

Clearwater River Watershed District  
Annandale, Minnesota

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Clearwater River Watershed District  
Annandale, Minnesota

District Officials  
December 31, 2011

<u>Board of Managers</u>	<u>Position</u>	<u>Term Expires</u>
Robert Schiefelbein	Chairman	August 13, 2012
Jerome Risberg	Vice Chairman	August 13, 2014
Mark Kampa	Secretary	August 13, 2012
H. David Wagner	Treasurer	August 13, 2013
Benjamin Drewes	Public Relations	August 13, 2013

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## BURKHARDT & BURKHARDT, Ltd.

Certified Public Accountants

Web Site: [www.burkhardtlltd.com](http://www.burkhardtlltd.com)

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### Independent Auditor's Report

Board of Managers  
Clearwater River Watershed District  
Annandale, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Clearwater River Watershed District, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Clearwater River Watershed District has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Clearwater River Watershed District as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 26 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clearwater River Watershed District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Burkhardt & Burkhardt, Ltd  
Mankato, Minnesota

May 21, 2012

Clearwater River Watershed District  
Annandale, Minnesota

Statement of Net Assets  
December 31, 2011

<b>ASSETS</b>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Cash and cash equivalents	\$ 838,375	\$ 137,692	\$ 976,067
Receivables:			
Accounts	0	33,372	33,372
Property taxes	23,908	0	23,908
Prepaid expenses	<u>3,432</u>	<u>1,223</u>	<u>4,655</u>
Capital Assets:			
Land	173,943	35,400	209,343
Equipment	12,119	8,670	20,789
Project costs	8,965	0	8,965
Sanitary systems	<u>0</u>	<u>2,142,041</u>	<u>2,142,041</u>
Total Capital Assets	195,027	2,186,111	2,381,138
Less: accumulated depreciation	<u>(2,120)</u>	<u>(642,968)</u>	<u>(645,088)</u>
Net Capital Assets	<u>192,907</u>	<u>1,543,143</u>	<u>1,736,050</u>
 Total Assets	 <u><u>\$ 1,058,622</u></u>	 <u><u>\$ 1,715,430</u></u>	 <u><u>\$ 2,774,052</u></u>
 <b>LIABILITIES AND NET ASSETS</b>  			
Liabilities			
Accounts payable	\$ 17,855	\$ 2,897	\$ 20,752
Deferred revenue	<u>217,912</u>	<u>0</u>	<u>217,912</u>
Total Liabilities	<u>235,767</u>	<u>2,897</u>	<u>238,664</u>
Net Assets:			
Invested in capital assets, net of related debt	192,907	1,543,142	1,736,049
Unrestricted	<u>629,948</u>	<u>169,391</u>	<u>799,339</u>
Total Net Assets	<u>822,855</u>	<u>1,712,533</u>	<u>2,535,388</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,058,622</u></u>	 <u><u>\$ 1,715,430</u></u>	 <u><u>\$ 2,774,052</u></u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Statement of Activities  
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmenta Activities	Business- Type Activities	Totals
<b>GOVERNMENTAL</b>							
General government	\$ 242,494	\$ 0	\$ 5,500	\$ 0	\$ (236,994)	\$ 0	\$ (236,994)
Special revenue	230,647	125,693	0	0	(104,954)	0	(104,954)
Capital projects	2,447	34,689	0	0	32,242	0	32,242
Total Governmental activities	<u>475,588</u>	<u>160,382</u>	<u>5,500</u>	<u>0</u>	<u>(309,706)</u>	<u>0</u>	<u>(309,706)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Sanitary system	<u>114,904</u>	<u>75,445</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(39,459)</u>	<u>(39,459)</u>
Total Primary Government	<u>\$ 590,492</u>	<u>\$ 235,827</u>	<u>\$ 5,500</u>	<u>\$ 0</u>	<u>(309,706)</u>	<u>(39,459)</u>	<u>(349,165)</u>
General Revenues:							
Property taxes, levied for general purposes					279,355	0	279,355
Intergovernmental					22,278	0	22,278
Interest and investments earnings					11,483	1,199	12,682
Miscellaneous					7,004	329	7,333
Total General Revenues					<u>320,120</u>	<u>1,528</u>	<u>321,648</u>
Changes in Net Assets					10,414	(37,931)	(27,517)
Net Assets - Beginning					<u>812,441</u>	<u>1,750,464</u>	<u>2,562,905</u>
Net Assets - Ending					<u>\$ 822,855</u>	<u>\$ 1,712,533</u>	<u>\$ 2,535,388</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Balance Sheet - Governmental Funds  
December 31, 2011

	General	Augusta Channel Clean Out	Operations & Maintenance
<b>ASSETS</b>			
Cash and cash equivalents	\$ 439,291	\$ (41,804)	\$ 286,461
Property taxes receivable	21,326	0	0
Prepaid expenses	3,432	0	0
Total Assets	<u>\$ 464,049</u>	<u>\$ (41,804)</u>	<u>\$ 286,461</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 16,236	\$ 0	\$ 924
Deferred revenue	17,911	5,274	85,970
Total Liabilities	34,147	5,274	86,894
Fund Balances:			
Nonspendable - prepaid expenses	3,432	0	0
Assigned:			
Special revenue funds	0	0	199,567
Special projects	3,457	0	0
Unassigned:			
General Fund	423,013	0	0
Special revenue funds	0	(47,078)	0
Total Fund Balances	429,902	(47,078)	199,567
Total Liabilities and Fund Balance	<u>\$ 464,049</u>	<u>\$ (41,804)</u>	<u>\$ 286,461</u>

