

**NORTH FORK CROW RIVER
WATERSHED DISTRICT
Brooten, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

NORTH FORK CROW RIVER WATERSHED DISTRICT

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NORTH FORK CROW RIVER WATERSHED DISTRICT

**BOARD OF MANAGERS
December 31, 2012**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
James Wuertz	President	May 9, 2013
Robert Brauchler	Vice President	May 5, 2013
John Hanson	Secretary	May 9, 2015
James Barchenger	Treasurer	May 9, 2015
Gary Berndt	Manager	May 9, 2014



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INDEPENDENT AUDITOR'S REPORT

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2012, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 *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 from 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 District'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 District'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of December 31, 2012, and the respective changes in financial position, thereof, and the respective budgetary comparison for the Administrative Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63

As discussed in Note 11 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2013 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, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 9, 2013

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

As management of North Fork Crow River Watershed District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$ 976,424 (net position). Of this amount, \$ 344,266 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the District's fund designations and fiscal policies.
- The District's total net position decreased by \$ 21,662.
- As of the close of the current year, the District's governmental funds reported combined ending fund balance of \$ 969,302 compared to \$ 983,717 in the previous year.
- At the end of the current year the survey and data acquisition fund balance was \$ 18,281, of which all was restricted.
- The District had debt outstanding of \$ 689,250 at the end of the current year, compared to \$ 730,984 the previous year.
- BWSR Clean Water Fund Conservation Drainage Grant: The District was awarded a Grant for Agricultural Best Management Practices. In 2012, \$9,103 of grant funds, \$ 1,530 of local contributions and \$ 1,609 of in-kind was used to install conservation practices on landowner's agricultural drainage tile systems.
- State Revolving Funds (SRF): SRF loans of \$ 81,766 were received in 2012 and \$ 123,500 of SRF loans were paid off.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the District's near-term financial decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual major governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the Administrative Fund, Survey and Data Acquisition Fund and the Special Projects Fund, which are considered to be major funds.

The District adopts an annual appropriated budget for its Administrative Fund.

A budgetary comparison statement has been provided for this Fund to demonstrate compliance with this budget.

Notes to the Financial Statements

The Notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 976,424 at the close of the most recent year.

A portion of the District's net position, \$ 48,677, reflects its investment in capital assets (building and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. There is no debt related to these assets.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position (Continued)

Following is a comparison of current and previous year net position.

	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 1,642,650	\$ 1,747,948
Capital Assets	<u>48,677</u>	<u>39,323</u>
Total Assets	<u>\$ 1,691,327</u>	<u>\$ 1,787,271</u>
Long-Term Liabilities	\$ 563,268	\$ 607,484
Other Liabilities	<u>151,635</u>	<u>181,701</u>
Total Liabilities	<u>\$ 714,903</u>	<u>\$ 789,185</u>
NET POSITION:		
Net Investment in Capital Assets	\$ 48,677	\$ 39,323
Restricted	583,481	640,404
Unrestricted	<u>344,266</u>	<u>318,359</u>
Total Net Position	<u>\$ 976,424</u>	<u>\$ 998,086</u>

At the end of the current year, the District is able to report positive balances in net position.

Changes in Net Position

Governmental activities resulted in a decrease of the District's net position by \$ 21,662. The details of the decrease are as listed on the following page.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in Net Position (Continued)

	<u>2012</u>	<u>2011</u>
REVENUES:		
Program Revenues:		
Charges for Services	\$ 167,484	\$ 226,697
Operating Grants and Contributions	39,268	39,830
Capital Grants and Contributions	-	-
General Revenues:		
Property Taxes	255,563	291,164
State Aids	3,984	23,176
Investments Earnings	15,480	13,484
Miscellaneous Other	2,859	2,663
Gain on Sale of Capital Assets	2,700	3,625
Total Revenues	<u>487,338</u>	<u>600,639</u>
EXPENSES:		
General	278,621	271,877
Projects	208,961	323,179
Interest on Long-Term Debt	21,418	18,178
Total Expenses	<u>509,000</u>	<u>613,234</u>
Change in Net Position	<u>(21,662)</u>	<u>(12,595)</u>
Net Position, Beginning	<u>998,086</u>	<u>1,010,681</u>
Net Position, Ending	<u>\$ 976,424</u>	<u>\$ 998,086</u>

GOVERNMENTAL FUND FINANCIAL ANALYSIS

The focus of the District's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unrestricted fund balance may serve as useful measure of a government's net resources available for spending at the end of the year.

