

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2019

Nadine Julson, LLC

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

TABLE OF CONTENTS
December 31, 2019

	<u>Page(s)</u>
Official Directory (Unaudited)	1
INDEPENDENT AUDITOR’S REPORT	2 – 4
BASIC FINANCIAL STATEMENTS	
Statement of Net Cash Position	5
Statement of Activities Arising from Cash Transactions	6
Statement of Balances Arising from Cash Transactions – Governmental Funds	7
Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances – Governmental Funds	8
Notes to Financial Statements	9 – 12
OTHER SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – Cash Basis – General Fund	13
Schedule of Indebtedness	14
Schedule of Accounts Receivable	15
Schedule of Accounts Payable	16
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17 – 18
INDEPENDENT AUDITOR’S REPORT ON <i>MINNESOTA LEGAL COMPLIANCE</i>	19
Schedule of Findings and Questioned Costs	20 – 21

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

OFFICIAL DIRECTORY
December 31, 2019

Jim Nigg	President
Blair Anderson	Vice President
Bill Putnam	Treasurer
Dan Gleason	Board Member
Denny Davidson	Board Member
Boone Caughey	Board Member
Steve Nelson	Board Member
Steve Kulik	Board Member
Mark Plencener	Board Member



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Little McDonald, Kerbs and Paul Lakes Improvement District
Perham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Little McDonald, Kerbs and Paul Lakes Improvement District, Perham, Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the 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 the basis of accounting described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the 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 of 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the District as of December 31, 2019, or changes in financial position and, where applicable, cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Little McDonald, Kerbs and Paul Lakes Improvement District’s financial statements as a whole. The official directory, budgetary comparison schedule – cash basis – general fund, schedule of indebtedness, schedule of accounts receivable, and schedule of accounts payable are presented for purposes of additional analysis and are not a required part of the financial statements.

The budgetary comparison schedule – cash basis – general fund, schedule of indebtedness, schedule of accounts receivable, and schedule of accounts payable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The official directory 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated August 13, 2020 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. This report is an integral part of a *Government Auditing Standards* audit in considering the District’s internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated August 13, 2020, on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for Other Political Subdivisions. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for Other Political Subdivisions in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, ND
August 13, 2020

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

STATEMENT OF NET CASH POSITION
Year Ended December 31, 2019

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 582,651
Net Cash Position	
Restricted	248,898
Committed	91,000
Unrestricted	<u>242,753</u>
Total Net Cash Position	<u>\$ 582,651</u>

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
 Perham, Minnesota

STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
 Years Ended December 31, 2019

Functions/Programs	Disbursements	Program Receipts and Sources		Primary Government Governmental Activities	Net Cash Sources (Uses) and Changes in Net Cash Position
		Charges for Services	Capital Grants and Contributions		
Primary Government					
Governmental Activities					
General Government	\$ 2,881	-	\$ -	\$ (2,881)	
Conservation of Natural Resources	229,193	-	1,648,111	1,418,918	
Principal Payments	1,500,000	-	-	(1,500,000)	
Interest Expense	36,354	-	-	(36,354)	
Issuance Costs	21,749	-	-	(21,749)	
Total Governmental Activities	1,790,177	-	1,648,111	(142,066)	
General Receipts					68,198
Property Taxes					1,284
Intergovernmental					1,180
Investment Earnings					8,229
Miscellaneous					
Total General Receipts					78,891
Change in Net Cash Position					(63,175)
Net Cash Position, Beginning of Year					645,826
Net Cash Position, End of Year					\$ 582,651

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS
December 31, 2019

	<u>General Fund</u>	<u>429 Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ 333,753	\$ 248,898	\$ 582,651
Cash Fund Balance			
Restricted	-	248,898	248,898
Committed	91,000	-	91,000
Unassigned	<u>242,753</u>	<u>-</u>	<u>242,753</u>
Total Cash Fund Balance	<u>\$ 333,753</u>	<u>\$ 248,898</u>	<u>\$ 582,651</u>