The Notes to the Financial Statements are an Integral part of these Statements

Lake Cedar AIS	Louisa & Marie AIS	Other Governmental Funds	Total Governmental Funds
\$ 42,179	\$ 28,689	\$ 83,559	\$ 838,375
0	0	2,582	23,908
<u>0</u>	<u>0</u>	<u>0</u>	<u>3,432</u>
<u>\$ 42,179</u>	<u>\$ 28,689</u>	<u>\$ 86,141</u>	<u>\$ 865,715</u>
\$ 42	\$ 42	\$ 613	\$ 17,857
<u>48,400</u>	<u>35,499</u>	<u>42,767</u>	<u>235,821</u>
<u>48,442</u>	<u>35,541</u>	<u>43,380</u>	<u>253,678</u>
0	0	0	3,432
0	0	42,761	242,328
0	0	0	3,457
0	0	0	423,013
<u>(6,263)</u>	<u>(6,852)</u>	<u>0</u>	<u>(60,193)</u>
<u>(6,263)</u>	<u>(6,852)</u>	<u>42,761</u>	<u>612,037</u>
<u>\$ 42,179</u>	<u>\$ 28,689</u>	<u>\$ 86,141</u>	<u>\$ 865,715</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Reconciliation of the Balance Sheet to the Statement Net Assets - Governmental Funds  
December 31, 2011

Total Fund Balances - Governmental Funds	\$ 612,037
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of Capital Assets:	195,027
Less: Accumulated Depreciation	(2,120)
Certain receivables will be collected next year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Delinquent property taxes	<u>17,911</u>
Total Net Assets - Governmental Activities	<u>\$ 822,855</u>

The Notes to the Financial Statements are anIntegral part of these Statements



Clearwater River Watershed District  
Annandale, Minnesota

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds  
For the Year Ended December 31, 2011

	General	Augusta Channel Clean Out	Operations & Maintenance
<b>Revenues</b>			
General property taxes	\$ 234,059	\$ 0	\$ 59
Intergovernmental revenue	22,278	0	0
Special assessments	0	0	67,362
Miscellaneous Income	8,557	3,500	234
Interest income	8,534	0	2,270
Total Revenue	273,428	3,500	69,925
<b>Expenditures</b>			
General government	297,100	0	0
Special revenue expenditures	0	46,674	83,059
Capital project expenditures	0	0	0
Total Expenditures	297,100	46,674	83,059
Excess Revenues Over (Under) Expenditures	(23,672)	(43,174)	(13,134)
<b>Other Financing Sources (Uses)</b>			
Transfer in	0	2,000	0
Transfers out	(19,750)	0	0
Total Other Financing Sources (Uses)	(19,750)	2,000	0
Net Change in Fund Balance	(43,422)	(41,174)	(13,134)
Fund Balance - Beginning	473,324	(5,904)	212,701
Fund Balance - Ending	\$ 429,902	\$ (47,078)	\$ 199,567

The Notes to the Financial Statements are an Integral part of these Statements

Cedar Lake AIS	Louisa & Marie AIS	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 45,237	\$ 279,355
0	0	0	22,278
0	0	93,020	160,382
19	18	176	12,504
71	31	577	11,483
<u>90</u>	<u>49</u>	<u>139,010</u>	<u>486,002</u>
0	0	0	297,100
6,353	6,901	92,998	235,985
0	0	2,447	2,447
<u>6,353</u>	<u>6,901</u>	<u>95,445</u>	<u>535,532</u>
<u>(6,263)</u>	<u>(6,852)</u>	<u>43,565</u>	<u>(49,530)</u>
0	0	37,467	39,467
0	0	(19,717)	(39,467)
0	0	17,750	0
(6,263)	(6,852)	61,315	(49,530)
0	0	(18,554)	661,567
<u>\$ (6,263)</u>	<u>\$ (6,852)</u>	<u>\$ 42,761</u>	<u>\$ 612,037</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

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, 2011

Total Net Change in Fund Balances - Governmental Funds \$ (49,530)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	60,934
Less: Depreciation	(990)