The Administrative Fund balance increased by \$ 27,785 in 2012.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

BUDGETARY HIGHLIGHTS

Administrative Fund

The original budget for the Administrative Fund adopted by the Board of Managers was not amended during 2012. The Administrative Fund revenues of \$ 311,784 exceeded budgeted revenues of \$ 276,020 due to intergovernmental revenues and agricultural market value credits received, which were not budgeted for. Actual expenditures exceeded budgeted expenditures by \$ 10,679. Due to the fact that the possible award of grant funds during the year cannot be predicted and accurately budgeted, grant funds received and expended resulted in overages in both revenues and expenditures of \$ 35,764 and \$ 10,679, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2012 amounts to \$ 134,751. This investment in capital assets is in building and equipment. Accumulated depreciation was \$ 86,074 with current depreciation charges of \$ 8,409. During 2012, the District replaced a vehicle. Additional information on the District's capital assets can be found in Note 4 of the financial statements.

The District's Capital Assets (Net of Depreciation)

December 31, 2012

Building, Vehicles and Equipment

\$ 48,677

Long-Term Debt

At the end of the current year, the District had long-term debt outstanding of \$ 689,250, a decrease of \$ 41,734 from 2011. Of this debt, \$ 125,982 is payable within one year and all of it is from state revolving funds. Additional information on the District's long-term debt can be found in Note 6 of the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

North Fork Crow River Watershed District
P.O. Box 40
Brooten, Minnesota 56316

BASIC FINANCIAL STATEMENTS

NORTH FORK CROW RIVER WATERSHED DISTRICT

STATEMENT OF NET POSITION

December 31, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 966,233
Property Taxes Receivable	13,958
Special Assessments Receivable	649,656
Grants Receivable	3,350
Due from Other Governments	517
Inventories	7,031
Prepaid Items	1,905
Capital Assets:	
Buildings	44,746
Equipment	71,474
Vehicles	18,531
Less Accumulated Depreciation	<u>(86,074)</u>
 Total Assets	 <u><u>\$ 1,691,327</u></u>
LIABILITIES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 7,874
Accrued Wages Payable	2,492
Interest Payable	349
Unearned Revenue	7,952
Loans Payable:	
Payable Within One Year	125,982
Payable After One Year	563,268
Compensated Absences Payable:	
Payable Within One Year	<u>6,986</u>
Total Liabilities	<u>714,903</u>
Net Position	
Net Investment in Capital Assets	48,677
Restricted for Special Projects	583,481
Unrestricted	<u>344,266</u>
Total Net Position	<u>976,424</u>
 Total Liabilities and Net Position	 <u><u>\$ 1,691,327</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General Government	\$ 278,621	\$ -	\$ 39,268	\$ -	\$ (239,353)
Projects	208,961	167,484	-	-	(41,477)
Interest on Long-Term Debt	21,418	-	-	-	(21,418)
Total Governmental Activities	\$ 509,000	\$ 167,484	\$ 39,268	\$ -	(302,248)
General Revenues					
					255,563
					3,984
					2,859
					15,480
					2,700
					280,586
Change in Net Position					(21,662)
Net Position - Beginning					998,086
Net Position - Ending					\$ 976,424

☞ The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012**

	Administrative (100)	Special Revenue Survey and Data Acquisition (200)	Capital Projects Special Projects	Total Governmental Funds
ASSETS				
Cash	\$ 416,509	\$ 17,881	\$ 531,843	\$ 966,233
Taxes Receivable:				
Current	5,617	-	57	5,674
Delinquent	7,443	-	841	8,284
Special Assessments Receivable:				
Current	-	-	2,910	2,910
Delinquent	-	-	13,437	13,437
Deferred	-	-	633,309	633,309
Grants Receivable	3,350	-	-	3,350
Due From Other Governments	-	-	517	517
Due From Other Funds	300,124	400	80,893	381,417
Prepaid Items	1,905	-	-	1,905
Inventory	7,031	-	-	7,031
	<u>\$ 741,979</u>	<u>\$ 18,281</u>	<u>\$ 1,263,807</u>	<u>\$ 2,024,067</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 2,874	\$ -	\$ 5,000	\$ 7,874
Accrued Wages Payable	2,492	-	-	2,492
Due to Other Funds	81,293	-	300,124	381,417
Deferred Revenue	15,395	-	647,587	662,982
Total Liabilities	<u>102,054</u>	<u>-</u>	<u>952,711</u>	<u>1,054,765</u>
Fund Balances				
Nonspendable	8,936	-	-	8,936
Restricted	-	18,281	607,212	625,493
Unassigned	630,989	-	(296,116)	334,873
Total Fund Balances	<u>639,925</u>	<u>18,281</u>	<u>311,096</u>	<u>969,302</u>
	<u>\$ 741,979</u>	<u>\$ 18,281</u>	<u>\$ 1,263,807</u>	<u>\$ 2,024,067</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2012

