NORTH FORK CROW RIVER
WATERSHED DISTRICT
Brooten, Minnesota

COMMUNICATIONS LETTER

For the Year Ended December 31, 2012

NORTH FORK CROW RIVER WATERSHED DISTRICT

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REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS

Board of Managers
North Fork Crow River Watershed District
Brooten, Minnesota

In planning and performing our audit of the financial statements of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, 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. Material weaknesses are identified within this letter.

A significant deficiency is a deficiency, or 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.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated May 9, 2013, on such statements.

This communication is intended solely for the information and use of management and the Board of Managers, others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 9, 2013

NORTH FORK CROW RIVER WATERSHED DISTRICT

MATERIAL WEAKNESSES
December 31, 2012

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2012, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. In order to have appropriate segregation of accounting duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

We recommend management, along with the Board of Managers, remain aware of this situation and continually monitor the accounting system including changes that occur.

PREPARATION OF FINANCIAL STATEMENTS

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

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 accompanying Notes to the Financial Statements. This circumstance is not unusual in an organization of your size.

This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements lies with management, 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

REQUIRED COMMUNICATION
December 31, 2012

We have audited the financial statements of the District for the year ended December 31, 2012, and have issued our report dated May 9, 2013. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion 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 our 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.

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 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District adopted a fund balance policy during 2012 to be in compliance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate affecting the financial statements was:

> Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

NORTH FORK CROW RIVER WATERSHED DISTRICT

REQUIRED COMMUNICATION
December 31, 2012

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

We evaluated the key factors and assumptions used to develop the estimate on the previous page in determining it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements 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 trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. None of the misstatements 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 requested certain representations from management which were provided to us in the management representation letter.

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. We are not aware of any consultations by the District’s management with other accountants during the course of our audit.

OTHER 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 INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

NORTH FORK CROW RIVER WATERSHED DISTRICT

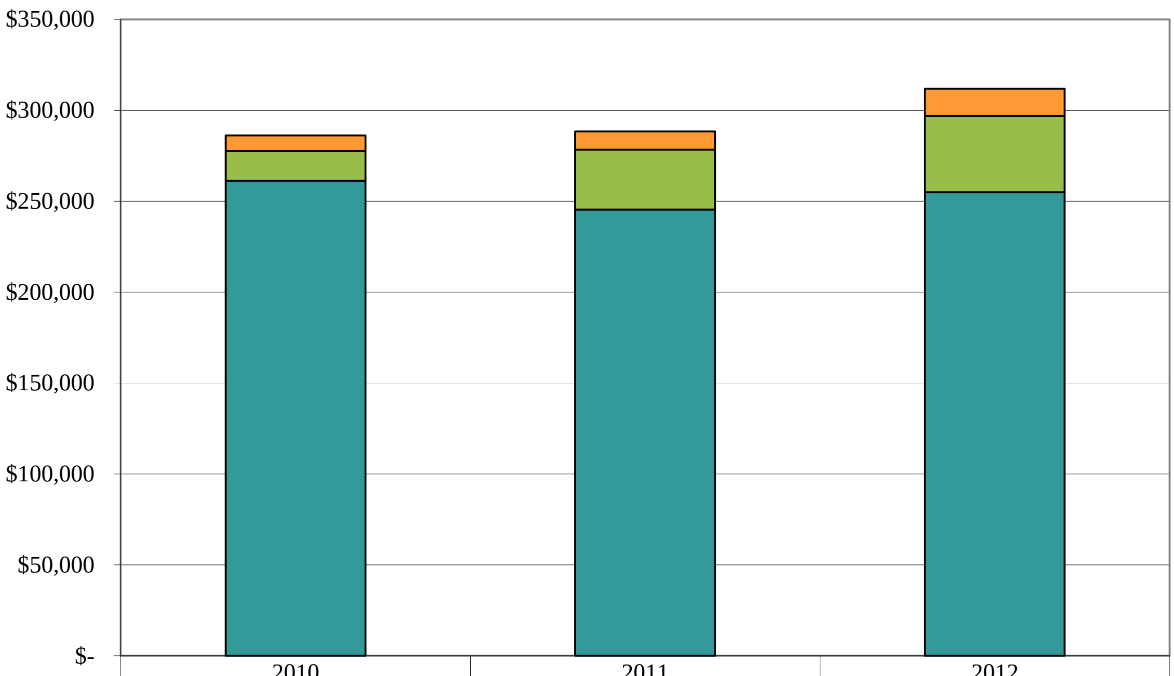
FINANCIAL ANALYSIS
December 31, 2012

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past three years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