Change in Net Assets - Governmental Activities \$ 10,414

Clearwater River Watershed District  
Annandale, Minnesota

Statement of Net Assets - Proprietary Funds  
December 31, 2011

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 48,401	\$ 8,739	\$ 56,743	\$ 23,809	\$ 137,692
Prepaid insurance	336	146	741	0	1,223
Accounts receivable	7,856	1,462	18,816	5,238	33,372
Total Current Assets	<u>56,593</u>	<u>10,347</u>	<u>76,300</u>	<u>29,047</u>	<u>172,287</u>
<b>Capital Assets</b>					
Capital assets	491,108	141,138	1,482,365	71,500	2,186,111
Less: Accumulated depreciation	<u>(124,794)</u>	<u>(21,808)</u>	<u>(486,970)</u>	<u>(9,396)</u>	<u>(642,968)</u>
Net Capital Assets	<u>366,314</u>	<u>119,330</u>	<u>995,395</u>	<u>62,104</u>	<u>1,543,143</u>
Total Assets	<u>\$ 422,907</u>	<u>\$ 129,677</u>	<u>\$ 1,071,695</u>	<u>\$ 91,151</u>	<u>\$ 1,715,430</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities</b>					
Accounts payable	<u>\$ 1,303</u>	<u>\$ 81</u>	<u>\$ 1,433</u>	<u>\$ 81</u>	<u>\$ 2,898</u>
Total Current Liabilities	<u>1,303</u>	<u>81</u>	<u>1,433</u>	<u>81</u>	<u>2,898</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	366,314	119,330	995,394	62,104	1,543,142
Unrestricted	<u>55,291</u>	<u>10,266</u>	<u>74,868</u>	<u>28,966</u>	<u>169,391</u>
Total Net Assets	<u>421,605</u>	<u>129,596</u>	<u>1,070,262</u>	<u>91,070</u>	<u>1,712,533</u>
Total Liabilities and Net Assets	<u>\$ 422,908</u>	<u>\$ 129,677</u>	<u>\$ 1,071,695</u>	<u>\$ 91,151</u>	<u>\$ 1,715,431</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds  
For the Year Ended December 31, 2011

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
<b>Revenue</b>					
Charges for services	\$ 19,714	\$ 5,774	\$ 38,645	\$ 8,390	\$ 72,523
Special assessment from homeowner	468	20	1,566	868	2,922
Miscellaneous income	102	38	147	42	329
<b>Total Revenues</b>	<u>20,284</u>	<u>5,832</u>	<u>40,358</u>	<u>9,300</u>	<u>75,774</u>
<b>Operating Expenses</b>					
Accounting	99	28	183	28	338
Depreciation	12,814	2,643	56,354	2,750	74,561
Engineering	207	0	207	0	414
Insurance	307	134	434	169	1,044
Legal	145	1,273	145	13	1,576
Management fees	351	211	899	264	1,725
Miscellaneous	8	100	431	0	539
Other professional fees	4,030	366	6,230	204	10,830
Permits	398	0	398	390	1,186
Repairs and maintenance	6,427	348	7,497	2,109	16,381
Supplies	428	25	0	0	453
Telephone	592	314	592	0	1,498
Utilities	2,258	359	1,471	271	4,359
<b>Total Operating Expenses</b>	<u>28,064</u>	<u>5,801</u>	<u>74,841</u>	<u>6,198</u>	<u>114,904</u>
Income (Loss) from Operations	(7,780)	31	(34,483)	3,102	(39,130)
<b>Nonoperating Income (Expense)</b>					
Interest income	446	67	482	204	1,199
<b>Total Nonoperating Income (Expense)</b>	<u>446</u>	<u>67</u>	<u>482</u>	<u>204</u>	<u>1,199</u>
Change in Net Assets	(7,334)	98	(34,001)	3,306	(37,931)
Net Assets - beginning	<u>428,939</u>	<u>129,498</u>	<u>1,104,263</u>	<u>87,764</u>	<u>1,750,464</u>
Net Assets - ending	<u>\$ 421,605</u>	<u>\$ 129,596</u>	<u>\$ 1,070,262</u>	<u>\$ 91,070</u>	<u>\$ 1,712,533</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Statement of Cash Flows - Proprietary Funds  
For the Year Ended December 31, 2011

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
<b>CASH FLOWS FROM OPERATING</b>					
Receipts from customers and users	\$ 20,185	\$ 5,808	\$ 36,046	\$ 7,934	\$ 69,973
Payments to suppliers	<u>(15,002)</u>	<u>(3,370)</u>	<u>(18,349)</u>	<u>(3,453)</u>	<u>(40,174)</u>
Net Cash provided by operating activities	<u>5,183</u>	<u>2,438</u>	<u>17,697</u>	<u>4,481</u>	<u>29,799</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b>					
Purchase of capital assets	(4,330)	0	(4,335)	0	(8,665)
<b>CASH FLOWS FROM INVESTING</b>					
Interest received	<u>446</u>	<u>67</u>	<u>482</u>	<u>204</u>	<u>1,199</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	1,299	2,505	13,844	4,685	22,333
Cash and Cash Equivalents - Beginning	<u>47,101</u>	<u>6,234</u>	<u>42,899</u>	<u>19,124</u>	<u>115,358</u>
Cash and Cash Equivalents - Ending	<u>\$ 48,400</u>	<u>\$ 8,739</u>	<u>\$ 56,743</u>	<u>\$ 23,809</u>	<u>\$ 137,691</u>
<b>Reconciliation of operating income to net cash provided (used) by operating</b>					
Operating net income	\$ (7,780)	\$ 31	\$ (34,483)	\$ 3,102	\$ (39,130)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	12,814	2,643	56,354	2,750	74,561
Accounts receivable	(99)	(24)	(4,312)	(1,366)	(5,801)
Prepaid insurance	(44)	(19)	(97)	0	(160)
Accounts payable	<u>292</u>	<u>(193)</u>	<u>235</u>	<u>(5)</u>	<u>329</u>
Net Cash Provided by Operating Activities	<u>\$ 5,183</u>	<u>\$ 2,438</u>	<u>\$ 17,697</u>	<u>\$ 4,481</u>	<u>\$ 29,799</u>

The Notes to the Financial Statements are an Integral part of these Statements

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District relating to the activities included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication titled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable).