Total Fund Balances - Governmental Funds	\$ 969,302
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	134,751
Less Accumulated Depreciation	(86,074)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Loans Payable	(689,250)
Compensated Absences Payable	(6,986)
Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.	
Property Taxes	8,284
Special Assessments	646,746
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.	(349)
Total Net Position - Governmental Activities	\$ 976,424

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	Administrative (100)	Special Revenue Survey and Data Acquisition (200)	Capital Projects Special Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 254,982	\$ -	\$ 592	\$ 255,574
Special Assessments	-	-	224,638	224,638
Intergovernmental	41,885	-	-	41,885
Miscellaneous:				
Investment Income	10,692	108	4,680	15,480
Other	4,225	-	1	4,226
Total Revenues	<u>311,784</u>	<u>108</u>	<u>229,911</u>	<u>541,803</u>
EXPENDITURES				
Current				
General Government	268,168	-	-	268,168
Projects	-	5,772	203,189	208,961
Debt Service				
Principal	-	-	123,500	123,500
Interest and Fiscal Charges	-	-	17,148	17,148
Capital Outlay				
General Government	18,531	-	-	18,531
Total Expenditures	<u>286,699</u>	<u>5,772</u>	<u>343,837</u>	<u>636,308</u>
Excess of Revenues Over (Under) Expenditures	25,085	(5,664)	(113,926)	(94,505)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	2,700	-	-	2,700
Loan Proceeds	-	-	77,390	77,390
Transfers In	-	-	500	500
Transfers Out	-	-	(500)	(500)
Total Other Financing Sources (Uses)	<u>2,700</u>	<u>-</u>	<u>77,390</u>	<u>80,090</u>
Net Change in Fund Balances	27,785	(5,664)	(36,536)	(14,415)
FUND BALANCES				
Beginning of Year	<u>612,140</u>	<u>23,945</u>	<u>347,632</u>	<u>983,717</u>
End of Year	<u>\$ 639,925</u>	<u>\$ 18,281</u>	<u>\$ 311,096</u>	<u>\$ 969,302</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (14,415)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over the estimated
useful lives as depreciation expense.

Capital Outlays	18,531
Depreciation Expense	(8,409)
Loss on Disposal of Capital Assets	(768)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (1,276)

Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in net position in the Statement of Activities. 119,124

Interest on long-term debt in the Statement of Activities differs from the amount
reported in the governmental funds because interest is recognized as an expenditure
in the funds when it is due and thus requires use of current financial resources. In
the Statement of Activities, however, interest expense is recognized as the interest
accrues, regardless of when it is due. 106

Proceeds and other additions to long-term debt are recognized as revenue in the
governmental funds but as a decrease in net position in the Statement of Activities.
Loan Proceeds (77,390)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds.
Taxes and Special Assessments Deferred and Delinquent (57,165)

Change in Net Position - Governmental Activities \$ (21,662)

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -**

BUDGET AND ACTUAL - ADMINISTRATIVE FUND

For the Year Ended December 31, 2012

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Property Taxes	\$ 258,900	\$ 254,982	\$ (3,918)
Intergovernmental	-	41,885	41,885
Miscellaneous:			
Investment Income	5,000	10,692	5,692
Other	12,120	4,225	(7,895)
Total Revenues	<u>276,020</u>	<u>311,784</u>	<u>35,764</u>
 EXPENDITURES			
Current			
General Government:			
Employee Expenses	168,620	163,877	(4,743)
Managers and Administrative	17,100	13,007	(4,093)
Mileage and Expenses	5,500	2,271	(3,229)
Professional Fees	33,000	23,447	(9,553)
Office Expenses	25,100	16,651	(8,449)
Public and Professional Education	9,500	8,519	(981)
Grant Administraiton	-	37,901	37,901
Other	15,700	2,495	(13,205)
Capital Outlay			
General Government:			
Office Expenses	1,500	-	(1,500)
Mileage and Expenses	-	18,531	18,531
Total Expenditures	<u>276,020</u>	<u>286,699</u>	<u>10,679</u>
Excess of Revenues Over Expenditures	-	25,085	25,085
 OTHER FINANCING SOURCE			
Proceeds from Sale of Capital Assets	-	2,700	2,700
Net Change in Fund Balances	<u>\$ -</u>	<u>27,785</u>	<u>\$ 27,785</u>
 FUND BALANCES			
Beginning of Year		<u>612,140</u>	
End of Year		<u>\$ 639,925</u>	

The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Fork Crow River Watershed District (the “District”) is a watershed district created under the provisions of *Minnesota Statutes*. The District is governed by five managers appointed by Stearns, Kandiyohi, Meeker and Pope Counties’ Boards of Commissioners for three year terms. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The financial statements present the District and its component units. The District includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

Blended Component Units – Reported as if they were part of the District.

Joint Ventures and Jointly Governed Organizations – The relationship of the District with the entity is disclosed.

Related Organization – The relationship of the District with the entity is disclosed.

