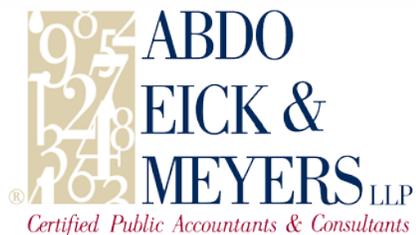


Management Letter

Prior Lake-Spring Lake Watershed District

Prior Lake, Minnesota

For the Year Ended
December 31, 2017



People
+ Process.

Going
Beyond the
Numbers

Board of Managers
Prior Lake - Spring Lake Watershed District
Prior Lake, Minnesota

We have audited the financial statements of the governmental activities and each major fund of the Prior Lake-Spring Lake Watershed District (the District), Prior Lake, Minnesota, for the year ended December 31, 2017. 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 13, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with Minnesota statutes.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year ended December 31, 2017. We noted no transactions entered into by the City 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 were capital asset basis and depreciation on capital assets and the liability for the District's pensions.

- Management's estimate of depreciation is based on estimated useful lives of the capital assets. Depreciation is calculated using the straight-line method.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.

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. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the adjustments detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 23, 2018.

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 required supplementary information (RSI) (Management’s Discussion and Analysis, the Schedule of Employer’s Share of the Net Pension Liability and the Schedule of Employer’s Contributions), which is information 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 not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized below and on the following pages. These recommendations resulted from our observations made in connection with our audit of the District's financial statements for the year ended December 31, 2017.

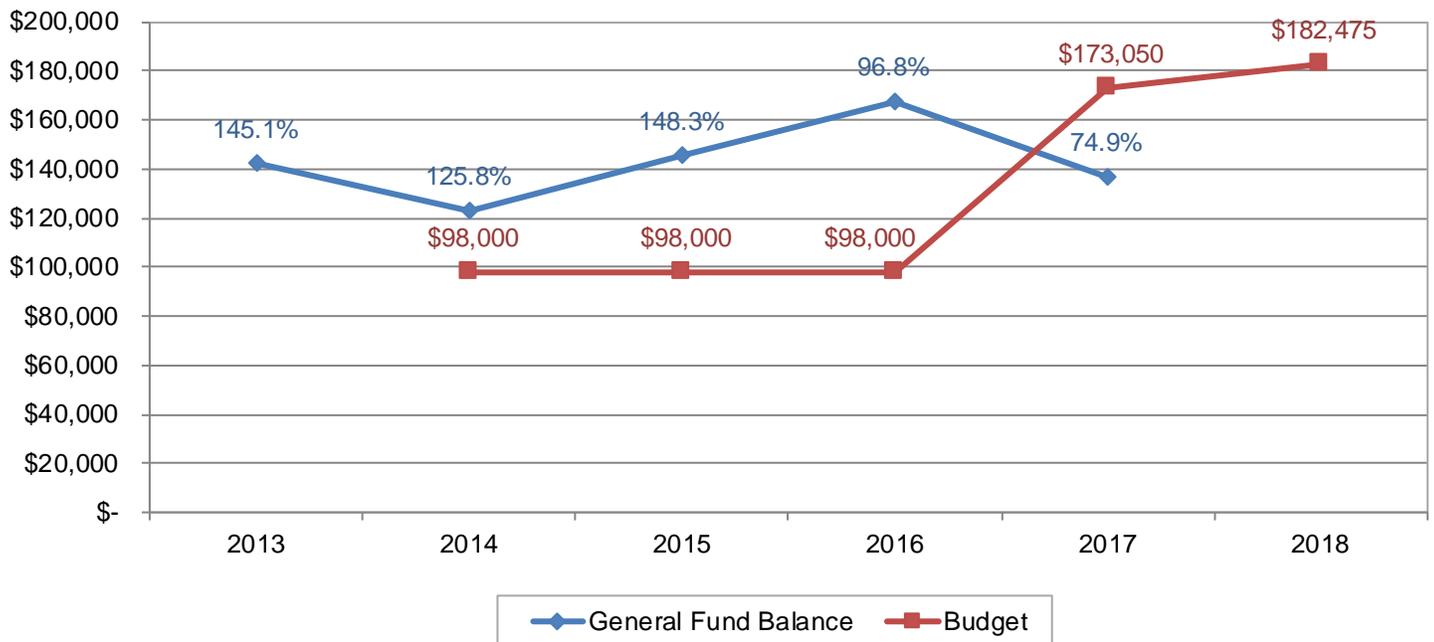
General Fund

The fund balance at December 31, 2017 was \$136,755, a decrease of \$30,816 in comparison with the prior year. The total fund balance represents 74.9 percent of the 2018 General fund budget.

A table summarizing the General fund balance in relation to budget follows:

Year	General Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2013	\$ 142,180	2014	\$ 98,000	145.1 %
2014	123,256	2015	98,000	125.8
2015	145,366	2016	98,000	148.3
2016	167,571	2017	173,050	96.8
2017	136,755	2018	182,475	74.9

Fund Balance as a Percent of Next Year's Budget



The purposes and benefits of a General fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However revenues are not received evenly. An adequate fund balance will provide the cash flow required to finance the General fund expenditures.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay replacement, legal costs and other items. An adequate fund balance will provide the financing needed for such expenditures.