**A. Organization and Purpose**

The Clearwater River Watershed District was organized under provisions of Minnesota Statutes Chapter 103D. The District is governed by a Board of Managers composed of five members appointed by the counties within the area of the Watershed District boundaries.

The purpose of the District is to conserve the natural resources of the State by land use planning, flood control and other conservation projects by using sound scientific principles for the protection of public health and welfare and the provident use of the natural resources.

**B. Financial Reporting Entity**

The District is operated by a board composed of five member appointed by the counties inside the Clearwater River Watershed. The board exercises legislative authority and determines all matters of policy. The board appoints personnel responsible for the proper administrative of all affairs relating to the District. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The criteria for including organizations as component units within the District's reporting entity include whether the organization is legally separate and whether the District holds the corporate powers, whether the District appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the District. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are combined with date of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the District. Based on the foregoing criteria as of December 31, 2011, the District had no blended or discretely presented component units.

In conformance with standards established by the Governmental Accounting Standards Board, the District includes all funds and that are controlled by or dependent on the District Board. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these Statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment for offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and b) 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.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal 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.

The financial transactions of the District are recorded in individual funds. Each fund is accounted by providing a separate set of self-balancing accounts that comprise it assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.



Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The new model as defined by GASB Statement No. 34 established criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category of the governmental and enterprises combined) for the determination of major funds. The nonmajor funds are combined in a single column in the fund financial statements.

**Description of Funds:**

**Major Funds**

**General Fund**

The General Fund is the main operating fund of the District. The expenditures for all general governmental activities are recorded in the General Fund. The Fund also accounts for the activities of special projects which are funded by property taxes, and for which no other funding sources are available.

**Special Revenue Funds**

Special Revenue funds account for revenues and expenditures of activities for which the revenue sources are restricted, committed, or assigned for specific purposes. A brief description of the Special Revenue funds maintained by the District in 2011 is as follows:

**Augusta Channel Clean out Project**

The purpose of this petitioned project is to restore the Lake Augusta West Channel to navigable status.

**Operations and Maintenance Fund**

The financial activities relating to the maintenance of the original Clearwater Chain of Lakes Restoration Project are recorded in this fund. This is the largest Special Revenue fund maintained by the District. The special assessments levied against lake front properties, are the highest for those lakefront properties located in the lower reaches of the District. The rate gradually drops to zero against lake front properties in the upper reaches of the District.

**Cedar Lake Aquatic Invasive Species Fund**

This fund was established to provide funds for the control of aquatic invasive species (AIS) in Cedar Lake. Special Assessments are levied against property owners on Cedar Lake to raise the necessary funds.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**Description of Funds:** (continued)

**Lakes Louisa & Marie Aquatic Invasive Species Fund**

This fund was established to provide funds for the control of aquatic invasive species (AIS) on Lakes Louisa & Marie. Special Assessments are levied against property owners on Lakes Louisa & Marie to raise the necessary funds.

**Proprietary Funds**

Enterprise funds are used to account to operations that are financed and operated in manner similar to private business enterprises, where the intent is that the costs of providing services are to be recovered primarily on a user charge basis. Enterprise funds maintained by the District are as follows:

**Hidden River Sanitary Sewer Maintenance Fund**

This fund accounts for the maintenance costs of the Hidden River Sanitary Sewer system. Property owners are being billed for the sewer service.

**Rest a While Sanitary Sewer Maintenance Fund**

This fund accounts for the maintenance costs of the Rest a While Sanitary Sewer system. Property owners are being billed for the sewer service.

**Clearwater Harbor Sewer Maintenance Fund**

This fund accounts for the maintenance costs of the Clearwater Harbor Sanitary Sewer system. Property owners are being billed for the sewer service.

**Wandering Ponds Maintenance Fund**

This fund accounts for the maintenance costs of the Wandering Ponds Sanitary Sewer system. Property owners are being billed for the sewer service.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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 charges between the District's utility functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include a) charges to customers or applicants for good, services or privileges provided, b) operating grants and contributions and c) capital grants and contributions, including special assessments. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Hidden River Sanitary Sewer Maintenance Fund, Rest a While Sanitary Sewer Maintenance Fund,

Clearwater Harbor Sewer Maintenance Fund is charges to customers for sales and services. Operating expenses for enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**E. Assets, Liabilities and Net Assets or Equity**

**1. Deposit and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition. Investments are stated at fair value.

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the Board of Managers. *Minnesota Statutes* require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of the collateral pledged must equal 110% of the deposit not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

The District has adopted a policy to address custodial risk for deposits that matches *Minnesota Statutes* requirement that deposits are collateralized at 110% of excess over FDIC insurance.

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

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The District has no investment policy in place that addresses interest rate risk, credit risk, concentration risk and custodial credit risk.

