

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

COMMUNICATIONS LETTER

Year Ended December 31, 2013

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, 2013, 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.

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. The material weaknesses identified are stated 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 22, 2014, 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 22, 2014

NORTH FORK CROW RIVER WATERSHED DISTRICT

MATERIAL WEAKNESSES

December 31, 2013

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2013, 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, 2013

We have audited the financial statements of the District for the year ended December 31, 2013, and have issued our report dated May 22, 2014. 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.

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 internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District implemented GASB Statement No. 65 during the year ended December 31, 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

NORTH FORK CROW RIVER WATERSHED DISTRICT

REQUIRED COMMUNICATION

December 31, 2013

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

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.

The financial statement disclosures are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We 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. To our knowledge, there were no such consultations with other accountants.

NORTH FORK CROW RIVER WATERSHED DISTRICT

REQUIRED COMMUNICATION

December 31, 2013

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

NORTH FORK CROW RIVER WATERSHED DISTRICT

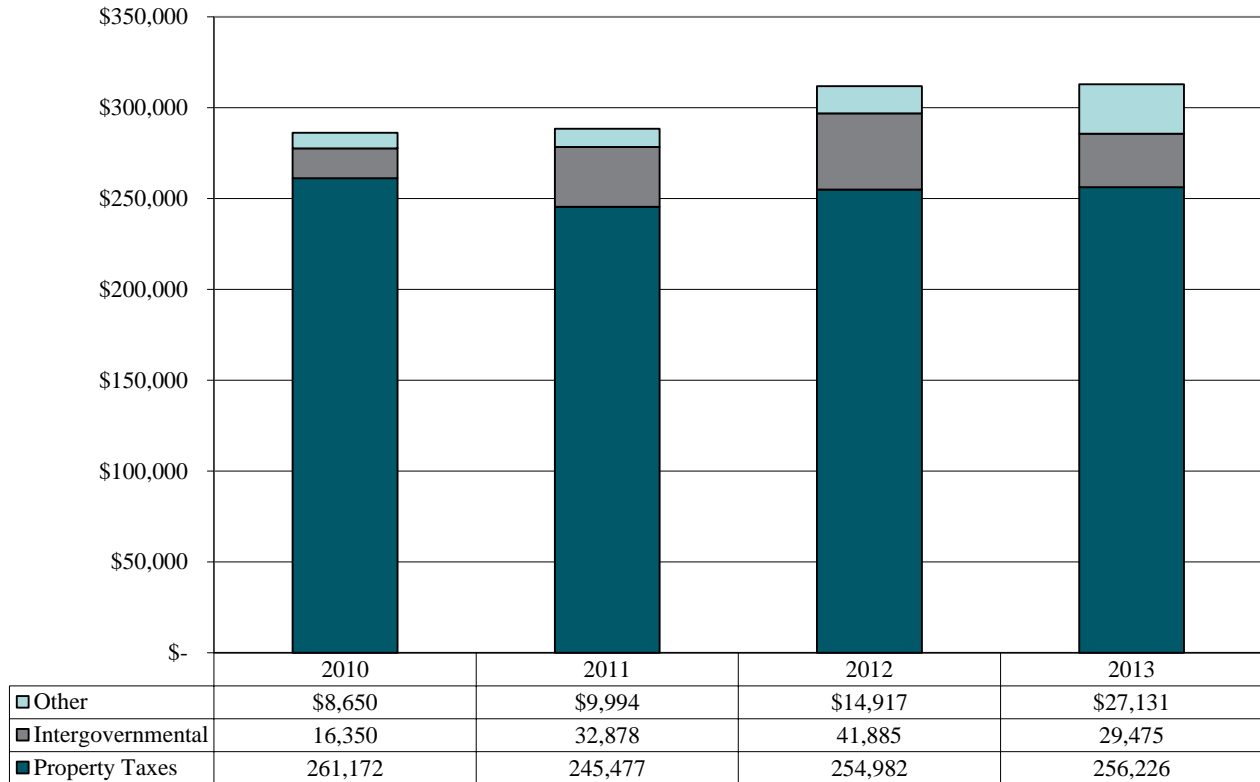
FINANCIAL ANALYSIS December 31, 2013

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

Total revenues remained relatively consistent between 2012 and 2013, in the Administrative Fund. Property taxes remained flat, as the Administrative Fund levy remained the same as the 2012 levy. Intergovernmental revenues decreased \$ 12,410 due to a decrease in expenditures during the year, resulting in an \$ 89,951 increase in deferred revenue during the year. An increase of \$12,214 was noted in Other Revenue. The increase was mostly due to contributions received as part of their AIS grant they received during the current year.