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended December 31, 2019

	<u>General Fund</u>	<u>429 Fund</u>	<u>Total Governmental Funds</u>
RECEIPTS			
Taxes	\$ 68,198	\$ -	\$ 68,198
Intergovernmental Receipts	1,284	-	1,284
Special Assessments	-	189,111	189,111
Investment Earnings	1,030	150	1,180
Miscellaneous	8,229	-	8,229
	<u>78,741</u>	<u>189,261</u>	<u>268,002</u>
DISBURSEMENTS			
General Government	2,881	-	2,881
Conservation of Natural Resources	103,792	125,401	229,193
Principal Payments	-	1,500,000	1,500,000
Interest Expense	-	36,354	36,354
Issuance Costs	-	21,749	21,749
	<u>106,673</u>	<u>1,683,504</u>	<u>1,790,177</u>
Disbursements over Receipts	(27,932)	(1,494,243)	(1,522,175)
OTHER FINANCING SOURCES			
Transfer In	5,938	-	5,938
General Obligation Bond Proceeds	-	1,459,000	1,459,000
Transfer Out	-	(5,938)	(5,938)
	<u>5,938</u>	<u>1,453,062</u>	<u>1,459,000</u>
NET CHANGE IN CASH FUND BALANCE	(21,994)	(41,181)	(63,175)
CASH FUND BALANCE, BEGINNING OF YEAR	355,747	290,079	645,826
CASH FUND BALANCE, END OF YEAR	\$ 333,753	\$ 248,898	\$ 582,651

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared using accounting practices prescribed or permitted by the State of Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. Governmental fund and proprietary fund financial statements are reported using the cash basis. The more significant accounting policies used by the District are discussed below.

A. Reporting Entity

The Little McDonald, Kerbs and Paul Lakes Improvement District (LMKP LID) was established under Minn. Stat. §103B.501 by the Otter Tail County Board of Commissioners' Resolution No. 2002-18 and its order establishing the district, adopted June 11, 2002. The purpose of the District is to preserve and protect the lakes and to increase and enhance the use and enjoyment of the lakes.

The accompanying financial statements present the activities of the LMKP LID. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the LMKP LID to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the LMKP LID.

Based on these criteria, there are no component units to be included within the LMKP LID as a reporting entity.

B. Basis of Presentation, Basis of Accounting

Government-wide statements – The statement of net cash position and the statement of activities arising from cash transactions display information about the primary government (LMKP LID). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental receipts, fees and other non-exchange transactions. The statement of activities presents a comparison between direct disbursements and program receipts for each function of the District's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

Fund financial statements – The fund financial statements provide reports on the statements of balances arising from cash transactions and results of cash receipts and disbursements for governmental and proprietary funds.

The District reports the following major governmental funds:

- General Fund – The general fund is the District's primary operating fund. It accounts for all the financial resources except those required to be accounted for in another fund.
- 429 Fund – Used to account for resources restricted to use under Minn. Stat. §429.

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Notes to Financial Statements – Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund and proprietary fund financial statements are reported using the cash basis. Under this method, revenues are recognized only when the District receives cash, and expenditures are recognized only when the District disburses cash. For the cash basis funds, the Schedules of Accounts Receivable and Schedule of Accounts Payable are displayed as supplemental information.

Amounts reported as program receipts include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the District that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Receipts that do not meet the previous criteria are reported as general receipts, including all taxes.

D. Cash and Cash Equivalents

The District considers cash equivalents to be money market accounts and certificates of deposit with original maturities of 3 months or less.

E. Fund Balance

The following classifications describe the relative strength of the spending classifications and the purpose for which resources can be used:

- Nonspendable fund balance – Includes fund balance that cannot be spent because it is either 1) not in spendable form or 2) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.
- Restricted fund balance – Amounts should be reported as restricted when constraints placed on those resources are either 1) externally imposed by creditors, grantors, contributors; or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts. Committed fund balance includes \$16,000 for the LMKP-DLD Common Leg and \$75,000 for pump house equipment repair.
- Assigned fund balance – Amounts that are constrained by the government’s intent to use for specified purpose but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.
- Unassigned fund balance – The residual classification for the General Fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

In accordance with Minnesota statutes, the District maintains deposits at those depositories authorized by the board of directors. All such depositories are members of the Federal Reserve System.