2. **Receivables and Payables**

All trade and property tax receivables are shown at gross amount since both assessable to the property taxes and collectible upon the sale of the property.

The District levies its property tax for the subsequent year during the month of December. December 28 is the last day the District can verify a tax levy to the County Auditor 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. Wright, Stearns and Meeker County 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 payment due on May 15 and the second half payment is due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all 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 Auditor also collects all special assessments, except for certain prepayments paid directly to the District.

3. **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.

4. **Capital Asset**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five 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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements. 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.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-50
Land Improvements	5-30
Machinery and Equipment	7-50

5. **Fund Equity**

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. The standard changed fund balance classifications within the fund level statements.

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

*Nonspendable* - consists of amounts that cannot be spent because it is not in spendable form or are legally or contractually required to be maintained intact, such as inventories and prepaid items

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Assigned* - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

*Unassigned* - is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

The District will reduce committed amounts first, if any, followed by assigned amounts, and then any unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

6. **Net Assets**

Net assets represent the differences between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are 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.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**F. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**G. Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District continues to carry commercial insurance or coverage through the League of Minnesota Cities, a public entity risk pool currently operating as a common risk management and insurance program for member cities.

There were no significant reductions in insurance from 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 the year is estimated to be immaterial based on workers' compensation rates and salaries for the year.

**H. Policy Regarding use of FASB Accounting Standards Codification**

The District has adopted paragraph 7 of GASB Statement No. 20. Within this adoption, the District's enterprise funds(s) will apply all FASB Accounting Standards Codifications, unless they conflict with or contradict GASB pronouncements.

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgetary Information**

1. The Chairman of the board compiles the budget into an overall preliminary District budget. The Chairman of the board presents the proposed budget to the Board of Managers.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the District sets forth the budgets at the function level for the General and Special Revenue Funds.
4. Budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without the District's approval. The Districts 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.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – continued

6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Budgetary control for Capital Project Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted, or as amended by the District. Budgeted expenditure appropriations lapse at year-end.

**B. Excess Expenditures Over Budget**

Expenditures exceeded appropriations in certain individual funds for the year ended December 31, 2011 as follows:

	Budget	Actual	Excess Expenditures Over Budget
Augusta Channel Clean Out	\$0	\$46,674	\$46,674
Cedar Lake AIS	0	6,353	6,353
Lakes Louisa & Marie AIS	0	6,901	6,901
General Fund	238,700	297,100	58,400

**C. Deficit Fund Balances**

The following funds had deficit balances at December 31, 2011

Special Revenue Fund:	
Data Acquisition	\$15,645
Cedar Lake AIS	6,263
Augusta Channel Clean Out	47,078
Lakes Louisa & Marie	6,852

Note 3 DEPOSITS

**Deposits**

As of December 31, 2011, the District's bank balances were not exposed to custodial credit risk because it was fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

**Custodial Credit Risk:** Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not return to it.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 3 DEPOSITS – continued

The following is a summary of total of cash and cash equivalents as of December 31, 2011:

Checking		\$173,253	
Savings		75,112	
Certificate of deposit		727,702	
Total		\$976,067	

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, not being Depreciated:				
Land	\$ 118,347	\$ 55,596	\$ 0	\$ 173,943
Project Costs	8,965	0	0	8,965
Total Capital Assets, not being Depreciated	127,312	55,596	0	182,908
Capital Assets, being Depreciated:				
Equipment	6,781	5,338	0	12,119
Less Accumulated Depreciation for: Equipment	1,130	990	0	2,120
Total Capital Assets, being Depreciated, net	5,651	(4,348)	0	9,999
Governmental Activities Capital Assets, net	\$ 132,963	\$ 51,248	\$ 0	\$ 195,027



Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 4 CAPITAL ASSETS – continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital Assets, not being Depreciated:				
Land	\$ 35,400	\$ 0	\$0	\$ 35,400
Capital Assets, being Depreciated:				
Building and system	2,142,041	0	0	2,142,041
Equipment	0	8,670	0	8,670
Less Accumulated Depreciation for:				
Building and system	(568,407)	(74,561)	0	(642,969)
Total Capital Net Assets, being Depreciated, net	<u>1,573,634</u>	<u>(65,891)</u>	<u>0</u>	<u>1,507,743</u>
Business-Type Activities Capital Assets, net	<u>\$1,609,034</u>	<u>\$(65,891)</u>	<u>\$0</u>	<u>\$1,543,143</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Governmental Activities:		
Special Revenue Fund		<u>\$990</u>
Business-Type Activities:		
Hidden River Maintenance		\$12,814
Rest a While Maintenance		2,643
Clearwater Harbor Maintenance		56,354
Wandering Ponds		<u>2,750</u>
Total Depreciation Expense – Business-Type Activities		<u>\$74,561</u>

Note 5 INTERFUND TRANSFERS

	<u>Transfer in:</u>		<u>Total</u>
	<u>Nonmajor funds</u>	<u>Willow Creek Storm Water</u>	
Transfer out:			
General Fund	\$17,750	\$2,000	\$19,750

The purpose of the above transfers are to provide funding for capital improvements projects, capital outlay, provide funding for operating purposes and to close funds.

