

**CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

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CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

DISTRICT OFFICIALS
December 31, 2013

<u>Board of Managers</u>	<u>Position</u>	<u>Term Expires</u>
Robert Schiefelbein	Chairman	August 13, 2015
Jeff Golden	Vice Chairman	August 13, 2015
Paul DeGree	Secretary	August 13, 2016
Mary Ellen Wells	Treasurer	August 13, 2014
Robert Rocheleau	Public Relations	August 13, 2014

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INDEPENDENT AUDITOR'S REPORT

June 7, 2014

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 the Clearwater River Watershed District (the District), as of and for the year ended December 31, 2013, 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, 2013 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with 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

BASIC FINANCIAL STATEMENTS

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2013

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 1,462,494	\$ 196,776	\$ 1,659,270
Receivables:			
Accounts	0	35,359	35,359
Property taxes	17,839	0	17,839
Special assessments	77,994	0	77,994
Prepaid expenses	4,450	1,583	6,033
Capital Assets:			
Land	235,853	35,400	271,253
Construction in progress	461,779	0	461,779
Equipment	51,037	8,670	59,707
Sanitary systems	0	2,142,041	2,142,041
Accumulated depreciation	(7,400)	(791,161)	(798,561)
Total Assets	\$ 2,304,046	\$ 1,628,668	\$ 3,932,714
LIABILITIES AND NET POSITION			
Liabilities			
Accounts payable	\$ 46,927	\$ 6,161	\$ 53,088
Unearned Revenue	495,391	0	495,391
Total Liabilities	542,318	6,161	548,479
Net Position:			
Net Investment in Capital Assets	741,268	1,394,950	2,136,218
Unrestricted	1,020,460	227,557	1,248,017
Total Net Position	1,761,728	1,622,507	3,384,235
Total Liabilities and Net Position	\$ 2,304,046	\$ 1,628,668	\$ 3,932,714

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, 2013

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	\$ 151,595	\$ 0	\$ 0	\$ 0	\$ (151,595)	\$ 0	\$ (151,595)
Special revenue	215,253	266,406	0	202,825	253,978	0	253,978
Capital projects	22,193	0	0	80,337	58,144	0	58,144
Total Governmental activities	<u>389,041</u>	<u>266,406</u>	<u>0</u>	<u>283,162</u>	<u>160,527</u>	<u>0</u>	<u>160,527</u>
BUSINESS-TYPE ACTIVITIES:							
Sanitary system	<u>125,322</u>	<u>76,529</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48,793)</u>	<u>(48,793)</u>
Total Primary Government	<u>\$ 514,363</u>	<u>\$ 342,935</u>	<u>\$ 0</u>	<u>\$ 283,162</u>	<u>160,527</u>	<u>(48,793)</u>	<u>111,734</u>
General Revenues:							
Property taxes, levied for general purposes					252,976	0	252,976
Intergovernmental					221,632	0	221,632
Interest and investments earnings					4,980	808	5,788
Miscellaneous					13,092	238	13,330
Total General Revenues					<u>492,680</u>	<u>1,046</u>	<u>493,726</u>
Changes in Net Position					653,207	(47,747)	605,460
Net Position - Beginning					<u>1,108,521</u>	<u>1,670,254</u>	<u>2,778,775</u>
Net Position - Ending					<u>\$ 1,761,728</u>	<u>\$ 1,622,507</u>	<u>\$ 3,384,235</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, 2013

