

**CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

Clearwater River Watershed District
Annandale, Minnesota

Table of Contents

| | |
|--|----|
| District Officials | 1 |
| Auditor's Report | 2 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 4 |
| Statement of Activities | 5 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental funds | 6 |
| Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds | 8 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds | 9 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Funds | 11 |
| Statement of Net Position – Proprietary Funds | 12 |
| Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds | 13 |
| Statement of Cash Flows – Proprietary Funds | 14 |
| Notes to the Financial Statements | 13 |
| Required Supplementary Schedules: | |
| Budgetary Comparison Schedule – General Fund | 25 |
| Budgetary Comparison Schedule – Operations & Maintenance Fund | 27 |
| Notes to the Required Supplementary Schedules | 28 |
| Supplementary Information: | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 30 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds | 32 |
| Report on Legal Compliance | 34 |
| Report on Internal Control | 35 |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

DISTRICT OFFICIALS
December 31, 2012

| <u>Board of Managers</u> | <u>Position</u> | <u>Term Expires</u> |
|--------------------------|------------------|---------------------|
| Robert Schiefelbein | Chairman | August 13, 2015 |
| Jerome Risberg | Vice Chairman | August 13, 2014 |
| Mark Kampa | Secretary | August 13, 2015 |
| Mary Ellen Wells | Treasurer | August 13, 2014 |
| Currently Vacant | Public Relations | N/A |

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Independent Auditor's Report

May 22, 2013

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of Clearwater River Watershed District (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 entity'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, the business-type activities, each major fund and the aggregate remaining fund information of Clearwater River Watershed District, as of December 31, 2012 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the budget comparison information, listed under required supplemental information in the table of contents, 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 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 inquires 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board 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. Our opinion on the basic financial statements is not affected by this missing information.

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2012

| ASSETS | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Totals</u> |
|---|------------------------------------|-------------------------------------|--------------------------------|
| Cash and cash equivalents | \$ 1,326,972 | \$ 167,769 | \$ 1,494,741 |
| Receivables: | | | |
| Accounts | 0 | 37,522 | 37,522 |
| Property taxes | 26,729 | 0 | 26,729 |
| Prepaid expenses | <u>3,807</u> | <u>1,384</u> | <u>5,191</u> |
| Capital Assets: | | | |
| Land | 173,943 | 35,400 | 209,343 |
| Equipment | 39,179 | 8,670 | 47,849 |
| Project costs | 78,461 | 0 | 78,461 |
| Sanitary systems | <u>0</u> | <u>2,142,041</u> | <u>2,142,041</u> |
| Total Capital Assets | 291,583 | 2,186,111 | 2,477,694 |
| Less: accumulated depreciation | <u>(3,332)</u> | <u>(717,128)</u> | <u>(720,460)</u> |
| Net Capital Assets | <u>288,251</u> | <u>1,468,983</u> | <u>1,757,234</u> |
| Total Assets | <u><u>\$ 1,645,759</u></u> | <u><u>\$ 1,675,658</u></u> | <u><u>\$ 3,321,417</u></u> |
| LIABILITIES AND NET POSITION | | | |
| Liabilities | | | |
| Accounts payable | \$ 91,638 | \$ 5,407 | \$ 97,045 |
| Unearned Revenue | <u>433,795</u> | <u>0</u> | <u>433,795</u> |
| Total Liabilities | <u>525,433</u> | <u>5,407</u> | <u>530,840</u> |
| Net Position: | | | |
| Restricted | 2,362 | 0 | 2,362 |
| Net Investment in Capital Assets | 288,251 | 1,468,983 | 1,757,234 |
| Unrestricted | <u>829,713</u> | <u>201,268</u> | <u>1,030,981</u> |
| Total Net Position | <u>1,120,326</u> | <u>1,670,251</u> | <u>2,790,577</u> |
| Total Liabilities and Net Position | <u><u>\$ 1,645,759</u></u> | <u><u>\$ 1,675,658</u></u> | <u><u>\$ 3,321,417</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, 2012

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---|-------------------|-------------------------|--|--|--|---------------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Totals |
| GOVERNMENTAL ACTIVITIES: | | | | | | | |
| General government | \$ 166,196 | \$ 0 | \$ 11,000 | \$ 0 | \$ (155,196) | \$ 0 | \$ (155,196) |
| Special revenue | 276,935 | 334,035 | 0 | 0 | 57,100 | 0 | 57,100 |
| Capital projects | 0 | 0 | 0 | 69,496 | 69,496 | 0 | 69,496 |
| Total Governmental activities | <u>443,131</u> | <u>334,035</u> | <u>11,000</u> | <u>69,496</u> | <u>(28,600)</u> | <u>0</u> | <u>(28,600)</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | |
| Sanitary system | <u>121,479</u> | <u>77,205</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(44,274)</u> | <u>(44,274)</u> |
| Total Primary Government | <u>\$ 564,610</u> | <u>\$ 411,240</u> | <u>\$ 11,000</u> | <u>\$ 69,496</u> | <u>(28,600)</u> | <u>(44,274)</u> | <u>(72,874)</u> |
| General Revenues: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 256,283 | 0 | 256,283 |
| Intergovernmental | | | | | 54,330 | 0 | 54,330 |
| Interest and investments earnings | | | | | 9,695 | 1,565 | 11,260 |
| Miscellaneous | | | | | 5,270 | 427 | 5,697 |
| Total General Revenues | | | | | <u>325,578</u> | <u>1,992</u> | <u>327,570</u> |
| Changes in Net Position | | | | | 296,978 | (42,282) | 254,696 |
| Net Position - Beginning | | | | | <u>823,348</u> | <u>1,712,533</u> | <u>2,535,881</u> |
| Net Position - Ending | | | | | <u>\$ 1,120,326</u> | <u>\$ 1,670,251</u> | <u>\$ 2,790,577</u> |