As a result of applying the component unit definition criteria above, we have not identified any organizations that are considered to be component units of the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements (Continued)

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Description of Funds:

Major Governmental Funds:

Administrative Fund – This Fund is the District’s primary operating fund. It accounts for all financial resources of the general District, except those required to be accounted for in another fund.

Survey and Data Acquisition Special Revenue Fund – This Fund accounts for costs of performing surveys and acquiring data. The Fund is financed by an ad valorem levy, which can be levied once every five years.

Special Projects Capital Projects Fund – This Fund accounts for the maintenance and repair of any water course or water body lying wholly or partially within the District.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported in the various functions.

D. Assets, Liabilities and Net Position or Fund Balance

1. Deposits and Investments

The District's cash and investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, and repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

The District did not have formal policies in place as of December 31, 2012 to address custodial credit risk for deposits. The District also did not have policies in place to address credit risk, concentration of credit risk, interest rate risk and custodial credit risk for investments.

At December 31, 2012, cash and investments were comprised of deposits, including savings accounts at a commercial bank.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to those in the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer.

Interest Rate Risk: This is the risk that market values of a security in a portfolio would decrease due to changes in market interest rates.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

2. Property Tax Collection Calendar

The District levies its property tax for the subsequent year during the month of August. December 28 is the last day the District can certify a tax levy to the County Auditors for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. The property tax is recorded as revenue when it becomes measurable and available. Stearns, Kandiyohi, Meeker and Pope Counties are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditors prepare the tax list for all taxable property in the District, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the District.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

3. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of projects in accordance with *Minnesota Statutes*. These assessments are collectible by the District over a term of years usually consistent with the term of the related note payable. Collection of annual installments (including interest) is handled by the County Auditors in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the Board of Managers or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are allocated first to the County's costs of administering all tax forfeited properties. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

a. Government-Wide Financial Statements

The District recognizes special assessment revenue in the period the assessment roll was adopted by the Board of Managers. Uncollectible special assessments are not material and have not been reported.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

3. Special Assessment Revenue Recognition (Continued)

b. Governmental Fund Financial Statements

Revenue from special assessments is recognized by the District when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the District are recognized as revenue for the current year. Special assessments that are collected by the Counties by December 31 and remitted to the District within 60 days of December 31 are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues.

4. Inventory and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories of materials and supplies are maintained for District use and occasional sale at cost to other governmental units. Inventories are valued at cost which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	7-40
Land Improvements	5-30
Machinery, Equipment and Radios	5-40
Vehicles	3-50

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

6. Compensated Absences

Full-time permanent employees earn paid time off (PTO) at a rate based on their years of service. The District compensates employees who resign or retire for unused PTO.

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities fund type Statement of Net Position.

In the fund financial statements, governmental fund types recognize issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision making authority, which is the Board of Managers, and that remain binding unless removed by subsequent formal action of the Board of Managers.
- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the Administrative Fund, that are not classified as nonspendable, restricted or committed. Assignments are made by the District's Administrator based on the Board of Manager's direction.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

8. Fund Balance (Continued)

a. Classification (Continued)

- Unassigned Fund Balance – These are residual amounts in the Administrative Fund not reported in any other classification. The Administrative Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources and use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; committed, assigned and unassigned.

b. Minimum Fund Balance

The District will maintain an unrestricted fund balance in the Administrative Fund of an amount not less than 35% of the next year's budgeted expenditures.

9. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

11. State Revolving Funds

State revolving funds is money received through clean water partnership as a loan to individuals participating in land and septic improvements that affect water quality. Landowners whose applications are approved by the Board of Managers are eligible for loans not to exceed the actual cost of the project. Loans are repaid through special assessments.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, the District submits to the Board of Managers, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. A budget for the Administrative Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are not adopted for Special Revenue Funds. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
4. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without Board of Manager's approval. The Board of Managers may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
5. Budgeted amounts are as originally adopted or as amended by the Board of Managers. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. Disbursements in Excess of Appropriations

	<u>Disbursements</u>	<u>Appropriations</u>	<u>Excess</u>
Administrative Fund	\$ 286,699	\$ 276,020	\$ 10,679

C. Deficit Fund Balances

The Funds listed below had negative fund balances at December 31, 2012.

Special Projects Funds:

Judicial Ditch No. 1	\$ 22,635
Judicial Ditch No. 2	38,465
County Ditch No. 5	83,251
County Ditch No. 21	18,374
County Ditch No. 37	60,055
County Ditch No. 38	1,438
Meeker County Ditch No. 4	60,527
Meeker County Ditch No. 43	11,371

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

C. Deficit Fund Balances (Continued)

The District has implemented plans to eliminate these deficits by future grants, loans and special assessments.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk: As of December 31, 2012, the District’s bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the District’s name.