	General	Chain of Lakes Operations & Maintenance	Kimball Storm Sewer Phase II
ASSETS			
Cash and cash equivalents	\$ 515,017	\$ 362,836	\$ 237,812
Property taxes receivable	17,614	0	0
Special assessments receivable	0	3,833	0
Prepaid expenses	4,450	0	0
Total Assets	<u>\$ 537,081</u>	<u>\$ 366,669</u>	<u>\$ 237,812</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,054	\$ 13,927	\$ 2,039
Unearned Revenue	0	92,879	219,542
Total Liabilities	12,054	106,806	221,581
Deferred Inflows of Resources:			
Unavailable Revenue - Delinquent Taxes	14,045	0	0
Unavailable Revenue - Special Assessments	0	0	0
Total Deferred Inflows of Resources	14,045	0	0
Fund Balances:			
Nonspendable - prepaid expenses	4,450	0	0
Committed:			
Special revenue funds	0	259,863	0
Assigned:			
Capital project funds	0	0	16,231
Unassigned:			
General fund	506,532	0	0
Total Fund Balances	510,982	259,863	16,231
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 537,081</u>	<u>\$ 366,669</u>	<u>\$ 237,812</u>

The Notes to the Financial Statements are an Integral Part of These Statements.

Cedar #06-1 Maintenance	Other Governmental Funds	Total Governmental Funds
\$ 250,542	\$ 96,287	\$ 1,462,494
0	225	17,839
71,604	2,559	77,996
<u>0</u>	<u>0</u>	<u>4,450</u>
<u>\$ 322,146</u>	<u>\$ 99,071</u>	<u>\$ 1,562,779</u>
\$ 6,112	\$ 12,799	\$ 46,931
157,027	25,943	495,391
<u>163,139</u>	<u>38,742</u>	<u>542,322</u>
0	207	14,252
71,433	0	71,433
<u>71,433</u>	<u>207</u>	<u>85,685</u>
0	0	4,450
87,574	60,122	407,559
0	0	16,231
0	0	506,532
<u>87,574</u>	<u>60,122</u>	<u>934,772</u>
<u>\$ 322,146</u>	<u>\$ 99,071</u>	<u>\$ 1,562,779</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, 2013

Total Fund Balances - Governmental Funds	\$ 934,772
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:	748,669
Less: Accumulated Depreciation	(7,400)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Delinquent property taxes	14,253
Special Assessments	<u>71,434</u>
Total Net Position - Governmental Activities	<u>\$ 1,761,728</u>

The Notes to the Financial Statements are an Integral 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, 2013

	General	Chain of Lakes Operations & Maintenance	Kimball Storm Sewer Phase II
Revenues			
General property taxes	\$ 249,932	\$ 0	\$ 0
Intergovernmental revenue	5,010	243,147	80,337
Special assessments	0	166,906	0
Miscellaneous Income	2,514	151	0
Interest income	1,860	928	1,071
Total Revenue	259,316	411,132	81,408
Expenditures			
General government	147,527	0	0
Special revenue expenditures	0	387,524	0
Capital project expenditures	0	0	117,539
Total Expenditures	147,527	387,524	117,539
Excess Revenues Over (Under) Expenditures	111,789	23,608	(36,131)
Other Financing Sources (Uses)			
Transfers in	0	0	50,000
Transfers out	(80,000)	0	0
Total Other Financing Sources (Uses)	(80,000)	0	50,000
Change in Fund Balance	31,789	23,608	13,869
Fund Balance - January 1	479,193	236,255	2,362
Fund Balance - December 31	\$ 510,982	\$ 259,863	\$ 16,231

The Notes to the Financial Statements are an Integral Part of These Statements.

<u>Cedar #06-1 Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 124	\$ 250,056
0	0	328,494
135,335	69,032	371,273
10,150	277	13,092
655	466	4,980
<u>146,140</u>	<u>69,899</u>	<u>967,895</u>
0	0	147,527
103,078	86,391	576,993
0	0	117,539
<u>103,078</u>	<u>86,391</u>	<u>842,059</u>
<u>43,062</u>	<u>(16,492)</u>	<u>125,836</u>
0	30,000	80,000
0	0	(80,000)
<u>0</u>	<u>30,000</u>	<u>0</u>
43,062	13,508	125,836
<u>44,512</u>	<u>46,614</u>	<u>808,936</u>
<u>\$ 87,574</u>	<u>\$ 60,122</u>	<u>\$ 934,772</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, 2013