The Notes To The Financial Statements Are An Ingetral Part Of These Statements

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

| | General | Chain of Lakes Operations & Maintenance | Kimball Storm Sewer Phase II | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|-------------------|---|------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 499,037 | \$ 364,993 | \$ 321,435 | \$ 141,507 | \$ 1,326,972 |
| Property taxes receivable | 26,213 | 0 | 0 | 516 | 26,729 |
| Prepaid expenses | 3,807 | 0 | 0 | 0 | 3,807 |
| | | | | | |
| Total Assets | <u>\$ 529,057</u> | <u>\$ 364,993</u> | <u>\$ 321,435</u> | <u>\$ 142,023</u> | <u>\$ 1,357,508</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 27,212 | \$ 38,669 | \$ 19,194 | \$ 6,564 | \$ 91,639 |
| Deferred revenue | 22,650 | 0 | 0 | 0 | 22,650 |
| Unearned revenue | 0 | 90,070 | 299,879 | 44,336 | 434,285 |
| | | | | | |
| Total Liabilities | <u>49,862</u> | <u>128,739</u> | <u>319,073</u> | <u>50,900</u> | <u>548,574</u> |
| Fund Balances: | | | | | |
| Nonspendable - prepaid expenses | 3,807 | 0 | 0 | 0 | 3,807 |
| Restricted: | | | | | |
| Capital project funds | 0 | 0 | 2,362 | 0 | 2,362 |
| Committed: | | | | | |
| Special revenue funds | 0 | 236,254 | 0 | 91,123 | 327,377 |
| Unassigned: | | | | | |
| General fund | 475,388 | 0 | 0 | 0 | 475,388 |
| Total Fund Balances | <u>479,195</u> | <u>236,254</u> | <u>2,362</u> | <u>91,123</u> | <u>808,934</u> |
| Total Liabilities and Fund Balance | <u>\$ 529,057</u> | <u>\$ 364,993</u> | <u>\$ 321,435</u> | <u>\$ 142,023</u> | <u>\$ 1,357,508</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 OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2012

| | |
|--|---------------------|
| Total Fund Balances - Governmental Funds | \$ 808,934 |
| Amounts reported for governmental activities in the Statement of Net Position 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: | 291,583 |
| Less: Accumulated Depreciation | (3,332) |
| 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>23,141</u> |
| Total Net Position - Governmental Activities | <u>\$ 1,120,326</u> |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

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

| | <u>General</u> | <u>Chain of Lakes Operations & Maintenance</u> | <u>Kimball Storm Sewer Phase II</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|--|---|---|---|
| Revenues | | | | | |
| General property taxes | \$ 249,550 | \$ 756 | \$ 0 | \$ 1,237 | \$ 251,543 |
| Intergovernmental revenue | 9,415 | 44,915 | 69,496 | 0 | 123,826 |
| Special assessments | 0 | 151,042 | 0 | 182,993 | 334,035 |
| Miscellaneous Income | 15,400 | 426 | 0 | 444 | 16,270 |
| Interest income | 3,353 | 2,578 | 2,362 | 1,402 | 9,695 |
| Total Revenue | <u>277,718</u> | <u>199,717</u> | <u>71,858</u> | <u>186,076</u> | <u>735,369</u> |
| Expenditures | | | | | |
| General government | 186,494 | 0 | 0 | 0 | 186,494 |
| Special revenue expenditures | 0 | 163,030 | 0 | 119,455 | 282,485 |
| Capital project expenditures | 0 | 0 | 69,496 | 0 | 69,496 |
| Total Expenditures | <u>186,494</u> | <u>163,030</u> | <u>69,496</u> | <u>119,455</u> | <u>538,475</u> |
| Excess Revenues Over (Under) Expenditures | <u>91,224</u> | <u>36,687</u> | <u>2,362</u> | <u>66,621</u> | <u>196,894</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfer in | 0 | 0 | 0 | 46,100 | 46,100 |
| Transfers out | (46,100) | 0 | 0 | 0 | (46,100) |
| Total Other Financing Sources (Uses) | <u>(46,100)</u> | <u>0</u> | <u>0</u> | <u>46,100</u> | <u>0</u> |
| Change in Fund Balance | 45,124 | 36,687 | 2,362 | 112,721 | 196,894 |
| Fund Balance - Beginning | <u>434,071</u> | <u>199,567</u> | <u>0</u> | <u>(21,598)</u> | <u>612,040</u> |
| Fund Balance - Ending | <u>\$ 479,195</u> | <u>\$ 236,254</u> | <u>\$ 2,362</u> | <u>\$ 91,123</u> | <u>\$ 808,934</u> |