The 2017 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 173,050	\$ 173,334	\$ 284
Expenditures	<u>173,050</u>	<u>204,150</u>	<u>(31,100)</u>
Net Change in Fund Balances	-	(30,816)	(30,816)
Fund Balances, January 1	<u>167,571</u>	<u>167,571</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 167,571</u></u>	<u><u>\$ 136,755</u></u>	<u><u>\$ (30,816)</u></u>

Special Revenue Funds

Special revenue funds include funds used to account for revenue derived from specific revenue sources that are restricted or committed to expenditures for specified purposes.

The 2017 Implementation fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 952,303	\$ 1,060,067	\$ 107,764
Expenditures	<u>828,303</u>	<u>716,443</u>	<u>111,860</u>
Excess of Revenues Over Expenditures	124,000	343,624	219,624
Other Financing Uses Transfers out	<u>(124,000)</u>	<u>(123,098)</u>	<u>902</u>
Net Change in Fund Balances	-	220,526	220,526
Fund Balances, January 1	<u>372,098</u>	<u>372,098</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 372,098</u></u>	<u><u>\$ 592,624</u></u>	<u><u>\$ 220,526</u></u>

Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt.

Debt Service funds may have one or a combination of revenue sources pledged to retire debt. Currently the District debt service is being funded by property taxes.

In addition to the above pledged revenues, other funding sources may be received by Debt Service funds as follows:

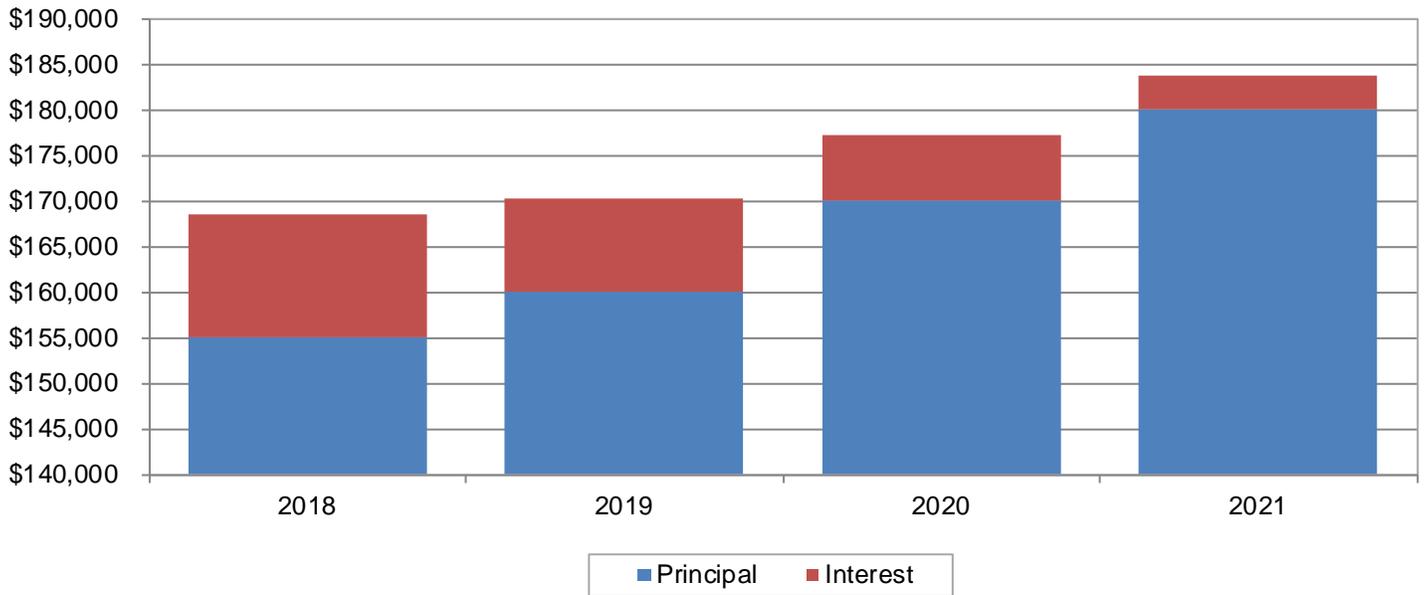
- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or federal grants
- Transfers from other funds

The following is a summary of the assets accumulated in the Debt Service fund and the related long-term debt at year end.

Fund	Cash and Temporary Investments	Total Assets	Bonds Outstanding	Maturity
Bond Debt Service	\$ 22,706	\$ 31,130	\$ 665,000	2021
Total Remaining Interest Payments			\$ 34,715	

The District should continue to monitor sources of payment for their debt obligations and ensure that there are sufficient resources to meet the debt obligations.

Scheduled Governmental Debt Service for the Next Four Years



Capital Projects Funds

This group of funds includes the JPA/MOA activities in the District. A summary of the status of each fund follows:

Fund	Fund Balances December 31,		Increase (Decrease)
	2017	2016	
Major			
JPA/MOA Operations	\$ 313,035	\$ 258,892	\$ 54,143
JPA/MOA Emergency	262,251	260,468	1,783
 Total	 \$ 575,286	 \$ 519,360	 \$ 55,926

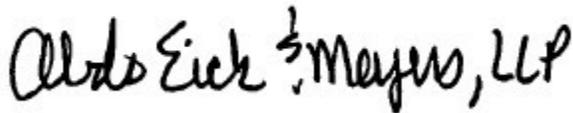
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Restriction on Use

This communication is intended solely for the information and use of the Board, management and the Minnesota Office of the State Auditor and is not intended and should not be used by anyone other than those specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
 Minneapolis, Minnesota
 April 23, 2018