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Notes to Financial Statements – Continued

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2019, deposits were under collateralized by \$359,799. Subsequent to year end, deposits were collateralized in accordance with Minnesota statutes.

Investments

Minnesota statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District held no such investments at December 31, 2019 or during the year.

NOTE 3 – PROPERTY TAXES AND SPECIAL ASSESSMENTS

Property Taxes

Property tax levies are set by the board of directors in July each year and are certified to Otter Tail County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over assessable property. Such taxes become a lien on January 1 and receivables by the District at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15.

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with state statutes. The District usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties. Special assessments are generally collected by the county and remitted to the District at the same time property tax settlements are made.

NOTE 4 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2019 are as follows:

Type	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Improvement Bonds, Series 2016A	\$ 1,500,000	\$ -	\$ (1,500,000)	\$ -	\$ -
General Obligation Improvement Bonds, Series 2019A	-	1,459,000	-	1,459,000	-
Total	\$ 1,500,000	\$ 1,459,000	\$ (1,500,000)	\$ 1,459,000	\$ -

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Notes to Financial Statements – Continued

Long-term obligations currently outstanding are as follows:

Type	Interest Rate	Final Year of Maturity	Authorized and Issued	Outstanding
General Obligation Improvement Bonds, Series 2016A	1.10%	2019	\$ 1,500,000	\$ -
General Obligation Improvement Bonds, Series 2019A	3.55%	2030	\$ 1,459,000	\$ 1,459,000

General obligation improvement bonds are payable from the 429 fund through special assessment revenues.

The estimated principal and interest requirements to maturity will be as follows:

Years Ending December 31,	Principal	Interest
2020	\$ -	\$ 51,794
2021	124,000	49,593
2022	128,000	45,120
2023	133,000	40,488
2024	138,000	35,677
2025 - 2029	766,000	100,003
2030	170,000	3,017
	<u>\$ 1,459,000</u>	<u>\$ 325,692</u>

NOTE 5 – INTERFUND TRANSFERS

Fund	Transfer In	Transfer Out
General	\$ 5,938	\$ -
429 Fund	-	(5,938)
Total	<u>\$ 5,938</u>	<u>\$ (5,938)</u>

Transfers from the 429 Fund to the General Fund were made to cover construction costs.

NOTE 6 – PROJECT AGREEMENT

The LMKP LID and Devils and Little Devils Lake Improvement District (DLD LID) entered into a project agreement for a pumping and outlet filter system. The project consists of three main legs, the LMKP LID Leg, the DLD LID Leg, and a Common Leg. The DLD LID shall pay 20% of all non-bondable expenses associated with the Common Leg and all nonbondable expenses associated with the DLD LID Leg. The LMKP LID shall pay 80% of all non-bondable expense associated with the Common Leg and all non-bondable expenses associated with the LMKP LID Leg.

The DLD LID shall contribute \$4,000 to a joint maintenance fund for the Common Leg and the LMKP LID will contribute \$16,000. If it is necessary to add additional sums in the future to this fund, both LIDS agree to work cooperatively to develop a contribution plan based on usage. Non-maintenance costs shall be shared 40% by the DLD LID and 60% by the LMKP LID.

NOTE 7 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 13, 2020, the date on which the financial statements were available to be issued.

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

BUDGETARY COMPARISON SCHEDULE – CASH BASIS – GENERAL FUND
Year ended December 31, 2019

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
RECEIPTS			
Taxes	\$ 70,000	\$ 68,198	\$ (1,802)
Intergovernmental Receipts	-	1,284	1,284
Investment Earnings	-	1,030	1,030
Miscellaneous	-	8,229	8,229
Total Receipts	70,000	78,741	8,741
DISBURSEMENTS			
General Government	1,270	2,881	(1,611)
Conservation of Natural Resources	68,730	103,792	(35,062)
Total Disbursements	70,000	106,673	(36,673)
Disbursements over Receipts	-	(27,932)	(27,932)
OTHER FINANCING SOURCES			
Transfer In	-	5,938	5,938
Total Other Financing Sources	-	5,938	5,938
NET CHANGE IN CASH FUND BALANCE	-	(21,994)	(21,994)
CASH FUND BALANCE, BEGINNING OF YEAR		355,747	
CASH FUND BALANCE, END OF YEAR		<u>\$ 333,753</u>	