The Notes To The Financial Statements Are An Ingetral 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, 2012

Total Net Change in Fund Balances - Governmental Funds \$ 196,894

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 | 96,556 |
| Less: Depreciation | (1,212) |

Delinquent receivables will be collected next year, but are not available soon enough to pay for the current periods's expenditures and, therefore, are not reported as revenues in the Governmental funds.

| | |
|---------------------------|--------------|
| Delinquent property taxes | <u>4,740</u> |
|---------------------------|--------------|

Change in Net Position - Governmental Activities \$ 296,978

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

| | Hidden River Maintenance | Rest a while Maintenance | Clearwater Harbor Maintenance | Wandering Ponds | Totals |
|-------------------------------------|-----------------------------|-----------------------------|-------------------------------------|--------------------|---------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 49,545 | \$ 11,236 | \$ 78,433 | \$ 28,555 | \$ 167,769 |
| Prepaid insurance | 380 | 165 | 839 | 0 | 1,384 |
| Accounts receivable | 8,712 | 1,438 | 20,406 | 6,966 | 37,522 |
| Total Current Assets | <u>58,637</u> | <u>12,839</u> | <u>99,678</u> | <u>35,521</u> | <u>206,675</u> |
| Capital Assets | | | | | |
| Capital assets | 491,108 | 141,138 | 1,482,365 | 71,500 | 2,186,111 |
| Less: Accumulated depreciation | <u>(137,157)</u> | <u>(24,452)</u> | <u>(543,373)</u> | <u>(12,146)</u> | <u>(717,128)</u> |
| Net Capital Assets | <u>353,951</u> | <u>116,686</u> | <u>938,992</u> | <u>59,354</u> | <u>1,468,983</u> |
| Total Assets | <u>\$ 412,588</u> | <u>\$ 129,525</u> | <u>\$ 1,038,670</u> | <u>\$ 94,875</u> | <u>\$ 1,675,658</u> |
| LIABILITIES AND NET POSITION | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | <u>\$ 1,449</u> | <u>\$ 125</u> | <u>\$ 2,139</u> | <u>\$ 1,694</u> | <u>\$ 5,407</u> |
| Total Current Liabilities | <u>1,449</u> | <u>125</u> | <u>2,139</u> | <u>1,694</u> | <u>5,407</u> |
| Net Position | | | | | |
| Net Investment in Capital Assets | 353,951 | 116,686 | 938,992 | 59,354 | 1,468,983 |
| Unrestricted | <u>57,188</u> | <u>12,714</u> | <u>97,539</u> | <u>33,827</u> | <u>201,268</u> |
| Total Net Position | <u>411,139</u> | <u>129,400</u> | <u>1,036,531</u> | <u>93,181</u> | <u>1,670,251</u> |
| Total Liabilities and Net Position | <u>\$ 412,588</u> | <u>\$ 129,525</u> | <u>\$ 1,038,670</u> | <u>\$ 94,875</u> | <u>\$ 1,675,658</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 NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

| | Hidden River Maintenance | Rest a while Maintenance | Clearwater Harbor Maintenance | Wandering Ponds | Totals |
|--------------------------------------|-----------------------------|-----------------------------|-------------------------------------|--------------------|---------------------|
| Revenue | | | | | |
| Charges for services | \$ 18,814 | \$ 5,726 | \$ 37,459 | \$ 7,568 | \$ 69,567 |
| Special assessment from homeowner | 1,216 | 30 | 4,917 | 1,475 | 7,638 |
| Miscellaneous income | 127 | 61 | 173 | 66 | 427 |
| | <u>20,157</u> | <u>5,817</u> | <u>42,549</u> | <u>9,109</u> | <u>77,632</u> |
| Operating Expenses | | | | | |
| Accounting | 400 | 225 | 514 | 150 | 1,289 |
| Depreciation | 12,363 | 2,643 | 56,402 | 2,750 | 74,158 |
| Insurance | 380 | 165 | 839 | 226 | 1,610 |
| Legal | 0 | 908 | 0 | 0 | 908 |
| Management fees | 317 | 300 | 683 | 341 | 1,641 |
| Miscellaneous | 17 | 0 | 336 | 24 | 377 |
| Other professional fees | 568 | 152 | 1,407 | 192 | 2,319 |
| Permits | 398 | 0 | 398 | 0 | 796 |
| Repairs and maintenance | 14,210 | 823 | 14,210 | 3,200 | 32,443 |
| Supplies | 2 | 154 | 0 | 0 | 156 |
| Telephone | 536 | 334 | 578 | 0 | 1,448 |
| Utilities | 1,904 | 402 | 1,669 | 336 | 4,311 |
| Wages | 0 | 0 | 23 | 0 | 23 |
| | <u>31,095</u> | <u>6,106</u> | <u>77,059</u> | <u>7,219</u> | <u>121,479</u> |
| Income (Loss) from Operations | (10,938) | (289) | (34,510) | 1,890 | (43,847) |
| Nonoperating Income (Expense) | | | | | |
| Interest income | 471 | 94 | 779 | 221 | 1,565 |
| Total Nonoperating Income (Expense) | <u>471</u> | <u>94</u> | <u>779</u> | <u>221</u> | <u>1,565</u> |
| Change in Net Position | (10,467) | (195) | (33,731) | 2,111 | (42,282) |
| Net Position - beginning | <u>421,606</u> | <u>129,595</u> | <u>1,070,262</u> | <u>91,070</u> | <u>1,712,533</u> |
| Net Position - ending | <u>\$ 411,139</u> | <u>\$ 129,400</u> | <u>\$ 1,036,531</u> | <u>\$ 93,181</u> | <u>\$ 1,670,251</u> |