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Financial Statements  
December 31, 2011

Note 6 RELATED PARTY TRANSACTIONS

There were no related party transactions for the year ended December 31, 2011.

Note 7 NET ASSETS

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because of the District reports all District assets which make up a significant portion to total net assets. Restricted net assets account for the portion of net assets restricted by enabling legislation. Unrestricted net assets are the remaining net assets not included in the two previous categories.

The following is a summary of the components of net assets as of December 31, 2011:

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt		
Land	\$173,943	\$ 35,400
Projects costs	8,965	0
Equipment	12,119	8,670
Other capital assets, net of accumulated depreciation	9,999	1,507,743
Total Invested in Capital Assets	192,907	1,543,143
Unrestricted	629,949	169,391
 Total Net Assets	 \$1,058,622	 \$1,715,430

Assigned fund balances reported in the fund financial statements at December 31, 2011 include the following:

	Operations & Maintenance	Cedar #06-1 Maintenance	Clearlake Milfoil	Lake Augusta Milfoil	General
Assigned:					
Special projects	\$199,567	\$30,818	\$15,451	\$12,137	\$3,457

Note 8 RECLASSIFICATIONS

Certain prior year financial statement amounts have been reclassified to conform to current year's presentation. This includes restated prior year fund balance classifications within each fund to conform to the requirements of GASB 54. There was no affect on total Net Assets or Fund Balance.

**REQUIRED SUPPLEMENTARY INFORMATION**

Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - General Fund  
For the Year Ended December 31, 2011

	Original And Final Budget	Actual Amount	Variance From Budget
<b>Revenues</b>			
Property taxes	\$ 231,000	\$ 234,059	\$ 3,059
MV credit	0	22,278	22,278
Miscellaneous income	2,750	3,057	307
Contributions	0	5,500	(5,500)
Interest income	4,200	8,534	4,334
Total Revenue	<u>237,950</u>	<u>273,428</u>	<u>24,478</u>
<b>Expenditures</b>			
General Government			
Wages and benefits	9,500	6,549	(2,951)
Office supplies	500	793	293
Operating Supplies	0	11	11
Records Retention	5,000	2,699	(2,301)
Accounting	36,900	36,900	0
Audit	6,500	6,575	75
Engineering fees	25,000	35,950	10,950
Legal fees	2,000	3,426	1,426
Management fees	30,000	45,684	15,684
Other professional services	0	313	313
Communication	1,500	1,046	(454)
Transportation	1,800	1,220	(580)
Conference registration	700	430	(270)
Other travel costs	500	0	(500)
Legal notices	4,200	5,150	950
Printing and binding	1,250	0	(1,250)
Insurance	3,000	1,141	(1,859)
Rentals	4,000	3,065	(935)
Miscellaneous	400	1,095	695
Dues and suscriptions	4,000	3,830	(170)
Total General Government	<u>136,750</u>	<u>155,877</u>	<u>19,127</u>
Education Program			
Wages and benefits	750	670	(80)
Office supplies	100	0	(100)
Accounting	200	0	(200)
Engineering fees	2,000	492	(1,508)
Management fees	7,000	477	(6,523)
Communication	300	0	(300)
Transportation	750	565	(185)
Other Travel costs	1,300	843	(457)
Printing and binding	500	515	15
Miscellaneous	150	1,124	974
Total Education Program	<u>13,050</u>	<u>4,686</u>	<u>(8,364)</u>

Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - General Fund  
For the Year Ended December 31, 2011

	Original And Final Budget	Actual Amount	Variance From Budget
<b>Expenditures - continued</b>			
Other Expenditures			
Advisory committee	\$ 1,450	\$ 0	\$ (1,450)
Comprehensive plan update	1,500	2,092	592
Willow creek	200	26,521	26,321
Grant application	6,000	18,557	12,557
Filter strip program	13,400	8,974	(4,426)
Plan/Plat review	900	0	(900)
Website	1,800	1,182	(618)
Clearwater grass bog removal	250	0	(250)
103rd St. survey corinna	400	0	(400)
C Mierhofer V-Notch	2,000	55,596	53,596
Other special projects	61,000	23,615	(37,385)
Total Other Expenditures	88,900	136,537	47,637
Total Expenditures	238,700	297,100	58,400
Excess Revenues Over (Under) Expenditures	(750)	(23,672)	(33,922)
<b>Other Financing Sources (Uses)</b>			
Operating transfers out	(17,750)	(19,750)	(2,000)
Total Other Financing Sources (Uses)	(17,750)	(19,750)	(2,000)
Net Change in Fund Balance	\$ (18,500)	(43,422)	\$ (35,922)
Fund Balance - Beginning		473,324	
Fund Balance - Ending		\$ 429,902	

Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - Augusta Channel Clean Out  
For the Year Ended December 31, 2011

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
<b>Revenues</b>			
Miscellaneous income	0	3,500	3,500
Total Revenue	0	3,500	(3,500)
<b>Expenditures</b>			
Engineering Fees	0	1,814	1,814
Legal Fees	0	398	398
Management Fees	0	599	599
Professional Fees	0	56	56
Transportation	0	64	64
Legal Notices	0	134	134
Permits	0	150	150
Improvements Other Than Building	0	41,352	41,352
Interest Expense	0	107	107
Refunds & Reimbursements	0	2,000	2,000
Total Expenditures	0	46,674	(46,674)
Excess Revenues Over (Under) Expenditures	0	(43,174)	43,174
<b>Other Financing Sources</b>			
Transfers In	0	2,000	(2,000)
Net Change in Fund Balance	\$ 0	(41,174)	\$ 41,174
Fund Balance - Beginning		(5,904)	
Fund Balance - Ending		\$ (47,078)	

Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - Operations and Maintenance Fund  
For the Year Ended December 31, 2011

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
<b>Revenues</b>			
General property taxes	\$ 28,400	\$ 59	\$ (28,341)
Special assessments	68,230	67,362	(868)
Miscellaneous income	0	234	234
Interest income	1,500	2,270	770
Total Revenue	<u>98,130</u>	<u>69,925</u>	<u>(28,205)</u>
<b>Expenditures</b>			
1980 Project Maintenance			
Wages and benefits	450	0	(450)
Office Supplies	400	152	(248)
Repairs	200	0	(200)
Accounting	500	476	(24)
Engineering fees	8,500	4,430	(4,070)
Legal fees	0	64	64
Management fees	400	983	583
Other Professional Services	0	1,207	1,207
Communication	0	325	325
Transportation	50	115	65
Insurance	130	888	758
Repairs	20,000	10,450	(9,550)
Rentals	500	499	(1)
Miscellaneous	0	39	39
Refunds & Reimbursements	0	241	241
Kingston Wetland Restoration			
Operating Supplies	0	130	(130)
Repair & Maintenance Supplies	0	96	(96)
Accounting	0	7	(7)
Engineering Fees	46,650	44,738	1,912
Management Fees	2,000	1,305	695
Other Professional Services	0	3,473	(3,473)
Transportation	0	519	(519)
Repairs/Maintenance Contractual	10,000	3,562	6,438
Rentals	0	40	(40)
Miscellaneous	2,000	0	2,000
Improvements Other Than Building	87,200	0	87,200
Fertilizer Field Trial			
Professional fees	0	9,189	(9,189)
Interest Expense	0	131	(131)
Total Expenditures	<u>178,980</u>	<u>83,059</u>	<u>73,399</u>
Net Change in Fund Balance	<u>\$ (80,850)</u>	(13,134)	<u>\$ (101,604)</u>
Fund Balance - Beginning		<u>212,701</u>	
Fund Balance - Ending		<u>\$ 199,567</u>	

Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - Cedar Lake Aquatic Invasive Species Fund  
For the Year Ended December 31, 2011

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over(Under)</u>
<b>Revenues</b>			
Miscellaneous	0	19	(19)
Interest income	0	71	71
Total Revenues	<u>0</u>	<u>90</u>	<u>52</u>
<b>Expenditures</b>			
Accounting	0	518	518
Engineering Fees	0	4,849	4,849
Legal Fees	0	159	159
Management Fees	0	350	350
Other Professional Services	0	44	44
Communication	0	246	246
Legal Notices	0	130	130
Miscellaneous	0	40	40
Interest Expense	0	13	13
Refunds & Reimbursements	0	4	4
Total Expenditures	<u>0</u>	<u>6,353</u>	<u>6,353</u>
Excess Revenues Over(Under) Expenditures	<u>\$ 0</u>	(6,263)	<u>\$ (6,301)</u>
Fund Balance - Beginning		<u>0</u>	
Fund Balance - Ending		<u>\$ (6,263)</u>	



Clearwater River Watershed District  
Annandale, Minnesota

Budgetary Comparison Schedule - Louisa & Marie Aquatic Invasive Species Fund  
For the Year Ended December 31, 2011

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
<b>Revenues</b>			
Miscellaneous income	0	18	18
Interest income	0	31	31
Total Revenue	0	49	49
<b>Expenditures</b>			
Accounting	0	462	462
Engineering Fees	0	5,675	5,675
Legal Fees	0	133	133
Management Fees	0	140	140
Communication	0	114	114
Legal Notices	0	324	324
Miscellaneous	0	53	53
Total Expenditures	0	6,901	6,901
Excess Revenues Over(Under) Expenditures	0	(6,852)	(6,852)
Other Financing Sources(Uses)			
Net Change in Fund Balance	\$ 0	(6,852)	\$ (6,852)
Fund Balance - Beginning		0	
Fund Balance - Ending		\$ (6,852)	

Clearwater River Watershed District  
Annandale, Minnesota

Notes to the Required Supplementary Schedules  
December 31, 2011

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chairman of the board compiles the budget into an overall preliminary District budget. The Chairman of the board presents the proposed budget to the Board of Managers.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budget for the general fund, special revenue and capital projects are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as originally adopted, with several amendments by the District's Board; budget expenditures appropriations lapse at year end.

