

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

NORTH FORK CROW RIVER WATERSHED DISTRICT

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NORTH FORK CROW RIVER WATERSHED DISTRICT

**BOARD OF MANAGERS
December 31, 2014**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
James Wuertz	President	May 9, 2016
Robert Brauchler	Vice President	May 5, 2016
John Hanson	Secretary	May 9, 2015
James Barchenger	Treasurer	June 9, 2015
Gary Berndt	Manager	May 9, 2017



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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 and each major fund of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2014, 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 and each major fund of the North Fork Crow River Watershed District, Brooten, Minnesota, as of December 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 accompanying supplementary information, as identified in the Table of Contents, is presented for purposes of additional analysis and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements is the responsibility of management and was derived from and relate 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 combining and individual nonmajor fund financial statements 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 21, 2015 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 21, 2015

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$ 1,010,942 (net position). Of this amount, \$ 284,208 (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 \$ 58,162.
- As of the close of the current year, the District's governmental funds reported combined ending fund balance of \$ 821,650 compared to \$ 871,415 in the previous year.
- At the end of the current year the survey and data acquisition fund balance was \$ 3,431, of which all was restricted.
- The District had debt outstanding of \$ 490,154 at the end of the current year, compared to \$ 543,000 the previous year.
- BWSR Clean Water Fund Conservation Drainage Grants: In 2014, the District had three active cost share grants for implementing agricultural Best Management Practices. \$ 29,438 of grant funds and \$ 2,028 of landowner contributions were used to install these conservation practices on landowner's agricultural drainage tile systems.
- Aquatic Invasive Species Inspection Project: In 2014, the District received a \$ 4,000 DNR grant, \$ 25,091 in local contributions, and funded \$ 4,000 from a special project account to hire seasonal watercraft inspectors and administer the inspection project. Project expenses totaled \$ 33,091.
- State Revolving Funds (SRF): SRF loan funds totaling \$ 17,819 were received and administered, while \$ 70,665 of SRF loan principal was paid off in 2014.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

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, 2014

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 and deferred inflows of resources by \$ 1,010,942 at the close of the most recent year.

A portion of the District's net position, \$ 180,141 reflects its investment in capital assets (building, vehicle 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, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position (Continued)

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

	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 1,424,053	\$ 1,678,673
Capital Assets	<u>180,141</u>	<u>43,249</u>
Total Assets	<u>\$ 1,604,194</u>	<u>\$ 1,721,922</u>
Long-Term Liabilities	\$ 418,068	\$ 472,334
Other Liabilities	<u>175,184</u>	<u>180,484</u>
Total Liabilities	<u>\$ 593,252</u>	<u>\$ 652,818</u>
NET POSITION:		
Net Investment in Capital Assets	\$ 180,141	\$ 43,249
Restricted	546,973	674,638
Unrestricted	<u>283,828</u>	<u>351,217</u>
Total Net Position	<u>\$ 1,010,942</u>	<u>\$ 1,069,104</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 \$ 58,162. 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, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in Net Position (Continued)

	<u>2014</u>	<u>2013</u>
REVENUES		
Program Revenues:		
Charges for Services	\$ 107,215	\$ 296,739
Operating Grants and Contributions	33,438	25,611
General Revenues		
Property Taxes	255,194	256,362
State Aids	4,091	3,864
Investment Earnings	16,270	15,717
Other General Revenues	26,615	14,988
Total Revenues	<u>442,823</u>	<u>613,281</u>
EXPENSES		
General	308,723	274,457
Projects	171,472	225,496
Interest on Long-Term Debt	20,790	20,675
Total Expenses	<u>500,985</u>	<u>520,601</u>
Change in Net Position	<u>(58,162)</u>	<u>92,680</u>
Net Position, Beginning	<u>1,069,104</u>	<u>976,424</u>
Net Position, Ending	<u>\$ 1,010,942</u>	<u>\$ 1,069,104</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 decreased by \$ 110,575 in 2014 due primarily to the purchase of the office building at 1030 Front Street, Brooten.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