The Notes To The Financial Statements Are An Ingetral Part Of These Statements

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

| | Hidden River Maintenance | Rest a while Maintenance | Clearwater Harbor Maintenance | Wandering Ponds | Totals |
|---|-----------------------------|-----------------------------|-------------------------------------|--------------------|-------------------|
| CASH FLOWS FROM OPERATING | | | | | |
| Receipts from customers and users | \$ 19,301 | \$ 5,841 | \$ 40,960 | \$ 7,381 | \$ 73,483 |
| Payments to suppliers | (18,628) | (3,439) | (20,028) | (2,855) | (44,950) |
| Payments to employees | 0 | 0 | (23) | 0 | (23) |
| Net Cash provided by operating activities | <u>673</u> | <u>2,402</u> | <u>20,909</u> | <u>4,526</u> | <u>28,510</u> |
| CASH FLOWS FROM INVESTING | | | | | |
| Interest received | <u>471</u> | <u>94</u> | <u>779</u> | <u>221</u> | <u>1,565</u> |
| Change in Cash and Cash Equivalents | 1,144 | 2,496 | 21,688 | 4,747 | 30,075 |
| Cash and Cash Equivalents - Beginning | <u>48,401</u> | <u>8,740</u> | <u>56,745</u> | <u>23,808</u> | <u>137,694</u> |
| Cash and Cash Equivalents - Ending | <u>\$ 49,545</u> | <u>\$ 11,236</u> | <u>\$ 78,433</u> | <u>\$ 28,555</u> | <u>\$ 167,769</u> |
| Reconciliation of operating income to net cash provided (used) by operating | | | | | |
| Operating net income | \$ (10,938) | \$ (289) | \$ (34,510) | \$ 1,890 | \$ (43,847) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation expense | 12,363 | 2,643 | 56,402 | 2,750 | 74,158 |
| Accounts receivable | (856) | 24 | (1,589) | (1,728) | (4,149) |
| Prepaid insurance | (44) | (19) | (98) | 0 | (161) |
| Accounts payable | <u>148</u> | <u>43</u> | <u>704</u> | <u>1,614</u> | <u>2,509</u> |
| Net Cash Provided by Operating Activities | <u>\$ 673</u> | <u>\$ 2,402</u> | <u>\$ 20,909</u> | <u>\$ 4,526</u> | <u>\$ 28,510</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, 2012

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 administration 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 data 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, 2012, 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 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.

C. 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 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.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 2012 is as follows:

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Description of Funds: (continued)

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.

Capital Projects

Kimball Storm Sewer Phase II

This fund was established to provide resources for and to accumulate costs related to construction of infrastructure relating to Kimball storm sewer phase II.

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, 2012

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 Position 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.

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.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 |

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2012. 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 Position**

Net Position represents the differences 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 build or acquire the capital assets. Net position 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.

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.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. District staff compiles the budget into an overall preliminary District budget. District staff 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.
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.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – continued

B. Excess Expenditures Over Budget

Expenditures did not exceed appropriations in individual funds required to adopt a budget for the year ended December 31, 2012 as follows:

| | Budget | Actual | Expenditures Over (Under) Budget |
|--------------------------------|------------|------------|--|
| General Fund | \$ 212,480 | \$ 186,494 | \$ (25,986) |
| 1980 Chain of Lakes O & M Fund | 327,190 | 163,030 | (164,160) |

C. Deficit Fund Balances

The following funds had deficit balances at December 31, 2012

Special Revenue Fund:

| | | |
|----------------------------|----------|--|
| Data Acquisition | \$ 2,923 | |
| School Section Lake Outlet | 263 | |
| Augusta Channel Clean Out | 37,356 | |
| Clearwater Lake Bog | 8,780 | |

Note 3 DEPOSITS

Deposits

As of December 31, 2012, 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.