Administrative Fund Revenues



NORTH FORK CROW RIVER WATERSHED DISTRICT

FINANCIAL ANALYSIS December 31, 2013

ADMINISTRATIVE FUND

In 2013, Administrative Fund revenues were \$ 53,932 over budget. Property taxes were under budget \$ 2,674 as the District budgets at the full levy amount and does not budget for the effect of delinquent amounts. Intergovernmental revenues and other revenues, including grants, income, contributions and agricultural market value credits, are not budgeted for as the amounts vary each year and are not predictable at the time the District's budget is determined.

2013 Administrative Fund Revenues Budget and Actual



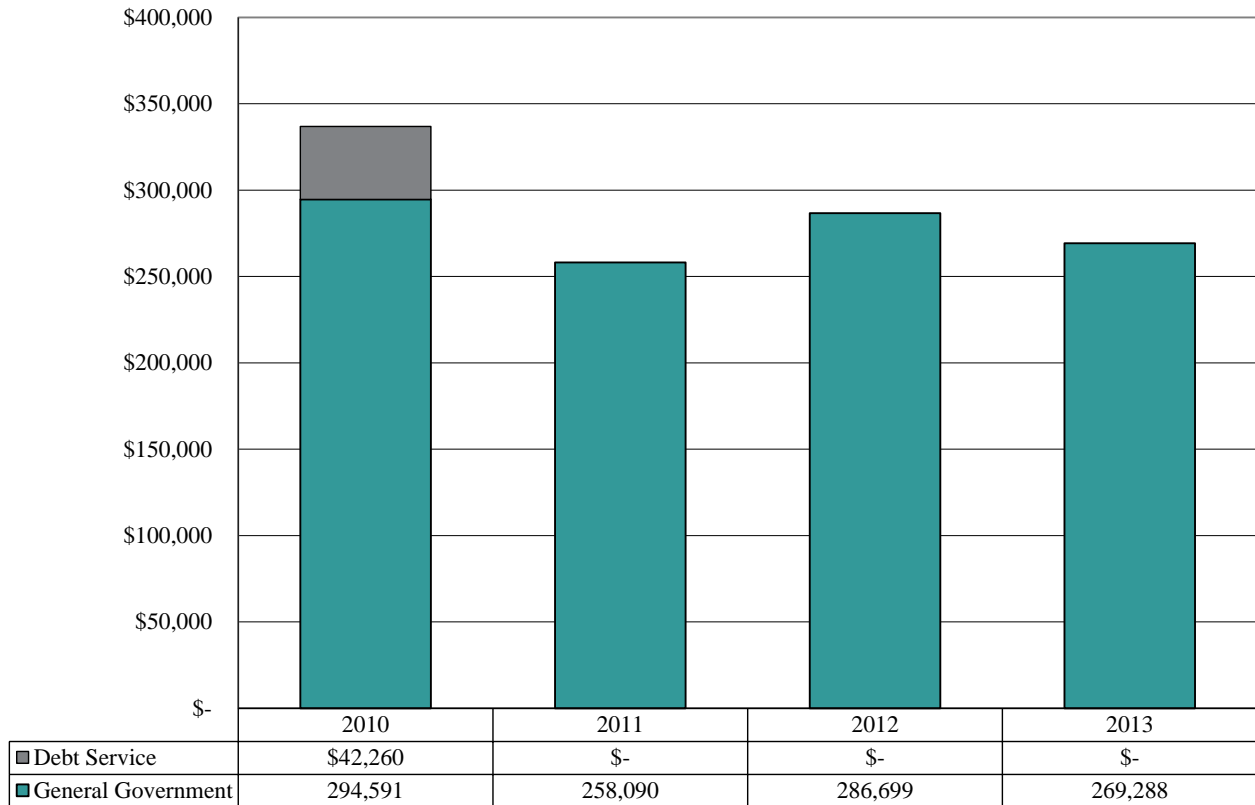
NORTH FORK CROW RIVER WATERSHED DISTRICT

**FINANCIAL ANALYSIS
December 31, 2013**

ADMINISTRATIVE FUND

Expenditures decreased \$ 17,411, or 6.1%, from 2012 to 2013 due to the purchase of a truck purchase in 2012. The District made its final payment on an Administrative Fund loan in 2010.

Administrative Fund Expenditures



NORTH FORK CROW RIVER WATERSHED DISTRICT

FINANCIAL ANALYSIS December 31, 2013

ADMINISTRATIVE FUND

Expenditures were over budget in 2013 by \$ 10,388. 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. Most of the additional expenses were related to seasonal workers that were hired as part of the AIS grant received during the year.

2013 Administrative Fund Expenditures Budget and Actual