BUDGETARY HIGHLIGHTS

Administrative Fund

The original budget for the Administrative Fund adopted by the Board of Managers was amended during 2014. The amended budget included: an additional \$ 149,786 of Capital Expenditures to fund the purchase of the office building and monitoring equipment, and an additional \$ 19,860 of office expenses to furnish and upgrade equipment after the purchase of the office building. Not all of this budgeted expense was incurred during 2014. These expenditures will be realized in 2015. The Administrative Fund revenues of \$ 332,584 exceeded budgeted revenues of \$ 258,900 due to intergovernmental revenues and agricultural market value credits received, which were not budgeted for. Actual expenditures exceeded budgeted expenditures by \$ 17,833. Due to the fact that the possible award of grant funds and project contributions during the year cannot be predicted and accurately budgeted, grant funds and project contributions received and expended resulted in overages in both revenues and expenditures of \$ 73,684 and \$ 17,833, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2014 amounts to \$ 277,247. This investment in capital assets is in land, building, vehicle and equipment. Accumulated depreciation was \$ 97,106 with current depreciation charges of \$ 6,209. 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, 2014

Land, Building, Vehicles and Equipment

\$ 180,141

Long-Term Debt

At the end of the current year, the District had long-term debt outstanding of \$ 490,154, a decrease of \$ 52,846 from 2013. Of this debt, \$ 72,086 is payable within one year, plus interest, 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, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 868,742
Accounts Receivable	843
Property Taxes Receivable	19,968
Special Assessments Receivable	525,471
Inventories	7,031
Prepaid Items	1,998
Capital Assets:	
Land	24,500
Buildings	137,979
Equipment	90,870
Vehicles	23,898
Less Accumulated Depreciation	<u>(97,106)</u>
Total Assets	<u><u>\$ 1,604,194</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 13,815
Interest Payable	384
Loans Payable:	
Payable Within One Year	72,086
Payable After One Year	418,068
Compensated Absences Payable:	
Payable Within One Year	<u>6,925</u>
Total Liabilities	<u>511,278</u>
Deferred Inflows of Resources	
Unavailable Revenue - Grant Revenue	<u>81,974</u>
Net Position	
Net Investment in Capital Assets	180,141
Restricted for Special Projects	546,973
Unrestricted	<u>283,828</u>
Total Net Position	<u>1,010,942</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 1,604,194</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, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position
Governmental Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General Government Projects	\$ 308,723 171,472	\$ - 107,215	\$ 33,438 -	\$ - -
Interest on Long-Term Debt	20,790	-	-	-
Total Governmental Activities	\$ 500,985	\$ 107,215	\$ 33,438	\$ -
General Revenues				
Property Taxes				255,194
State Aids				4,091
Other General Revenues				26,615
Investment Earnings				16,270
Total General Revenues				302,170
Change in Net Position				(58,162)
Net Position - Beginning				1,069,104
Net Position - Ending				\$ 1,010,942

53 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, 2014

	Administrative (100)	Special Revenue <u>Survey and Data Acquisition</u> (200)	Capital Projects <u>Special Projects</u>	Total Governmental Funds
ASSETS				
Cash	\$ 416,299	\$ 3,157	\$ 449,286	\$ 868,742
Accounts Receivable	843	-	-	843
Taxes Receivable:				
Current	11,840	-	23	11,863
Delinquent	7,751	-	354	8,105
Special Assessments Receivable:				
Current	-	-	26,962	26,962
Delinquent	-	-	11,163	11,163
Deferred	-	-	487,346	487,346
Due From Other Funds	314,269	296	80,893	395,458
Prepaid Items	1,998	-	-	1,998
Inventory	7,031	-	-	7,031
	<u>760,031</u>	<u>3,453</u>	<u>1,056,027</u>	<u>1,819,511</u>
Total Assets	\$ 760,031	\$ 3,453	\$ 1,056,027	\$ 1,819,511
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 13,357	\$ 22	\$ 436	\$ 13,815
Due to Other Funds	81,189	-	314,269	395,458
Total Liabilities	<u>94,546</u>	<u>22</u>	<u>314,705</u>	<u>409,273</u>
Deferred Inflows of Resources				
Unavailable Revenue - Taxes and Assessments	7,751	-	498,863	506,614
Unavailable Revenue - Grant Revenue	81,974	-	-	81,974
Total Deferred Inflows of Resources	<u>89,725</u>	<u>-</u>	<u>498,863</u>	<u>588,588</u>
Fund Balances				
Nonspendable	9,029	-	-	9,029
Restricted	-	3,431	535,217	538,648
Unassigned	566,731	-	(292,758)	273,973
Total Fund Balances	<u>575,760</u>	<u>3,431</u>	<u>242,459</u>	<u>821,650</u>
	<u>760,031</u>	<u>3,453</u>	<u>1,056,027</u>	<u>1,819,511</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 760,031	\$ 3,453	\$ 1,056,027	\$ 1,819,511