The following is a summary of total of cash and cash equivalents as of December 31, 2012:

| | | |
|------------------------|--------------|--|
| Checking | \$ 309,260 | |
| Savings | 175,323 | |
| Certificate of deposit | 1,010,158 | |
| Total | \$ 1,494,741 | |

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 4 CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | \$ 173,943 | \$ 0 | \$ 0 | \$ 173,943 |
| Project Costs | <u>8,965</u> | <u>69,496</u> | <u>0</u> | <u>78,461</u> |
| Total Capital Assets, not being Depreciated | <u>182,908</u> | <u>69,496</u> | <u>0</u> | <u>252,404</u> |
| Capital Assets, being Depreciated: | | | | |
| Equipment | 12,119 | 27,060 | 0 | 39,179 |
| Less Accumulated Depreciation for: | | | | |
| Equipment | <u>2,120</u> | <u>1,212</u> | <u>0</u> | <u>3,332</u> |
| Total Capital Assets, being Depreciated, net | <u>9,999</u> | <u>25,848</u> | <u>0</u> | <u>35,847</u> |
| Governmental Activities Capital Assets, net | <u>\$ 195,027</u> | <u>\$ 95,344</u> | <u>\$ 0</u> | <u>\$ 288,251</u> |
| | | | | |
| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Business-Type Activities: | | | | |
| 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 | 8,670 | 0 | 0 | 8,670 |
| Less Accumulated Depreciation for: | | | | |
| Building and system | <u>(642,969)</u> | <u>(74,159)</u> | <u>0</u> | <u>(717,128)</u> |
| Total Capital Net Assets, being Depreciated, net | <u>1,507,742</u> | <u>(74,159)</u> | <u>0</u> | <u>1,433,583</u> |
| Business-Type Activities Capital Assets, net | <u>\$ 1,453,142</u> | <u>\$ (74,159)</u> | <u>\$ 0</u> | <u>\$ 1,468,983</u> |

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 4 CAPITAL ASSETS – continued

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

| | |
|---|-----------|
| Governmental Activities: | |
| Special Revenue Fund | \$ 1,212 |
| Business-Type Activities: | |
| Hidden River Maintenance | \$ 12,363 |
| Rest a While Maintenance | 2,643 |
| Clearwater Harbor Maintenance | 56,402 |
| Wandering Ponds | 2,751 |
| Total Depreciation Expense – Business-Type Activities | \$ 74,159 |

Note 5 INTERFUND TRANSFERS

| | Transfers In | |
|---------------|---------------------|-----------|
| | Data Acquisition | Total |
| Transfer out: | | |
| General Fund | \$ 46,100 | \$ 46,100 |

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.

Note 6 NET POSITION/FUND BALANCE

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

The following is a summary of the components of net position as of December 31, 2012:

| | Governmental Activities | Business-Type Activities |
|--|----------------------------|-----------------------------|
| Investment in capital assets | | |
| Land | \$ 173,943 | \$ 35,400 |
| Projects costs | 78,461 | 0 |
| Other capital assets, net of accumulated depreciation | 35,847 | 1,433,583 |
| Total Investment in Capital Assets | 288,251 | 1,468,983 |
| Unrestricted | 832,075 | 201,268 |
| Total Net Position | \$ 1,120,326 | \$ 1,670,251 |

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2012

Note 6 NET POSITION/FUND BALANCE – continued

Fund balance as reported in Other Governmental Funds in the fund financial statements at December 31, 2012 include the following:

| | Committed for Special Revenue funds | Unassigned for Special Revenue funds |
|----------------------------|---|--|
| Data Acquisition | \$ 0 | \$ (2,923) |
| Cedar #06-1 Maintenance | 44,513 | 0 |
| Clearwater Lake Milfoil | 18,039 | 0 |
| Cedar Lake AIS | 41,242 | 0 |
| Louisa & Marie AIS | 21,676 | 0 |
| Augusta Channel Clean out | 0 | (37,356) |
| Lake Augusta Milfoil | 14,975 | 0 |
| Clearwater Lake Bog | 0 | (8780) |
| School Section Lake Outlet | 0 | (263) |
| Special projects | \$ 140,445 | \$ (49,322) |

Note 7 RELATED PARTY TRANSACTIONS

There were no related party transactions for the year ended December 31, 2012.

Note 8 NEW ACCOUNTING PRONOUNCEMENTS

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The District has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the District.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the District beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

Note 9 CONTINGENCIES

Claims have been asserted against the District by a service of a Summons and Complaint dated April 10, 2013. The Plaintiff has alleged a breach of contractual obligations binding upon the parties and is seeking damages in excess of \$100,000 for the District's breach of contract. The District has referred this matter to the League of MN Cities who has served a third party compliant. Management has determined that exposure to loss cannot be reasonably estimated due to the likelihood of an unfavorable outcome being neither probable nor remote.