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
 Perham, Minnesota

SCHEDULE OF INDEBTEDNESS
 December 31, 2019

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding in January 1, 2019</u>	<u>Issued in 2019</u>	<u>Paid in 2019</u>	<u>Outstanding December 31, 2019</u>
Bonded Indebtedness							
General Obligation							
2016 G.O. Improvement	1.10%	6/15/2016	6/1/2019	\$ 1,500,000	\$ -	\$ (1,500,000)	\$ -
2019A G.O. Improvement	3.55%	1/30/2019	2/1/2030	-	\$ 1,459,000	-	\$ 1,459,000

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

SCHEDULE OF ACCOUNTS RECEIVABLE
December 31, 2019

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
429 Fund	Special Assessments	\$ 84,233
		<u>\$ 84,233</u>

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

SCHEDULE OF ACCOUNTS PAYABLE
December 31, 2019

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Claim Number</u>	<u>Amount</u>
429 Fund	Midwest Bank	Interest Expense	N/A	\$ 21,581
429 Fund	Moore Engineering, Inc.	Engineering Fees	22844	3,155
429 Fund	Moore Engineering, Inc.	Engineering Fees	22843	560
429 Fund	Moore Engineering, Inc.	Engineering Fees	22842	320
General	Photo Magic	Printing	#383	48
General	Forum Communications	Meeting Expense	2809939	28
General	Lake Region Electric	Utilities	0420-000-12-006	455
				<u>\$ 26,147</u>



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

Board of Directors
Little McDonald, Kerbs and Paul Lakes Improvement District
Perham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Little McDonald, Kerbs and Paul Lakes Improvement District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 13, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described as findings 2019-001 and 2019-002 in the accompanying schedule of findings to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of

our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The District's responses to the findings identified in our audit are described in the separately issued corrective action plan and the accompanying schedule of findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Nadine Julson, LLC
Wahpeton, ND
August 13, 2020



INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Little McDonald, Kerbs and Paul Lakes Improvement District
Perham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Little McDonald, Kerbs and Paul Lakes Improvement District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 13, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the Little McDonald, Kerbs and Paul Lakes Improvement District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions) sections of the Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the schedule of findings as items 2019-003 and 2019-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, ND
August 13, 2020

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Perham, Minnesota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Report Issued: Unmodified

Internal Control Over Financial Reporting

Material weakness identified?	X	Yes		No
Significant deficiencies identified not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001 LACK OF SEGREGATION OF DUTIES

Criteria

An appropriate system of internal controls has the proper segregation of duties between authorization, custody, record keeping, and reconciliation functions.

Condition

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the District.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the District’s financial condition whether due to error or fraud.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding and we understand that this will be a repeated recommendation due to the limited amount of resources of the District.

LITTLE MCDONALD, KERBS AND PAUL LAKES IMPROVEMENT DISTRICT
Schedule of Findings and Questioned Costs – Continued

2019-002 MATERIAL JOURNAL ENTRIES

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Effect

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to financial statements that are materially correct without the assistance of the auditors.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

There is no disagreement with the audit finding and we understand that this will be a repeated recommendation due to the limited amount of resources of the District.

SECTION III – MINNESOTA LEGAL COMPLIANCE FINDINGS

2019-003 OUT-OF STATE TRAVEL POLICY

Condition

The District does not have on record a policy that control travel outside the state of Minnesota in accordance with Minn. Stat. § 471.661.

Views of Responsible Officials

The District will work to adopt a policy in accordance with Minn. Stat. § 471.661 as soon as possible.

2019-004 BANK COLLATERAL

Condition

The District did not obtain sufficient collateral on deposits that exceeded federal deposit insurance as of December 31, 2019 in accordance with Minn. Stat. § 118A03.

Views of Responsible Officials

The District obtained sufficient collateral for deposits that exceeded federal deposit insurance in 2020.