NORTH FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2014

Total Fund Balances - Governmental Funds	\$	821,650
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Cost of Capital Assets		277,247
Less Accumulated Depreciation		(97,106)
<p>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:</p>		
Loans Payable		(490,154)
Compensated Absences Payable		(6,925)
<p>Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.</p>		
Property Taxes		8,105
Special Assessments		498,509
<p>Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.</p>		
		(384)
Total Net Position - Governmental Activities		\$ 1,010,942

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Administrative (100)	Special Revenue Survey and Data Acquisition (200)	Capital Projects Special Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 255,080	\$ -	\$ 125	\$ 255,205
Special Assessments	-	-	306,165	306,165
Intergovernmental	37,529	-	-	37,529
Miscellaneous:				
Investment Income	13,360	47	2,863	16,270
Other	26,615	-	-	26,615
Total Revenues	<u>332,584</u>	<u>47</u>	<u>309,153</u>	<u>641,784</u>
EXPENDITURES				
Current				
General Government	303,033	-	-	303,033
Projects	-	7,349	163,947	171,296
Debt Service				
Principal	-	-	70,665	70,665
Interest and Fiscal Charges	-	-	20,006	20,006
Capital Outlay				
General Government	143,346	-	176	143,522
Total Expenditures	<u>446,379</u>	<u>7,349</u>	<u>254,794</u>	<u>708,522</u>
Excess of Revenues Over (Under) Expenditures	(113,795)	(7,302)	54,359	(66,738)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	16,973	16,973
Transfers In	4,000	-	780	4,780
Transfers Out	(780)	-	(4,000)	(4,780)
Total Other Financing Sources (Uses)	<u>3,220</u>	<u>-</u>	<u>13,753</u>	<u>16,973</u>
Net Change in Fund Balances	(110,575)	(7,302)	68,112	(49,765)
FUND BALANCES				
Beginning of Year	<u>686,335</u>	<u>10,733</u>	<u>174,347</u>	<u>871,415</u>
End of Year	<u>\$ 575,760</u>	<u>\$ 3,431</u>	<u>\$ 242,459</u>	<u>\$ 821,650</u>

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (49,765)

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	143,346
Depreciation Expense	(6,209)
Loss on Disposal of Capital Assets	(245)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities.

764

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.

70,665

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.

(784)

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	(16,973)
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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	<u>(198,961)</u>
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Change in Net Position - Governmental Activities

\$ (58,162)

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 258,900	\$ 258,900	\$ 255,080	\$ (3,820)
Intergovernmental	-	-	37,529	37,529
Miscellaneous:				
Investment Income	-	-	13,360	13,360
Other	-	-	26,615	26,615
Total Revenues	258,900	258,900	332,584	73,684
EXPENDITURES				
Current				
General Government:				
Employee Expenses	177,345	177,345	166,454	(10,891)
Managers and Administrative	15,600	15,600	11,120	(4,480)
Mileage and Expenses	2,000	2,000	2,106	106
Professional Fees	19,300	19,300	21,485	2,185
Office Expenses	20,150	40,010	30,080	(9,930)
Public and Professional Education	10,000	10,000	8,313	(1,687)
Grant Administration	-	-	33,438	33,438
Other	7,500	7,500	30,037	22,537
Capital Outlay				
General Government:				
Office Expenses	7,005	156,791	143,346	(13,445)
Total Expenditures	258,900	428,546	446,379	17,833
Excess of Expenditures Over (Under) Revenues	-	(169,646)	(113,795)	55,851
OTHER FINANCING SOURCES				
Transfers In	-	-	4,000	4,000
Transfers Out	-	-	(780)	(780)
Total Other Financing Sources (Uses)	-	-	3,220	3,220
Net Change in Fund Balances	\$ -	\$ (169,646)	(110,575)	\$ 59,071
FUND BALANCES				
Beginning of Year			686,335	
End of Year			\$ 575,760	

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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, 2014

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, 2014

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, Deferred Inflows of Resources and Net Position/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, 2014 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, 2014, 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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/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, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

6. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District only has one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item is reported only in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from two sources: property taxes and grant revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. 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.

8. 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.

9. 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

9. Fund Balance (Continued)

a. Classification (Continued)

- 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.
- 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.