ADMINISTRATIVE FUND

From 2011 to 2012, total revenues increased $ 23,435, or 8.1%, in the Administrative Fund. Property taxes increased $ 9,505 from 2011 to 2012, even though the Administrative Fund levy remained the same as the 2011 levy. This is the result of a change in the market value credit. Prior to 2012, the state subsidized a portion of property taxes and paid that portion in the form of a market value credit. In an effort to balance the state's budget, the market value credit subsidization was discontinued beginning with the 2012 levy, resulting in the entire levy being the responsibility of local tax payers. In 2011, the amount of market value credit that offset property taxes was approximately $ 19,000, prior to unallotment. Intergovernmental revenues increased $ 9,007 due to an increase in grant funds received and used by the District, despite a decrease realized due to the change in reporting market value credits. An increase in interest revenue resulted in a slight increase in other revenues.

Administrative Fund Revenues



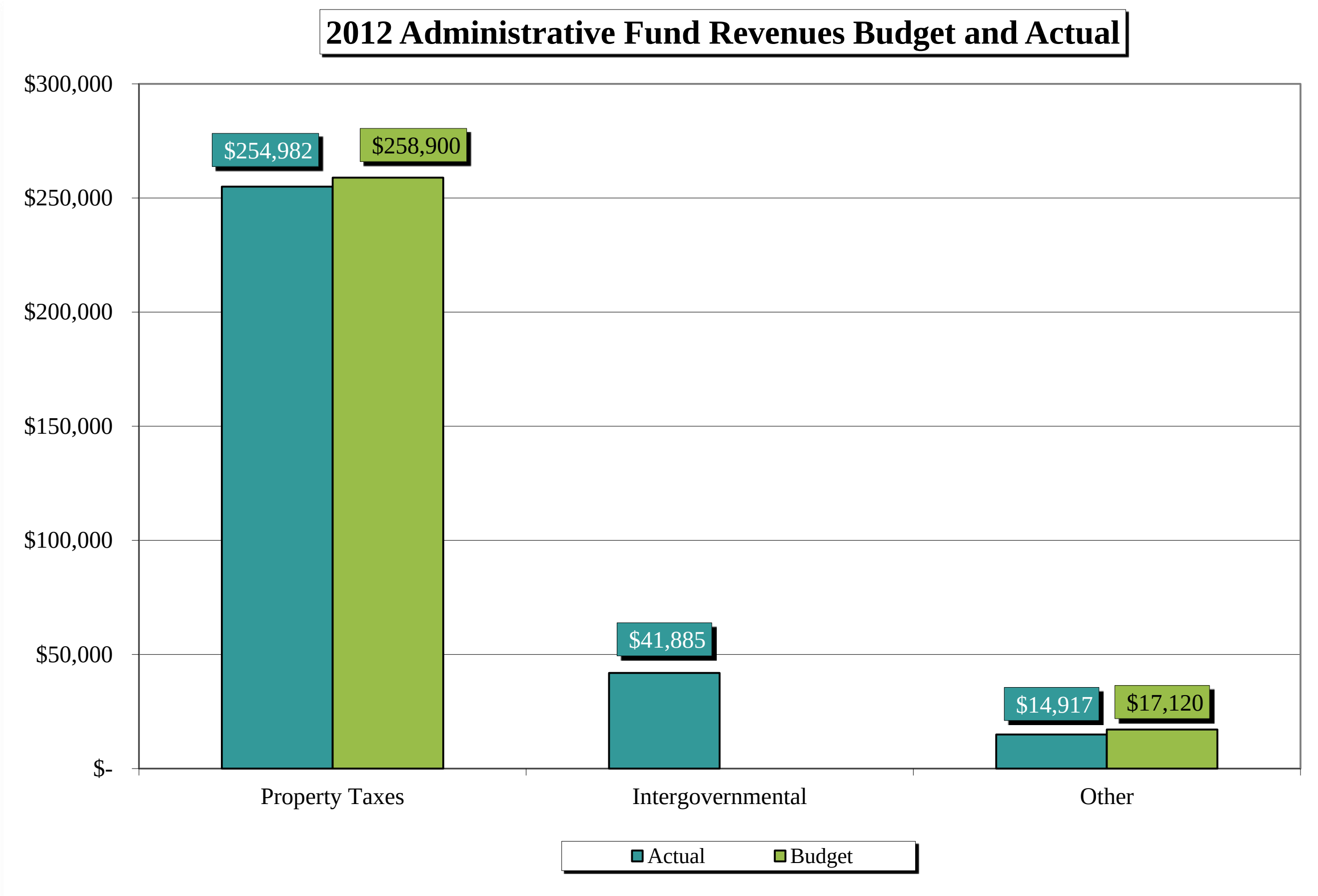
	2010	2011	2012
Other	$8,650	$9,994	$14,917
Intergovernmental	16,350	32,878	41,885
Property Taxes	261,172	245,477	254,982

