paid off February 1, 2020). A summary of RWMWD's ad valorem tax levies is presented in Exhibit 1 of the Annual Financial Report. Additionally, a breakdown of the CIB Fund levy by project is presented in Exhibit 2 of the Annual Financial Report.

**Long-Term Debt**

As of December 31, 2023, RWMWD has the following outstanding long-term debt:

- General Obligation Minnesota Public Facilities Authority (MPFA) Loan of 2012
  - December 31, 2023 balance is \$354,000, matures in 2027
- General Obligation Drainage Bonds of 2016A
  - December 31, 2023 balance is \$2,465,000, matures in 2032

The schedules of indebtedness and deferred tax levies associated with the long-term debt are presented in Exhibits 3 and 4 of the Annual Financial Report.

RWMWD has a General Obligation Bonds debt service fund to account for activity associated with the G.O. MPFA Loan and the G.O. Drainage Bonds. Fund balance decreased from \$562,589 at December 31, 2022 to \$435,851 at December 31, 2023.

During 2019, RWMWD transferred \$863,674 of excess project funds into the General Obligation Bonds fund. During 2023, the last of these funds were used for debt service requirements in lieu of levying property taxes. During 2023, \$250,000 of contingency funds were also transferred from the Capital Projects CIB fund to meet debt service requirements through February 2025.

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**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 (RWMWD) for the year ended December 31, 2023. 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 March 11, 2024. 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 RWMWD 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 2023. We noted no transactions entered into by RWMWD 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 financial statements are estimates used to calculate the net pension liability, the pension related deferred outflows and inflows of resources and pension expense, as well as the estimated uncollectible portion of property taxes receivable. These estimates are based on actuarial studies and historical tax collection rates. We evaluated the key factors and assumptions used to develop these 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 disclosures most likely to be considered sensitive are Note 6 – Long-Term Debt.

The financial statement disclosures are neutral, consistent and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no 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. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements as a whole.



*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 May 13, 2024.

*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 RWMWD'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 RWMWD'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 the schedules of 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, 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 the Board of Managers and management of Ramsey-Washington Metro Watershed District and is not intended to be, and should not be, used by anyone other than these specified parties.

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