10. 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

11. 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.

12. 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.

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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Disbursements in Excess of Appropriations

	<u>Disbursements</u>	<u>Appropriations</u>	<u>Excess</u>
Administrative Fund	<u>\$ 446,379</u>	<u>\$ 428,546</u>	<u>\$ 17,833</u>

C. Deficit Fund Balances

The Funds listed below had negative fund balances at December 31, 2014.

Special Projects Funds:

Judicial Ditch No. 1	\$ 81,047
Judicial Ditch No. 2	32,239
County Ditch No. 5	48,040
County Ditch No. 21	853
County Ditch No. 32	28,282
County Ditch No. 37	58,387
Meeker County Ditch No. 4	11,202
Meeker County Ditch No. 43	32,708

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, 2014, 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, 2014 were as follows:

Checking	\$ 6,013
Savings	<u>862,729</u>
Total Deposits	<u>\$ 868,742</u>

Deposits are presented in the December 31, 2014 basic financial statements as follows:

Statement of Net Position	<u>\$ 868,742</u>
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NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the period ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ -	\$ 24,500	\$ -	\$ 24,500
Capital Assets being Depreciated:				
Buildings	44,746	93,233	-	137,979
Equipment	71,474	20,246	850	90,870
Vehicles	18,531	5,367	-	23,898
Total Capital Assets being Depreciated	<u>134,751</u>	<u>118,846</u>	<u>850</u>	<u>252,747</u>
Less Accumulated Depreciation for:				
Buildings	18,630	1,215	-	19,845
Equipment	67,798	1,996	605	69,189
Vehicles	5,074	2,998	-	8,072
Total Accumulated Depreciation	<u>91,502</u>	<u>6,209</u>	<u>605</u>	<u>97,106</u>
Governmental Activities, Capital Assets, Net	<u>\$ 43,249</u>	<u>\$ 137,137</u>	<u>\$ 245</u>	<u>\$ 180,141</u>

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

Governmental Activities:	
General Government	<u>\$ 6,209</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Due to/from Other Funds

The composition of interfund balances as of December 31, 2014 was as follows:

	<u>Amounts Due From Other Funds</u>			
	<u>Administrative</u>	<u>Survey and Data Acquisition Fund</u>	<u>Special Projects</u>	<u>Total</u>
Amounts Due to Other Funds:				
Administrative	\$ -	\$ 296	\$ 80,893	\$ 81,189
Special Projects	<u>314,269</u>	<u>-</u>	<u>-</u>	<u>314,269</u>
Total	<u>\$ 314,269</u>	<u>\$ 296</u>	<u>\$ 80,893</u>	<u>\$ 395,458</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.

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2014 was as follows:

	<u>Transfers In</u>		
	<u>Administrative</u>	<u>Judicial Ditch No. 1</u>	<u>Total</u>
Transfers Out:			
Administrative Fund	\$ -	\$ 780	\$ 780
North Fork Crow River Watershed Wide Projects	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Total	<u>\$ 4,000</u>	<u>\$ 780</u>	<u>\$ 4,780</u>

The above transfers were made to pay for program costs not already covered and a reclassification of a county U.S. Fish and Wildlife Service payment.

NOTE 6 – LONG-TERM DEBT

A. Loans Payable

The District enters into loan agreements with the State of Minnesota to provide financing for watershed 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 – LONG-TERM DEBT

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	\$ 182,872	\$ 44,363
SRF0218 - North Fork Crow Septic System/ Feedlot Upgrades	03/19/10	2%	294,766	06/15/23	254,203	27,723
SRF0268 - North Fork Crow Septic System/ Feedlot Upgrades Continuation Project	02/11/13	2%	500,000	*	<u>53,079</u>	<u>-</u>
Total State of Minnesota Project Loans Payable					490,154	72,086
Compensated Absences					<u>6,925</u>	<u>6,925</u>
Total all Long-Term Liabilities					<u>\$ 497,079</u>	<u>\$ 79,011</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 as shown below.