Total deposits at December 31, 2012 were as follows:

Checking	\$ 7,497
Savings	<u>958,736</u>
Total Deposits	<u>\$ 966,233</u>

Deposits are presented in the December 31, 2012 basic financial statements as follows:

Statement of Net Position	<u>\$ 966,233</u>
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NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the period ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets being Depreciated:				
Buildings	\$ 44,746	\$ -	\$ -	\$ 44,746
Equipment	73,524	-	2,050	71,474
Vehicles	<u>6,861</u>	<u>18,531</u>	<u>6,861</u>	<u>18,531</u>
Total Capital Assets being Depreciated	<u>125,131</u>	<u>18,531</u>	<u>8,911</u>	<u>134,751</u>
Less Accumulated Depreciation for:				
Buildings	16,394	1,118	-	17,512
Equipment	62,553	4,864	1,282	66,135
Vehicles	<u>6,861</u>	<u>2,427</u>	<u>6,861</u>	<u>2,427</u>
Total Accumulated Depreciation	<u>85,808</u>	<u>8,409</u>	<u>8,143</u>	<u>86,074</u>
Governmental Activities, Capital Assets, Net	<u>\$ 39,323</u>	<u>\$ 10,122</u>	<u>\$ 768</u>	<u>\$ 48,677</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
General Government	<u>\$ 8,409</u>

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Due to/from Other Funds

The composition of interfund balances as of December 31, 2012 was as follows:

	<u>Amounts Due to Other Funds</u>			
	<u>Administrative</u>	<u>Survey and Data Acquisition Fund</u>	<u>Special Projects</u>	<u>Total</u>
Amounts Due from Other Funds:				
Administrative	\$ -	\$ 400	\$ 80,893	\$ 81,293
Special Projects	<u>300,124</u>	<u>-</u>	<u>-</u>	<u>300,124</u>
Total	<u>\$ 300,124</u>	<u>\$ 400</u>	<u>\$ 80,893</u>	<u>\$ 381,417</u>

The amounts due to the Administrative Fund, Survey and Data Acquisition Fund and Special Projects Fund represent accruals to account for short-term borrowing for cash flow purposes.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2012 was as follows:

	<u>Transfers In</u>
	Special
	<u>Projects</u>
Transfers Out:	
Special Projects	<u>\$ 500</u>

The above transfer was made to close a project fund.

NOTE 6 – LONG-TERM DEBT

A. Loans Payable

The District enters into loan agreements with the State of Minnesota to provide financing for tax increment projects and improvements. Debt service is covered respectively by special assessments against benefited properties with any shortfalls being paid from general taxes.

These loans generally are issued with a 10 to 15 year term with equal debt service payments each year.

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
State of Minnesota Project						
Loans Payable:						
SRF0139 - Water Quality Improvement Continuation	12/28/04	2%	\$ 431,283	12/15/18	\$ 268,993	\$ 42,632
SRF170-05 - Rice Lake and Koronis Lake Restoration Continuation	05/15/00	2%	500,000	12/15/13	54,018	54,018
SRF0044 - Water Quality Improvement Project	03/31/01	2%	276,777	06/15/15	74,440	29,332
SRF0218 - North Fork Crow Septic System/ Feedlot Upgrades	03/19/10	2%	750,000	*	<u>291,799</u>	<u>-</u>
Total State of Minnesota Project Loans Payable					689,250	125,982
Compensated Absences					<u>6,986</u>	<u>6,986</u>
Total all Long-Term Liabilities					<u>\$ 696,236</u>	<u>\$ 132,968</u>

* The District is still currently drawing down on the balance of this loan. Final payment schedules indicating the final maturity of the loan will not be available until the loan is fully drawn and the State finalizes the loan documentation. The balance of this loan is excluded from the debt service requirements to maturity schedules on the following page.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

C. Minimum Debt Payments

Annual debt service requirements to maturity for all outstanding debt are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>State of Minnesota Project Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 125,982	\$ 7,322	\$ 133,304
2014	73,411	5,064	78,475
2015	59,548	3,588	63,136
2016	45,254	2,545	47,799
2017	46,164	1,635	47,799
2018	47,092	708	47,800
Total	<u>\$ 397,451</u>	<u>\$ 20,862</u>	<u>\$ 418,313</u>

D. Changes in Long-Term Liabilities

Long-term liability activity for the period ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
State of Minnesota Project					
Loans Payable	\$ 730,984	\$ 81,766	\$ 123,500	\$ 689,250	\$ 125,982
Compensated Absences	5,710	11,795	10,519	6,986	6,986
Total Governmental Activites	<u>\$ 736,694</u>	<u>\$ 93,561</u>	<u>\$ 134,019</u>	<u>\$ 696,236</u>	<u>\$ 132,968</u>