Total Net Change in Fund Balances - Governmental Funds \$ 125,836

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	457,085
Less: Depreciation	(4,068)

Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	2,921
Special Assessments	<u>71,433</u>

Change in Net Position - Governmental Activities \$ 653,207

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 52,823	\$ 13,862	\$ 94,912	\$ 35,179	\$ 196,776
Prepaid insurance	435	189	959	0	1,583
Accounts receivable	8,007	1,643	19,554	6,155	35,359
Total Current Assets	<u>61,265</u>	<u>15,694</u>	<u>115,425</u>	<u>41,334</u>	<u>233,718</u>
Noncurrent Assets					
Capital assets	491,108	141,138	1,482,365	71,500	2,186,111
Less: Accumulated depreciation	<u>(149,520)</u>	<u>(27,095)</u>	<u>(599,775)</u>	<u>(14,771)</u>	<u>(791,161)</u>
Net Capital Assets	<u>341,588</u>	<u>114,043</u>	<u>882,590</u>	<u>56,729</u>	<u>1,394,950</u>
TOTAL ASSETS	<u>\$ 402,853</u>	<u>\$ 129,737</u>	<u>\$ 998,015</u>	<u>\$ 98,063</u>	<u>\$ 1,628,668</u>
LIABILITIES AND NET POSITION					
Current Liabilities					
Accounts payable	<u>\$ 1,394</u>	<u>\$ 153</u>	<u>\$ 2,321</u>	<u>\$ 2,293</u>	<u>\$ 6,161</u>
Total Current Liabilities	<u>1,394</u>	<u>153</u>	<u>2,321</u>	<u>2,293</u>	<u>6,161</u>
Net Position					
Net Investment in Capital Assets	341,588	114,043	882,590	56,729	1,394,950
Unrestricted	<u>59,871</u>	<u>15,541</u>	<u>113,104</u>	<u>39,041</u>	<u>227,557</u>
Total Net Position	<u>401,459</u>	<u>129,584</u>	<u>995,694</u>	<u>95,770</u>	<u>1,622,507</u>
Total Liabilities and Net Position	<u>\$ 402,853</u>	<u>\$ 129,737</u>	<u>\$ 998,015</u>	<u>\$ 98,063</u>	<u>\$ 1,628,668</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, 2013

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
Revenue					
Charges for services	\$ 18,381	\$ 5,776	\$ 35,471	\$ 7,061	\$ 66,689
Special assessment from homeowner	1,785	0	6,082	1,973	9,840
Miscellaneous income	71	33	98	36	238
	<u>20,237</u>	<u>5,809</u>	<u>41,651</u>	<u>9,070</u>	<u>76,767</u>
Total Revenues					
Operating Expenses					
Accounting	383	238	500	167	1,288
Depreciation	12,363	2,643	56,402	2,625	74,033
Engineering	0	0	201	0	201
Insurance	365	194	104	211	874
Legal	0	0	656	143	799
Management fees	377	330	1,156	323	2,186
Miscellaneous	110	417	379	28	934
Other professional fees	523	128	1,353	210	2,214
Permits	398	0	398	400	1,196
Repairs and maintenance	14,218	843	17,135	2,152	34,348
Supplies	123	1	2,433	2	2,559
Telephone	560	345	625	0	1,530
Utilities	740	530	1,505	385	3,160
	<u>30,160</u>	<u>5,669</u>	<u>82,847</u>	<u>6,646</u>	<u>125,322</u>
Total Operating Expenses					
Income (Loss) from Operations	(9,923)	140	(41,196)	2,424	(48,555)
Nonoperating Income (Expense)					
Interest income	242	44	356	166	808
Total Nonoperating Income (Expense)	<u>242</u>	<u>44</u>	<u>356</u>	<u>166</u>	<u>808</u>
Change in Net Position	(9,681)	184	(40,840)	2,590	(47,747)
Net Position - January 1	<u>411,140</u>	<u>129,400</u>	<u>1,036,534</u>	<u>93,180</u>	<u>1,670,254</u>
Net Position - December 31	<u>\$ 401,459</u>	<u>\$ 129,584</u>	<u>\$ 995,694</u>	<u>\$ 95,770</u>	<u>\$ 1,622,507</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, 2013