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>
2015	\$ 72,086	\$ 8,383	\$ 80,469
2016	73,535	6,934	80,469
2017	75,013	5,456	80,469
2018	76,520	3,948	80,469
2019	30,020	2,649	32,669
2020-2023	<u>109,902</u>	<u>4,440</u>	<u>114,342</u>
Total	<u>\$ 437,075</u>	<u>\$ 31,810</u>	<u>\$ 468,885</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 – LONG-TERM DEBT

D. Changes in Long-Term Liabilities

Long-term liability activity for the period ended December 31, 2014 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	\$ 543,000	\$ 17,819	\$ 70,665	\$ 490,154	\$ 72,086
Compensated Absences	7,689	14,436	15,200	6,925	6,925
Total Governmental Activites	<u>\$ 550,689</u>	<u>\$ 32,255</u>	<u>\$ 85,865</u>	<u>\$ 497,079</u>	<u>\$ 79,011</u>

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

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	\$ 1,998	\$ -	\$ -	\$ 1,998
Inventory	7,031	-	-	7,031
Restricted:				
Survey and Data Acquisition	-	3,431	-	3,431
Projects	-	-	535,217	535,217
Unassigned	<u>566,731</u>	<u>-</u>	<u>(292,758)</u>	<u>273,973</u>
 Total	<u>\$ 575,760</u>	<u>\$ 3,431</u>	<u>\$ 242,459</u>	<u>\$ 821,650</u>

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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks 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 2014 is estimated to be immaterial based on workers' compensation rates and salaries for the period.

At December 31, 2014, 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 – PENSION PLANS

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 five 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 – PENSION PLANS

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants.

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 2014. In 2014, 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, 2014, 2013 and 2012 were \$ 9,873, \$ 9,881 and \$ 9,604, respectively. The District's contributions were equal to the contractually required contributions for each period as set by state statute.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 – 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 costs of pension benefits.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

SUPPLEMENTARY INFORMATION

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2014**

	Judicial Ditch No. 1 (301)	Judicial Ditch No. 2 (302)	County Ditch No. 5 (303)	County Ditch No. 7 (304)
ASSETS				
Cash	\$ 100	\$ 100	\$ 100	\$ 56,775
Property Taxes Receivable:				
Current	-	-	-	-
Delinquent	-	-	-	-
Special Assessments Receivable:				
Current	2,290	1,121	3,014	-
Delinquent	142	-	-	-
Deferred	55,949	20,590	61,570	-
Due from Other Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 58,481</u>	<u>\$ 21,811</u>	<u>\$ 64,684</u>	<u>\$ 56,775</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	83,437	33,460	51,154	-
Total Liabilities	<u>83,437</u>	<u>33,460</u>	<u>51,154</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable Revenue - Taxes and Assessments	56,091	20,590	61,570	-
Total Deferred Inflows of Resources	<u>56,091</u>	<u>20,590</u>	<u>61,570</u>	<u>-</u>
Fund Balances				
Restricted	-	-	-	56,775
Unassigned	(81,047)	(32,239)	(48,040)	-
Total Fund Balances	<u>(81,047)</u>	<u>(32,239)</u>	<u>(48,040)</u>	<u>56,775</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 58,481</u>	<u>\$ 21,811</u>	<u>\$ 64,684</u>	<u>\$ 56,775</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	\$ 2,107	\$ 101	\$ 2,129	\$ 100	\$ 380	\$ 100
-	-	-	-	-	-	-
-	-	-	-	-	-	-
610	-	-	196	3,122	-	6,749
-	-	-	10	-	-	-
6,166	-	-	-	12,800	1,078	17,193
-	-	-	-	-	-	-
<u>\$ 6,876</u>	<u>\$ 2,107</u>	<u>\$ 101</u>	<u>\$ 2,335</u>	<u>\$ 16,022</u>	<u>\$ 1,458</u>	<u>\$ 24,042</u>
\$ -	\$ -	\$ 436	\$ -	\$ -	\$ -	\$ -
1,563	-	27,947	-	61,609	-	18,051
<u>1,563</u>	<u>-</u>	<u>28,383</u>	<u>-</u>	<u>61,609</u>	<u>-</u>	<u>18,051</u>
6,166	-	-	10	12,800	1,078	17,193
<u>6,166</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>12,800</u>	<u>1,078</u>	<u>17,193</u>
-	2,107	-	2,325	-	380	-
(853)	-	(28,282)	-	(58,387)	-	(11,202)
<u>(853)</u>	<u>2,107</u>	<u>(28,282)</u>	<u>2,325</u>	<u>(58,387)</u>	<u>380</u>	<u>(11,202)</u>
<u>\$ 6,876</u>	<u>\$ 2,107</u>	<u>\$ 101</u>	<u>\$ 2,335</u>	<u>\$ 16,022</u>	<u>\$ 1,458</u>	<u>\$ 24,042</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2014**