The Administrative Fund typically liquidates the liability related to compensated absences.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 7 – FUND BALANCE/NET POSITION

A. Fund Balance

Fund balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>Administrative</u>	<u>Survey and Data Acquisition</u>	<u>Special Projects</u>	<u>Total</u>
Nonspendable:				
Prepaid Items	\$ 1,905	\$ -	\$ -	\$ 1,905
Inventory	7,031	-	-	7,031
Restricted:				
Survey and Data Acquisition	-	18,281	-	18,281
Projects	-	-	607,212	607,212
Unassigned	<u>630,989</u>	<u>-</u>	<u>(296,116)</u>	<u>334,873</u>
 Total	 <u>\$ 639,925</u>	 <u>\$ 18,281</u>	 <u>\$ 311,096</u>	 <u>\$ 969,302</u>

B. Net Position

Restricted net position is comprised of the total restricted fund balance in the governmental funds plus the effect of the conversion to the government-wide net position.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these risks of loss, the District purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state, which is a public entity risk pool currently operating as a common risk management and insurance program. The District pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining, through commercial companies, for excess claims. The District is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The District's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2012 is estimated to be immaterial based on workers' compensation rates and salaries for the period.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 8 – RISK MANAGEMENT

At December 31, 2012, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. In 2012, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 9,604, \$ 8,191 and \$ 10,472, respectively. The District's contributions were equal to the contractually required contributions for each period as set by state statute.

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 9, 2013, the date which the financial statements were available to be issued.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the District implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

NOTE 12 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards of financial reporting for deferred outflows and deferred inflows as established by GASB Statement No. 63. This Statement will also eliminate the recognition of deferred charges associated with bond issuances. This Statement will be effective for the year ending December 31, 2013.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 12 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefit. This Statement will be effective for the year ended December 31, 2015.

SUPPLEMENTARY INFORMATION

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2012**

	<u>Judicial Ditch No. 1 (301)</u>	<u>Judicial Ditch No. 2 (302)</u>	<u>County Ditch No. 5 (303)</u>	<u>County Ditch No. 7 (304)</u>
ASSETS				
Cash	\$ 101	\$ 100	\$ 100	\$ 74,992
Property Taxes Receivable:				
Current	-	-	-	-
Delinquent	-	-	-	-
Special Assessments Receivable:				
Current	198	1,581	79	-
Delinquent	672	-	-	-
Deferred	47,048	12,224	18,972	-
Due From Other Governments	-	-	352	-
Due from Other Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 48,019</u>	<u>\$ 13,905</u>	<u>\$ 19,503</u>	<u>\$ 74,992</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	22,934	40,146	83,782	-
Deferred Revenue	47,720	12,224	18,972	-
Total Liabilities	<u>70,654</u>	<u>52,370</u>	<u>102,754</u>	<u>-</u>
 Fund Balances				
Restricted	-	-	-	74,992
Unassigned	(22,635)	(38,465)	(83,251)	-
Total Fund Balances	<u>(22,635)</u>	<u>(38,465)</u>	<u>(83,251)</u>	<u>74,992</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 48,019</u>	<u>\$ 13,905</u>	<u>\$ 19,503</u>	<u>\$ 74,992</u>

County Ditch No. 21 (305)	County Ditch No. 29 (306)	County Ditch No. 32 (307)	County Ditch No. 36 (308)	County Ditch No. 37 (309)	County Ditch No. 38 (310)	Meeker County Ditch No. 4 (311)
\$ 100	\$ 2,291	\$ 7,943	\$ 1,101	\$ 100	\$ 100	\$ 100
-	-	-	-	-	-	-
-	-	-	-	-	-	-
79	-	-	88	426	-	119
-	6	-	5	-	-	1,530
16,773	-	-	2,184	36,844	1,805	67,134
-	-	-	165	-	-	-
-	-	-	-	-	-	-
<u>\$ 16,952</u>	<u>\$ 2,297</u>	<u>\$ 7,943</u>	<u>\$ 3,543</u>	<u>\$ 37,370</u>	<u>\$ 1,905</u>	<u>\$ 68,883</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18,553	-	-	373	60,581	1,538	60,746
16,773	6	-	2,189	36,844	1,805	68,664
<u>35,326</u>	<u>6</u>	<u>-</u>	<u>2,562</u>	<u>97,425</u>	<u>3,343</u>	<u>129,410</u>
-	2,291	7,943	981	-	-	-
(18,374)	-	-	-	(60,055)	(1,438)	(60,527)
<u>(18,374)</u>	<u>2,291</u>	<u>7,943</u>	<u>981</u>	<u>(60,055)</u>	<u>(1,438)</u>	<u>(60,527)</u>
<u>\$ 16,952</u>	<u>\$ 2,297</u>	<u>\$ 7,943</u>	<u>\$ 3,543</u>	<u>\$ 37,370</u>	<u>\$ 1,905</u>	<u>\$ 68,883</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2012**