NORTH FORK CROW RIVER WATERSHED DISTRICT

FINANCIAL ANALYSIS
December 31, 2012

ADMINISTRATIVE FUND

In 2012, Administrative Fund revenues were $ 35,764 over budget. Property taxes were under budget $ 3,918 as the District budgets at the full levy amount and does not budget for the effect of delinquent amounts. Intergovernmental revenues, including grants and agricultural market value credits, are not budgeted for as the amounts vary each year and are not predicitble at the time the District's budget is determined. Other revenues were similar to budgeted amounts, coming in $ 2,203 under budget.

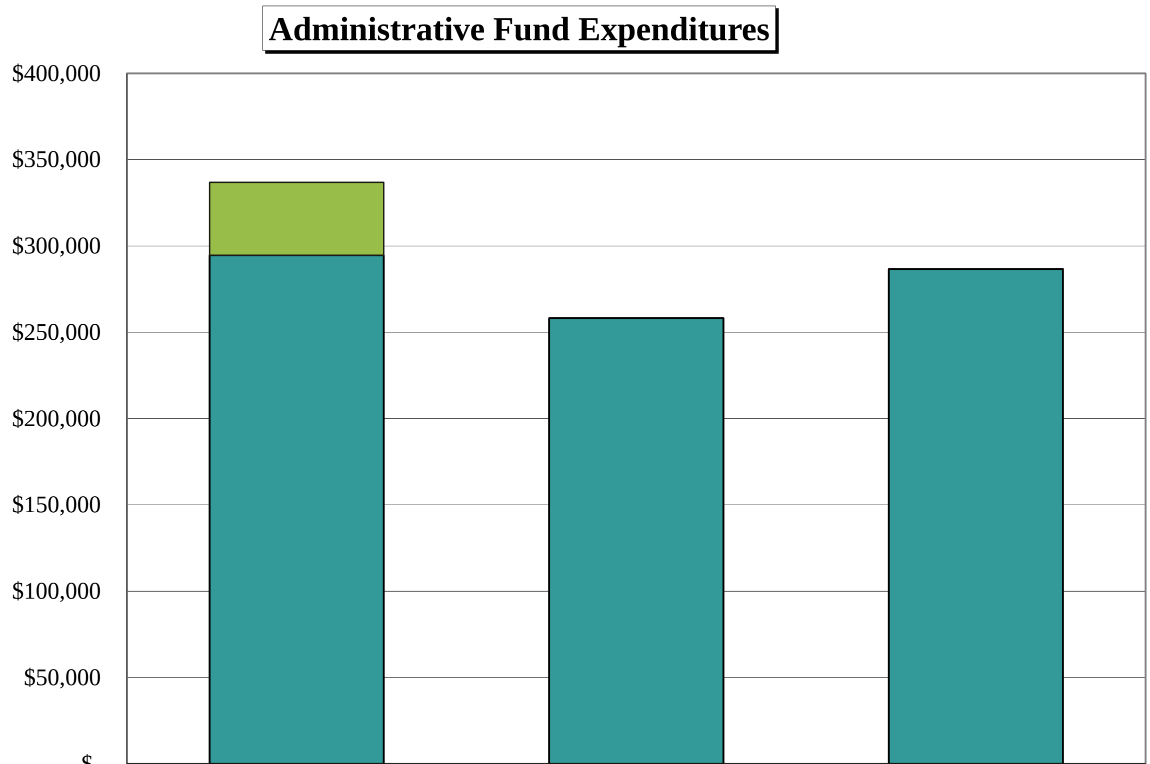


NORTH FORK CROW RIVER WATERSHED DISTRICT

FINANCIAL ANALYSIS
December 31, 2012

ADMINISTRATIVE FUND

Expenditures increased $ 28,609, or 11.1%, from 2011 to 2012 due to the purchase of a truck and additional grant funding available to the District. The District made its final payment on a loan in 2010.



	2010	2011	2012
Debt Service	$42,260	$-	$-
General Government	294,591	258,090	286,699

NORTH FORK CROW RIVER WATERSHED DISTRICT

FINANCIAL ANALYSIS
December 31, 2012

ADMINISTRATIVE FUND

Expenditures were over budget in 2012 by $ 10,679. The District only budgets for the expenditures that will be covered by the levy and not what will be covered by grants or other funding received during the year. The District came in under budget in the areas that were included in the budget.