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Wandering Ponds	Totals
CASH FLOWS FROM OPERATING					
Receipts from customers and users	\$ 20,942	\$ 5,603	\$ 42,502	\$ 9,881	\$ 78,928
Payments to suppliers	<u>(17,906)</u>	<u>(3,024)</u>	<u>(26,380)</u>	<u>(3,423)</u>	<u>(50,733)</u>
Net Cash provided by operating activities	<u>3,036</u>	<u>2,579</u>	<u>16,122</u>	<u>6,458</u>	<u>28,195</u>
CASH FLOWS FROM INVESTING					
Interest received	<u>242</u>	<u>44</u>	<u>356</u>	<u>166</u>	<u>808</u>
Change in Cash and Cash Equivalents	3,278	2,623	16,478	6,624	29,003
Cash and Cash Equivalents - Beginning	<u>49,545</u>	<u>11,239</u>	<u>78,434</u>	<u>28,555</u>	<u>167,773</u>
Cash and Cash Equivalents - Ending	<u>\$ 52,823</u>	<u>\$ 13,862</u>	<u>\$ 94,912</u>	<u>\$ 35,179</u>	<u>\$ 196,776</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (9,923)	\$ 140	\$ (41,196)	\$ 2,424	\$ (48,555)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	12,363	2,643	56,402	2,625	74,033
Accounts receivable	705	(206)	851	811	2,161
Prepaid insurance	(54)	(24)	(120)	0	(198)
Accounts payable	<u>(55)</u>	<u>26</u>	<u>185</u>	<u>598</u>	<u>754</u>
Net Cash Provided by Operating Activities	<u>\$ 3,036</u>	<u>\$ 2,579</u>	<u>\$ 16,122</u>	<u>\$ 6,458</u>	<u>\$ 28,195</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, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Clearwater River Watershed District (the 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 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.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. 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.

Component units for which the District has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. 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 District. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally from the District. Based on the foregoing criteria as of December 31, the District had no blended or discretely presented component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District and its component units. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements and the fiduciary 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred inflows of resources in the fund financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

The District reports the following major governmental funds:

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Operations and Maintenance fund* accounts for revenues and accumulated resources necessary for the maintenance of the original Clearwater Chain of Lakes Restoration Project.

The *Kimball Storm Sewer Phase II fund* accounts for resources and accumulated costs related to construction of infrastructure for the Kimball storm sewer phase II capital project.

The *Cedar #06-1 Maintenance fund* accounts for revenues and accumulated resources necessary for the maintenance of Cedar Lake.

The District reports the following major proprietary funds:

The *Hidden River Sanitary Sewer Maintenance fund* accounts for the costs associated with the District's sanitary sewer system of Hidden River and insures that user charges are sufficient to meet those costs.

The *Rest a While Sanitary Sewer Maintenance fund* accounts for the costs associated with the District's sanitary sewer system of Rest a While and insures that user charges are sufficient to meet those costs.

The *Clearwater Harbor Sanitary Sewer Maintenance fund* accounts for the costs associated with the District's sanitary sewer system of Clearwater Harbor and insures that user charges are sufficient to meet those costs.