	Meeker County Ditch No. 40 (312)	Meeker County Ditch No. 43 (313)	North Fork Crow River Watershed Wide Projects (314)
ASSETS			
Cash	\$ 100	\$ 100	\$ 49,221
Property Taxes Receivable:			
Current	-	-	48
Delinquent	-	-	715
Special Assessments Receivable:			
Current	57	-	-
Delinquent	-	-	-
Deferred	-	-	-
Due From Other Governments	-	-	-
Due from Other Funds	-	-	-
	<u>157</u>	<u>100</u>	<u>49,984</u>
Total Assets	<u>\$ 157</u>	<u>\$ 100</u>	<u>\$ 49,984</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	11,471	-
Deferred Revenue	-	-	715
Total Liabilities	<u>-</u>	<u>11,471</u>	<u>715</u>
Fund Balances			
Restricted	157	-	49,269
Unassigned	-	(11,371)	-
Total Fund Balances	<u>157</u>	<u>(11,371)</u>	<u>49,269</u>
	<u>\$ 157</u>	<u>\$ 100</u>	<u>\$ 49,984</u>
Total Liabilities and Fund Balances	<u>\$ 157</u>	<u>\$ 100</u>	<u>\$ 49,984</u>

Lake Koronis and Rice Lake (315)	WW/Mid SRF (317)	SRF 0218 (318)	Total Special Projects Funds
\$ 150,394	\$ 194,373	\$ 50,627	\$ 531,843
9	-	-	57
126	-	-	841
-	283	-	2,910
-	9,340	1,884	13,437
34,480	150,416	245,429	633,309
-	-	-	517
71,722	9,171	-	80,893
<u>\$ 256,731</u>	<u>\$ 363,583</u>	<u>\$ 297,940</u>	<u>\$ 1,263,807</u>
\$ 5,000	\$ -	\$ -	\$ 5,000
-	-	-	300,124
34,606	159,756	247,313	647,587
<u>39,606</u>	<u>159,756</u>	<u>247,313</u>	<u>952,711</u>
217,125	203,827	50,627	607,212
-	-	-	(296,116)
<u>217,125</u>	<u>203,827</u>	<u>50,627</u>	<u>311,096</u>
<u>\$ 256,731</u>	<u>\$ 363,583</u>	<u>\$ 297,940</u>	<u>\$ 1,263,807</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SPECIAL PROJECTS FUNDS
For the Year Ended December 31, 2012**

	<u>Judicial Ditch No. 1 (301)</u>	<u>Judicial Ditch No. 2 (302)</u>	<u>County Ditch No. 5 (303)</u>	<u>County Ditch No. 7 (304)</u>
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	33,873	6,514	22,580	-
Miscellaneous:				
Investment Income	2	1	1	718
Other	-	-	-	-
Total Revenues	<u>33,875</u>	<u>6,515</u>	<u>22,581</u>	<u>718</u>
EXPENDITURES				
Current				
Projects:				
Wages	480	365	130	240
Managers and Administrative	-	284	-	-
Maintenance and Repair	24,464	16,969	6,427	7,625
Mileage and Expense	241	226	66	92
Professional Fees	294	7,108	-	-
Office Expense	-	27	-	-
Grant Administration	-	-	-	-
Other	-	153	-	-
Debt Service				
Principal	-	-	-	-
Interest and Fiscal Charges	1,105	892	3,640	-
Total Expenditures	<u>26,584</u>	<u>26,024</u>	<u>10,263</u>	<u>7,957</u>
Excess of Revenues Over (Under) Expenditures	7,291	(19,509)	12,318	(7,239)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	7,291	(19,509)	12,318	(7,239)
FUND BALANCES				
Beginning of Year	<u>(29,926)</u>	<u>(18,956)</u>	<u>(95,569)</u>	<u>82,231</u>
End of Year	<u>\$ (22,635)</u>	<u>\$ (38,465)</u>	<u>\$ (83,251)</u>	<u>\$ 74,992</u>