REQUIRED SUPPLEMENTARY INFORMATION

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2012

| | Original And Final Budget | Actual Amount | Variance From Budget |
|-----------------------------|---------------------------------|------------------|-------------------------|
| Revenues | | | |
| Property taxes | \$ 233,000 | \$ 249,550 | \$ 16,550 |
| Intergovernmental | 0 | 9,415 | 9,415 |
| Miscellaneous income | 2,580 | 4,400 | 1,820 |
| Contributions | 0 | 11,000 | (11,000) |
| Interest income | 4,000 | 3,353 | (647) |
| Total Revenue | <u>239,580</u> | <u>277,718</u> | <u>16,138</u> |
| Expenditures | | | |
| General Government | | | |
| Wages and benefits | 8,500 | 6,320 | (2,180) |
| Office supplies | 750 | 2,500 | 1,750 |
| Accounting | 36,900 | 36,900 | 0 |
| Audit | 6,500 | 7,975 | 1,475 |
| Engineering fees | 25,000 | 24,430 | (570) |
| Legal fees | 2,000 | 1,691 | (309) |
| Management fees | 45,000 | 34,126 | (10,874) |
| Other professional services | 0 | 1,288 | 1,288 |
| Communication | 1,500 | 861 | (639) |
| Transportation | 1,500 | 2,105 | 605 |
| Conference registration | 700 | 164 | (536) |
| Other travel costs | 500 | 0 | (500) |
| Legal notices | 4,200 | 3,796 | (404) |
| Printing and binding | 1,250 | 374 | (876) |
| Insurance | 3,000 | 2,911 | (89) |
| Rentals | 4,000 | 3,100 | (900) |
| Miscellaneous | 400 | 63 | (337) |
| Dues and suscriptions | 4,000 | 896 | (3,104) |
| Property Tax | 900 | 1,140 | 240 |
| Total General Government | <u>146,600</u> | <u>130,640</u> | <u>(15,960)</u> |
| Education Program | | | |
| Wages and benefits | 750 | 128 | (622) |
| Office supplies | 100 | 384 | 284 |
| Accounting | 200 | 0 | (200) |
| Engineering fees | 2,000 | 0 | (2,000) |
| Management fees | 1,000 | 114 | (886) |
| Communication | 300 | 0 | (300) |
| Transportation | 900 | 291 | (609) |
| Other Travel costs | 1,300 | 159 | (1,141) |
| Printing and binding | 500 | 0 | (500) |
| Total Education Program | <u>7,050</u> | <u>1,076</u> | <u>(5,974)</u> |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2012

| | <u>Original And Final Budget</u> | <u>Actual Amount</u> | <u>Variance From Budget</u> |
|---|--|--------------------------|---------------------------------|
| Expenditures - continued | | | |
| Other Expenditures | | | |
| Advisory committee | \$ 600 | \$ 665 | \$ 65 |
| Grant application | 7,500 | 2,995 | (4,505) |
| Filter strip program | 11,950 | 2,225 | (9,725) |
| Plan/Plat review | 700 | 0 | (700) |
| Website | 1,800 | 2,632 | 832 |
| Clearwater grass bog removal | 4,400 | 52 | (4,348) |
| Clear Lake South Notch | 0 | 21,510 | 21,510 |
| Other special projects | 31,880 | 24,699 | (7,181) |
| Total Other Expenditures | <u>58,830</u> | <u>54,778</u> | <u>(4,052)</u> |
| Total Expenditures | <u>212,480</u> | <u>186,494</u> | <u>(25,986)</u> |
| Excess Revenues Over (Under) Expenditures | 27,100 | 91,224 | 42,124 |
| Other Financing Sources (Uses) | | | |
| Operating transfers out | <u>(46,100)</u> | <u>(46,100)</u> | <u>0</u> |
| Change in Fund Balance | <u>\$ (19,000)</u> | 45,124 | <u>\$ 42,124</u> |
| Fund Balance - Beginning | | <u>434,071</u> | |
| Fund Balance - Ending | | <u>\$ 479,195</u> | |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CHAIN OF LAKES OPERATIONS AND MAINTENANCE FUND
For the Year Ended December 31, 2012