	Meeker County Ditch No. 40 (312)	Meeker County Ditch No. 43 (313)	North Fork Crow River Watershed Wide Projects (314)
ASSETS			
Cash	\$ 159	\$ 100	\$ 48,416
Property Taxes Receivable:			
Current	-	-	19
Delinquent	-	-	301
Special Assessments Receivable:			
Current	-	240	-
Delinquent	-	22	-
Deferred	-	40,296	-
Due from Other Funds	-	-	-
	<u>159</u>	<u>40,658</u>	<u>48,736</u>
Total Assets	<u>\$ 159</u>	<u>\$ 40,658</u>	<u>\$ 48,736</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	33,048	4,000
Total Liabilities	<u>-</u>	<u>33,048</u>	<u>4,000</u>
Deferred Inflows of Resources			
Unavailable Revenue - Taxes and Assessments	-	40,318	301
Total Deferred Inflows of Resources	<u>-</u>	<u>40,318</u>	<u>301</u>
Fund Balances			
Restricted	159	-	44,435
Unassigned	-	(32,708)	-
Total Fund Balances	<u>159</u>	<u>(32,708)</u>	<u>44,435</u>
	<u>\$ 159</u>	<u>\$ 40,658</u>	<u>\$ 48,736</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 159</u>	<u>\$ 40,658</u>	<u>\$ 48,736</u>

Lake Koronis and Rice Lake (315)	WW/Mid SRF (317)	SRF 0218 (318)	SRF 0268 (321)	Total Special Projects Funds
\$ 101,788	\$ 127,788	\$ 105,034	\$ 3,909	\$ 449,286
4	-	-	-	23
53	-	-	-	354
-	5,473	2,279	1,868	26,962
-	9,314	1,675	-	11,163
12,111	54,200	157,420	47,973	487,346
71,722	9,171	-	-	80,893
<u>\$ 185,678</u>	<u>\$ 205,946</u>	<u>\$ 266,408</u>	<u>\$ 53,750</u>	<u>\$ 1,056,027</u>
\$ -	\$ -	\$ -	\$ -	\$ 436
-	-	-	-	314,269
-	-	-	-	314,705
12,164	63,514	159,095	47,973	498,863
<u>12,164</u>	<u>63,514</u>	<u>159,095</u>	<u>47,973</u>	<u>498,863</u>
173,514	142,432	107,313	5,777	535,217
-	-	-	-	(292,758)
<u>173,514</u>	<u>142,432</u>	<u>107,313</u>	<u>5,777</u>	<u>242,459</u>
<u>\$ 185,678</u>	<u>\$ 205,946</u>	<u>\$ 266,408</u>	<u>\$ 53,750</u>	<u>\$ 1,056,027</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, 2014**

	Judicial Ditch No. 1 (301)	Judicial Ditch No. 2 (302)	County Ditch No. 5 (303)	County Ditch No. 7 (304)
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	23,449	17,716	22,182	-
Miscellaneous:				
Investment Income	1	1	1	422
Total Revenues	23,450	17,717	22,183	422
EXPENDITURES				
Current				
Projects:				
Wages	1,225	60	-	120
Managers and Administrative	25	-	-	-
Maintenance and Repair	44,791	15,044	-	-
Mileage and Expense	192	24	-	83
Professional Fees	34,857	73	-	10,200
Office Expense	6	-	-	-
Other	59	294	433	-
Debt Service				
Principal	-	-	-	-
Interest and Fiscal Charges	1,617	1,163	2,485	-
Capital Outlay				
Project Expenditures	-	-	-	-
Total Expenditures	82,772	16,658	2,918	10,403
Excess of Revenues Over (Under) Expenditures	(59,322)	1,059	19,265	(9,981)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	-
Transfers In	780	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	780	-	-	-
Net Change in Fund Balances	(58,542)	1,059	19,265	(9,981)
FUND BALANCES				
Beginning of Year	(22,505)	(33,298)	(67,305)	66,756
End of Year	\$ (81,047)	\$ (32,239)	\$ (48,040)	\$ 56,775