<u>County Ditch No. 21 (305)</u>	<u>County Ditch No. 29 (306)</u>	<u>County Ditch No. 32 (307)</u>	<u>County Ditch No. 36 (308)</u>	<u>County Ditch No. 37 (309)</u>	<u>County Ditch No. 38 (310)</u>	<u>Meeker County Ditch No. 4 (311)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6,806	79	-	3,391	12,840	2,730	5,313
1	25	113	2	1	1	1
-	-	-	-	-	-	-
<u>6,807</u>	<u>104</u>	<u>113</u>	<u>3,393</u>	<u>12,841</u>	<u>2,731</u>	<u>5,314</u>
155	15	310	-	45	-	940
-	-	-	-	-	-	345
1,812	700	3,026	250	2,350	-	10,137
66	1	108	-	-	-	287
-	-	2,964	380	-	-	7,797
-	-	26	11	-	-	96
-	-	-	-	-	-	-
-	-	17	-	-	-	368
-	-	-	-	-	-	-
234	-	-	40	102	131	1,121
<u>2,267</u>	<u>716</u>	<u>6,451</u>	<u>681</u>	<u>2,497</u>	<u>131</u>	<u>21,091</u>
4,540	(612)	(6,338)	2,712	10,344	2,600	(15,777)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,540	(612)	(6,338)	2,712	10,344	2,600	(15,777)
(22,914)	2,903	14,281	(1,731)	(70,399)	(4,038)	(44,750)
<u>\$ (18,374)</u>	<u>\$ 2,291</u>	<u>\$ 7,943</u>	<u>\$ 981</u>	<u>\$ (60,055)</u>	<u>\$ (1,438)</u>	<u>\$ (60,527)</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SPECIAL PROJECTS FUNDS
For the Year Ended December 31, 2012**

	<u>Meeker County Ditch No. 40 (312)</u>	<u>Meeker County Ditch No. 43 (313)</u>	<u>North Fork Crow River Watershed Wide Projects (314)</u>
REVENUES			
Property Taxes	\$ -	\$ -	\$ 549
Special Assessments	4,250	2,167	-
Miscellaneous:			
Investment Income	-	1	272
Other	1	-	-
Total Revenues	<u>4,251</u>	<u>2,168</u>	<u>821</u>
EXPENDITURES			
Current			
Projects:			
Wages	-	-	-
Managers and Administrative	-	-	-
Maintenance and Repair	-	-	-
Mileage and Expense	-	-	-
Professional Fees	-	11,412	-
Office Expense	-	-	-
Grant Administration	-	-	-
Other	-	-	-
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	78	-
Total Expenditures	<u>-</u>	<u>11,490</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	4,251	(9,322)	821
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	4,251	(9,322)	821
FUND BALANCES			
Beginning of Year	<u>(4,094)</u>	<u>(2,049)</u>	<u>48,448</u>
End of Year	<u>\$ 157</u>	<u>\$ (11,371)</u>	<u>\$ 49,269</u>

Lake Koronis and Rice Lake (315)	Grove Lake (316)	WW/Mid SRF (317)	SRF 0218 (318)	Total Special Projects Funds
\$ 43	\$ -	\$ -	\$ -	\$ 592
17,825	3	75,412	30,855	224,638
1,599	4	1,693	245	4,680
-	-	-	-	1
<u>19,467</u>	<u>7</u>	<u>77,105</u>	<u>31,100</u>	<u>229,911</u>
-	-	-	-	2,680
-	-	-	-	629
-	-	-	-	73,760
36	-	-	-	1,123
-	-	-	-	29,955
-	-	-	-	160
1,653	-	-	-	1,653
15,252	-	16	77,423	93,229
52,954	-	70,546	-	123,500
1,876	-	7,929	-	17,148
<u>71,771</u>	<u>-</u>	<u>78,491</u>	<u>77,423</u>	<u>343,837</u>
(52,304)	7	(1,386)	(46,323)	(113,926)
-	-	-	77,390	77,390
-	500	-	-	500
(500)	-	-	-	(500)
<u>(500)</u>	<u>500</u>	<u>-</u>	<u>77,390</u>	<u>77,390</u>
(52,804)	507	(1,386)	31,067	(36,536)
269,929	(507)	205,213	19,560	347,632
<u>\$ 217,125</u>	<u>\$ -</u>	<u>\$ 203,827</u>	<u>\$ 50,627</u>	<u>\$ 311,096</u>

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**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**

INDEPENDENT AUDITOR'S REPORT

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, 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, each major fund and the aggregate remaining fund information of North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 9, 2013.

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) 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 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 described in the accompanying Schedule of Findings and Responses on Internal Control, 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 a 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 in the Schedule of Findings and Responses on Internal Control as Audit Findings 10-01 and 10-03 to be material weaknesses.



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*.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Control. 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 them.

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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kern, DeWenter, Viere, Ltd.

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



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REPORT ON LEGAL COMPLIANCE

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, and have issued our report thereon dated May 9, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that North Fork Crow River Watershed District, Brooten, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

This report is intended solely for the information and use of those charged with governance and management of the District and the State Auditor, 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

SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL December 31, 2012

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 10-01 – 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.

Management's Response:

Solutions to remedy this situation have been explored; although it has been found that it would not be cost effective to hire additional staff to have greater segregation of duties.

Audit Finding 10-03 – 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.

Management's Response:

Solutions have been considered but it is not cost effective to hire additional staff qualified to prepare the financial statements.