| | Original and Final Budget | Actual Amounts | Variance with Final Budget - Over(Under) |
|---|------------------------------|-------------------|--|
| Revenues | | | |
| General property taxes | \$ 28,400 | \$ 756 | \$ (27,644) |
| Special assessments | 156,430 | 151,042 | (5,388) |
| Intergovernmental | 80,860 | 44,915 | (35,945) |
| Miscellaneous income | 0 | 426 | 426 |
| Interest income | 1,500 | 2,578 | 1,078 |
| Total Revenue | 267,190 | 199,717 | (67,473) |
| Expenditures | | | |
| 1980 Project Maintenance | | | |
| Wages and benefits | 450 | 0 | (450) |
| Office Supplies | 400 | 81 | (319) |
| Repairs | 200 | 114 | (86) |
| Accounting | 375 | 854 | 479 |
| Engineering fees | 8,500 | 1,701 | (6,799) |
| Management fees | 400 | 896 | 496 |
| Other Professional Services | 0 | 2,274 | 2,274 |
| Communication | 0 | 276 | 276 |
| Transportation | 50 | 266 | 216 |
| Insurance | 130 | 687 | 557 |
| Repairs | 20,125 | 27,413 | 7,288 |
| Rentals | 500 | 998 | 498 |
| Miscellaneous | 0 | 46 | 46 |
| Refunds & Reimbursements | 0 | 447 | 447 |
| Kingston Wetland Restoration | | | |
| Operating Supplies | 150 | 1,515 | 1,365 |
| Accounting | 500 | 84 | (416) |
| Engineering Fees | 46,650 | 88,521 | 41,871 |
| Management Fees | 2,000 | 13,336 | 11,336 |
| Other Professional Services | 1,500 | 10,207 | 8,707 |
| Transportation | 300 | 806 | 506 |
| Repairs/Maintenance Contractual | 9,900 | 0 | (9,900) |
| Improvements Other Than Building | 86,860 | 0 | (86,860) |
| Interest Expense | 0 | 6 | 6 |
| Fertilizer Field Trial | | | |
| Professional fees | 148,150 | 12,328 | (135,822) |
| Miscellaneous | 0 | 171 | 171 |
| Interest Expense | 50 | 3 | (47) |
| Total Expenditures | 327,190 | 163,030 | (164,160) |
| Excess of Revenue Over (Under) Expenditures | \$ (60,000) | 36,687 | \$ 96,687 |
| Fund Balance - Beginning | | 199,567 | |
| Fund Balance - Ending | | \$ 236,254 | |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES
December 31, 2012

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

1. District staff compiles the budget into an overall preliminary District budget. District staff 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, 2012

| | Special Revenue Funds | | | | |
|------------------------------------|-----------------------|----------------------------|-------------------------------|----------------------|--------------------------|
| | Data Acquisition | Cedar #06-1 Maintenance | Clearwater Lake Milfoil | Cedar Lake AIS | Louisa & Marie AIS |
| ASSETS | | | | | |
| Cash and investments | \$ 765 | \$ 64,617 | \$ 39,085 | \$ 41,242 | \$ 22,479 |
| Property taxes receivable | <u>516</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Assets | <u>\$ 1,281</u> | <u>\$ 64,617</u> | <u>\$ 39,085</u> | <u>\$ 41,242</u> | <u>\$ 22,479</u> |
| LIABILITIES AND FUND | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 3,714 | \$ 1,818 | \$ 183 | \$ 0 | \$ 803 |
| Unearned Revenue | <u>490</u> | <u>18,286</u> | <u>20,863</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>4,204</u> | <u>20,104</u> | <u>21,046</u> | <u>0</u> | <u>803</u> |
| Fund Balances: | | | | | |
| Committed: | | | | | |
| Special Revenue | 0 | 44,513 | 18,039 | 41,242 | 21,676 |
| Unassigned | | | | | |
| Special Revenue | <u>(2,923)</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Fund Balance | <u>(2,923)</u> | <u>44,513</u> | <u>18,039</u> | <u>41,242</u> | <u>21,676</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,281</u> | <u>\$ 64,617</u> | <u>\$ 39,085</u> | <u>\$ 41,242</u> | <u>\$ 22,479</u> |

Special Revenue Funds

| Augusta Channel Clean Out | Lake Augusta Milfoil | Clearwater Grass/Bog Removal | School Section Lake Outlet | Total Nonmajor Governmental Funds |
|---------------------------------|----------------------------|------------------------------------|-------------------------------------|--|
| \$ (37,356) | \$ 16,999 | \$ (7,649) | \$ 1,325 | \$ 141,507 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>516</u> |
| <u>\$ (37,356)</u> | <u>\$ 16,999</u> | <u>\$ (7,649)</u> | <u>\$ 1,325</u> | <u>\$ 142,023</u> |
| \$ 0 | \$ 44 | \$ 0 | 0 | \$ 6,562 |
| <u>0</u> | <u>1,980</u> | <u>1,131</u> | <u>1,588</u> | <u>44,338</u> |
| <u>0</u> | <u>2,024</u> | <u>1,131</u> | <u>1,588</u> | <u>50,900</u> |
| 0 | 14,975 | 0 | 0 | 140,445 |
| <u>(37,356)</u> | <u>0</u> | <u>(8,780)</u> | <u>(263)</u> | <u>(49,322)</u> |
| <u>(37,356)</u> | <u>14,975</u> | <u>(8,780)</u> | <u>(263)</u> | <u>91,123</u> |
| <u>\$ (37,356)</u> | <u>\$ 16,999</u> | <u>\$ (7,649)</u> | <u>\$ 1,325</u> | <u>\$ 142,023</u> |