**SUPPLEMENTARY INFORMATION**

Clearwater River Watershed District  
Annandale, Minnesota

Combining Balance Sheet - Nonmajor Governmental Funds  
December 31, 2011

	Special Revenue Funds	
	Data Acquisition	Cedar #06-1 Maint.
<b>ASSETS</b>		
Cash and investments	\$ (15,764)	\$ 48,809
Property taxes receivable	2,582	0
Total Assets	<u>\$ (13,182)</u>	<u>\$ 48,809</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 128	\$ 415
Deferred revenue	2,335	17,576
Total Liabilities	2,463	17,991
Fund Balances:		
Assigned		
Capital Project	0	0
Special Revenue	0	30,818
Unassigned		
Special Revenue	(15,645)	0
Total Fund Balance	(15,645)	30,818
Total Liabilities and Fund Balance	<u>\$ (13,182)</u>	<u>\$ 48,809</u>

Special Revenue Funds		Capital Projects	Total Nonmajor Governmental Funds
Clearwater Lake Milfoil	Lake Augusta Milfoil	Cedar Albion Swartout Henshaw	
\$ 36,552	\$ 13,962	\$ 0	\$ 83,559
<u>0</u>	<u>0</u>	<u>0</u>	<u>2,582</u>
<u>\$ 36,552</u>	<u>\$ 13,962</u>	<u>\$ 0</u>	<u>\$ 86,141</u>
\$ 42	\$ 28	0	\$ 613
<u>21,059</u>	<u>1,797</u>	<u>0</u>	<u>42,767</u>
<u>21,101</u>	<u>1,825</u>	<u>0</u>	<u>43,380</u>
0	0	0	0
15,451	12,137	0	58,406
<u>0</u>	<u>0</u>	<u>0</u>	<u>(15,645)</u>
<u>15,451</u>	<u>12,137</u>	<u>0</u>	<u>42,761</u>
<u>\$ 36,552</u>	<u>\$ 13,962</u>	<u>\$ 0</u>	<u>\$ 86,141</u>

Clearwater River Watershed District  
Annandale, Minnesota

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended December 31, 2011

	Special Revenue Funds	
	Data Acquisition	Cedar #06-1 Maint.
<b>Revenues</b>		
General Property taxes	\$ 45,182	\$ 0
Special assessments	0	27,028
Miscellaneous Income	15	122
Interest income	0	169
Total Revenue	45,197	27,319
<b>Expenditures</b>		
Special revenue	33,955	22,986
Capital project	0	0
Total Expenditures	33,955	22,986
Excess Revenues Over (Under) Expenditures	11,242	4,333
<b>Other Financing Sources (Uses)</b>		
Transfer in	17,750	19,717
Transfers out	0	0
Total Other Financing Sources (Uses)	17,750	19,717
Net Change in Fund Balance	28,992	24,050
Fund Balance - Beginning	(44,637)	6,768
Fund Balance - Ending	\$ (15,645)	\$ 30,818

Special Revenue Funds		Capital Projects	Total
Clearwater Lake Milfoil	Lake Augusta Milfoil	Cedar Albion Startout Henshaw	Nonmajor Governmental Funds
\$ 0	\$ 55	\$ 0	\$ 45,237
27,354	3,949	34,689	93,020
39	0	0	176
283	93	32	577
<u>27,676</u>	<u>4,097</u>	<u>34,721</u>	<u>139,010</u>
35,750	307	0	92,998
0	0	2,447	2,447
<u>35,750</u>	<u>307</u>	<u>2,447</u>	<u>95,445</u>
<u>(8,074)</u>	<u>3,790</u>	<u>32,274</u>	<u>43,565</u>
0	0	0	37,467
0	0	(19,717)	(19,717)
0	0	(19,717)	17,750
(8,074)	3,790	12,557	61,315
<u>23,525</u>	<u>8,347</u>	<u>(12,557)</u>	<u>(18,554)</u>
<u>\$ 15,451</u>	<u>\$ 12,137</u>	<u>\$ 0</u>	<u>\$ 42,761</u>

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### Report on Legal Compliance

Board of Managers  
Clearwater River Watershed District  
Annandale, Minnesota

We have audited the general purpose financial statements of Clearwater River Watershed District as of and for the year ended December 31, 2011, and have issued our report thereon dated May 21, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories except that we did not test for compliance it Tax Increment Financing because the District does not have Tax Increment Financing.

The result of our tests indicated that for the items tested, Clearwater River Watershed District, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the use of the Clearwater River Watershed District, Minnesota and the Office of State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Burkhardt & Burkhardt, Ltd.  
Mankato, Minnesota

May 21, 2012



## Report on Internal Control over Financial Reporting

Board of Managers  
Clearwater River Watershed District  
Annandale, Minnesota

In planning and performing our audit, we considered Clearwater River Watershed District's internal control over financial reporting as a basis for designing our auditing procedures 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 Clearwater River Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clearwater River Watershed District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- **Lack of Segregation of Accounting Duties**

The District has a service organization handle its accounting needs, that service organization lacks segregation of accounting duties. Management has determined that this deficiency is not practical to correct.

- **Lack of Control over the Financial Reporting Process**

The District's management lacks the training and knowledge to prepare the financial statements and related notes. Because of this, the financial statements and footnotes are prepared by the auditors.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Clearwater River Watershed District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

This report is intended solely for the information and use of the Clearwater River Watershed District and the State of Minnesota. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Handwritten signature in black ink that reads "Burkhardt & Burkhardt, Ltd." in a cursive style.

Burkhardt & Burkhardt, Ltd  
Mankato Minnesota

May 21, 2012