<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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,202	-	-	2,392	12,801	-	15,833
<u>1</u>	<u>14</u>	<u>1</u>	<u>6</u>	<u>1</u>	<u>4</u>	<u>-</u>
<u>9,203</u>	<u>14</u>	<u>1</u>	<u>2,398</u>	<u>12,802</u>	<u>4</u>	<u>15,833</u>
90	-	680	-	-	-	-
-	-	375	-	-	-	-
-	122	3,778	50	1,404	-	139
26	-	139	-	-	-	-
-	-	18,423	-	-	-	-
-	-	1	-	-	-	-
19	-	143	300	25	-	-
-	-	-	-	-	-	-
250	-	434	-	1,038	-	378
-	-	-	-	-	-	-
<u>385</u>	<u>122</u>	<u>23,973</u>	<u>350</u>	<u>2,467</u>	<u>-</u>	<u>517</u>
8,818	(108)	(23,972)	2,048	10,335	4	15,316
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
8,818	(108)	(23,972)	2,048	10,335	4	15,316
<u>(9,671)</u>	<u>2,215</u>	<u>(4,310)</u>	<u>277</u>	<u>(68,722)</u>	<u>376</u>	<u>(26,518)</u>
<u>\$ (853)</u>	<u>\$ 2,107</u>	<u>\$ (28,282)</u>	<u>\$ 2,325</u>	<u>\$ (58,387)</u>	<u>\$ 380</u>	<u>\$ (11,202)</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, 2014**

	Meeker County Ditch No. 40 (312)	Meeker County Ditch No. 43 (313)	North Fork Crow River Watershed Wide Projects (314)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property Taxes	\$ -	\$ -	\$ 107
Special Assessments	-	86,252	-
Miscellaneous:			
Investment Income	1	1	313
Total Revenues	<u>1</u>	<u>86,253</u>	<u>420</u>
EXPENDITURES			
Current			
Projects:			
Wages	-	735	-
Managers and Administrative	-	75	-
Maintenance and Repair	-	7,636	-
Mileage and Expense	-	205	-
Professional Fees	-	-	-
Office Expense	-	-	-
Other	-	108	-
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	2,838	-
Capital Outlay			
Project Expenditures	-	-	176
Total Expenditures	<u>-</u>	<u>11,597</u>	<u>176</u>
Excess of Revenues Over (Under) Expenditures	1	74,656	244
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	(4,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(4,000)</u>
Net Change in Fund Balances	1	74,656	(3,756)
FUND BALANCES			
Beginning of Year	<u>158</u>	<u>(107,364)</u>	<u>48,191</u>
End of Year	<u>\$ 159</u>	<u>\$ (32,708)</u>	<u>\$ 44,435</u>

Lake Koronis and Rice Lake (315)	WW/Mid SRF (317)	SRF 0218 (318)	SRF 0268 (321)	Total Special Projects Funds
\$ 18	\$ -	\$ -	\$ -	\$ 125
6,376	51,114	53,049	5,799	306,165
651	827	616	2	2,863
<u>7,045</u>	<u>51,941</u>	<u>53,665</u>	<u>5,801</u>	<u>309,153</u>
-	-	-	-	2,910
-	-	-	-	475
-	-	-	-	72,964
-	-	-	-	669
-	-	-	-	63,553
-	-	-	-	7
4,971	12	8	16,997	23,369
-	43,488	27,177	-	70,665
-	4,311	5,492	-	20,006
-	-	-	-	176
<u>4,971</u>	<u>47,811</u>	<u>32,677</u>	<u>16,997</u>	<u>254,794</u>
2,074	4,130	20,988	(11,196)	54,359
-	-	-	16,973	16,973
-	-	-	-	780
-	-	-	-	(4,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,973</u>	<u>13,753</u>
2,074	4,130	20,988	5,777	68,112
<u>171,440</u>	<u>138,302</u>	<u>86,325</u>	<u>-</u>	<u>174,347</u>
<u>\$ 173,514</u>	<u>\$ 142,432</u>	<u>\$ 107,313</u>	<u>\$ 5,777</u>	<u>\$ 242,459</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 and each major fund of North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2014, 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 21, 2015.

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 2010-001 and 2010-003 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 21, 2015



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**REPORT ON LEGAL COMPLIANCE
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, 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, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated May 21, 2015.

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 21, 2015

NORTH FORK CROW RIVER WATERSHED DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL December 31, 2014

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 2010-001 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2014, 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 number of staff needed to properly segregate 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; it has been found that it would not be cost effective to hire additional staff to have greater segregation of duties.

Audit Finding 2010-003 – 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.