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND,
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

| | Special Revenue Funds | | | | |
|---|-----------------------|----------------------------|-------------------------------|----------------------|--------------------------|
| | Data Acquisition | Cedar #06-1 Maintenance | Clearwater Lake Milfoil | Cedar Lake AIS | Louisa & Marie AIS |
| Revenues: | | | | | |
| General Property taxes | \$ 1,224 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Special assessments | 0 | 31,789 | 39,137 | 55,419 | 43,506 |
| Miscellaneous Income | 35 | 174 | 38 | 7 | 7 |
| Interest income | 86 | 419 | 247 | 354 | 177 |
| Total Revenue | 1,345 | 32,382 | 39,422 | 55,780 | 43,690 |
| Expenditures: | | | | | |
| Current | 34,722 | 18,688 | 36,833 | 8,275 | 15,163 |
| Excess Revenues Over (Under) Expenditures | (33,377) | 13,694 | 2,589 | 47,505 | 28,527 |
| Other Financing Sources (Uses) | | | | | |
| Transfer in | 46,100 | 0 | 0 | 0 | 0 |
| Change in Fund Balance | 12,723 | 13,694 | 2,589 | 47,505 | 28,527 |
| Fund Balance - Beginning | (15,646) | 30,819 | 15,450 | (6,263) | (6,851) |
| Fund Balance - Ending | \$ (2,923) | \$ 44,513 | \$ 18,039 | \$ 41,242 | \$ 21,676 |

Special Revenue Funds

| Augusta Channel Clean Out | Lake Augusta Milfoil | Clearwater Grass/Bog Removal | School Section Lake Outlet | Total Nonmajor Governmental Funds |
|---------------------------------|----------------------------|------------------------------------|-------------------------------------|--|
| \$ 0 | \$ 13 | \$ 0 | \$ 0 | \$ 1,237 |
| 9,739 | 3,400 | 3 | 0 | 182,993 |
| 7 | 38 | 100 | 38 | 444 |
| <u>0</u> | <u>116</u> | <u>0</u> | <u>3</u> | <u>1,402</u> |
| <u>9,746</u> | <u>3,567</u> | <u>103</u> | <u>41</u> | <u>186,076</u> |
| | | | | |
| <u>24</u> | <u>730</u> | <u>4,716</u> | <u>304</u> | <u>119,455</u> |
| <u>9,722</u> | <u>2,837</u> | <u>(4,613)</u> | <u>(263)</u> | <u>66,621</u> |
| | | | | |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>46,100</u> |
| 9,722 | 2,837 | (4,613) | (263) | 112,721 |
| <u>(47,078)</u> | <u>12,138</u> | <u>(4,167)</u> | <u>0</u> | <u>(21,598)</u> |
| <u>\$ (37,356)</u> | <u>\$ 14,975</u> | <u>\$ (8,780)</u> | <u>\$ (263)</u> | <u>\$ 91,123</u> |

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

May 22, 2013

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

We have audited the financial statements of Clearwater River Watershed District as of and for the year ended December 31, 2012, and have issued our report thereon dated May 22, 2013.

We conducted our audit in accordance with generally accepted auditing standards and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Legal Compliance Tax 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 in tax increment financing or public indebtedness because the District does not have any tax increment revenue or indebtedness.

The results of our tests indicate that for the items tested Clearwater River Watershed District complied with the material terms and conditions of applicable legal provisions, except those noted below.

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

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May 22, 2013

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities and each major fund and remaining aggregate fund information of Clearwater River Watershed District (the District) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the District's internal control to be significant deficiencies:

Financial Report Preparation

CONDITION: We were requested to assist in drafting the audited financial statement and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board of Managers as an internal control deficiency. Furthermore, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

CRITERIA: Internal controls should be in place to provide reasonable assurance over financial reporting.

CAUSE: The District has informed us that they do not have an internal control policy in place over annual financial reporting and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

EFFECT: The potential exists that a material misstatement of the annual financial statements could occur and that a material disclosure could be omitted from the financial statements and not be prevented by the District's internal control.

RECOMMENDATION: The District should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over financial reporting is beneficial.

CLIENT RESPONSE: The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small Districts. Management recognizes that it is not economically feasible to fully correct this finding. However, we are aware of the deficiency and will rely on oversight by management and the Board of Managers to monitor the deficiency. The District will also explore options and cost effective feasibility of training existing personnel to adequately prepare the annual financial reports.

Segregation of Duties

CONDITION: During our audit we reviewed internal control procedures over receipts, disbursements, and payroll and found the District to have limited segregation of duties in these areas.

CRITERIA: There are four general categories of duties: authorization, custody, record keeping, and reconciliation. In an ideal system, different employees perform each of these four major functions. No one person should have control over more than two of the four responsibilities.

CAUSE: As a result of the small staff, the District Clerk/Treasurer controls and maintains the check stock. The Clerk/Treasurer also opens the mail, sets up and maintains vendors, approves vouchers for payment, prepares checks, signs checks with the Chairman, and maintains the accounting records. Additionally, the Clerk/Treasurer receives and endorses checks and currency, prepares and takes the deposit to the bank

EFFECT: The existence of this limited segregation of duties increases the risk of fraud.

RECOMMENDATION: While we recognize staff is not large enough to eliminate this deficiency, we recommend that an individual, separate from the Clerk/Treasurer, review cancelled checks received with the bank statement and investigate; voided checks, inconsistent check sequence, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Board of Managers is aware of this condition and monitor all financial information.

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd.
Certified Public Accountants
Mankato, Minnesota