The *Wandering Ponds Sanitary Sewer Maintenance fund* accounts for the costs associated with the District's sanitary sewer system of Wandering Ponds and insures that user charges are sufficient to meet those costs.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the District's water and sewer functions and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, 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 District enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, 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.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

Deposits 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 three months or less from the date of acquisition. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The District's investments are reported at their respective fair market values. The District has not adopted a formal investment policy.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Property taxes

The District Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the District during January, June and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the District by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2013. The District annually certifies delinquent accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than the thresholds below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Assets	Capitalization Threshold
Land improvements	\$ 10,000
Buildings and improvements	25,000
Infrastructure	100,000
Machinery and equipment	5,000

As the District constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the District values these capital assets at the estimated fair value of the item at the date of its donation.

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

Assets	Useful Lives in Years
Buildings and improvements	15 to 75
Infrastructure	20 to 60
Machinery and equipment	3 to 15

Deferred outflows/inflows of resources

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

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Net position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund balance

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 the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the District Council, which is the District’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the District Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the District Board itself or by an official to which the governing body delegates the authority. The District Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the District Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has formally adopted a fund balance policy for the General fund. The District’s policy is to maintain a minimum unassigned fund balance of 20-25 percent of budgeted operating expenditures for cash-flow timing needs.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The District does not use encumbrance accounting.

On or before July 1 of each year, District staff compiles the budget into an overall preliminary District budget. Before September 15, the proposed budget is presented to the District Board for review. The District Board holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The District's staff may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the District Board. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the District Board. There were no budget amendments during the year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2013 the following funds had expenditures over appropriations:

Fund	Budget	Expenditures	Variance
Chain of Lakes Operations and Maintenance	\$ 304,204	\$ 387,524	\$ 83,320
Cedar #06-1 Maintenance	29,900	103,078	73,178

C. Deficit Fund Equity

The following had fund equity deficits at year end:

Fund	Amount
Governmental	
Nonmajor	
Data Acquisition	\$ 4,222
Augusta Channel Clean Out	32,022
Clearwater Grass/Bog Removal	7,533

The fund deficits are planned to be eliminated with future interfund transfers.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 3 DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the District Board, the District maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At December 31, 2013, the carrying amount of deposits was \$1,659,271 and the bank balance was \$1,659,290. The District's deposits were covered by \$750,000 of federal depository insurance. The remaining balance was covered by collateral held by the District's agent in the District's name.

Investments

As of December 31, 2013, the District had no investments.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

A reconciliation of cash and cash equivalents as shown on the statement of net position for the District follows:

	Governmental Funds	Proprietary Funds
Demand deposits	\$ 360,157	\$ 48,459
Time deposits	1,102,337	148,317
Total cash and cash equivalents	\$ 1,462,494	\$ 196,776

B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Position. There are no estimates for allowances for uncollectible receivables.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Special assessment not yet due	\$ 71,433	\$ -
Delinquent property taxes	14,252	
Prepaid special assessments (service-type)		136,899
2013 CWA grant		138,950
2012 CWA grant		219,542
Total unavailable/unearned revenue	\$ 85,685	\$ 495,391

The only receivables not expected to be collectible within one year are the following: General Fund: \$10,321 of delinquent taxes. Cedar #06-1 Maintenance: \$53,575 of special assessments.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

C. Interfund receivables, payables, and transfers

Interfund transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Transferred To	Transfer From General Fund
Kimball Storm Sewer Phase II	\$ 50,000
Data Acquisition	30,000
	\$ 80,000

Transfers from the general fund were budgeted in the prior fiscal year to support continuing operations.

D. Capital assets

Capital asset activity for the District for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 173,943	\$ 61,910	\$ -	\$ 235,853
Construction in progress	78,461	383,318		461,779
Total capital assets not being depreciated	252,404	445,228	-	697,632
Capital assets being depreciated				
Machinery and equipment	39,179	11,858	-	51,037
Less accumulated depreciation for Machinery and equipment	(3,332)	(4,068)	-	(7,400)
Total capital assets being depreciated, net	35,847	7,790	-	43,637
Governmental activities capital assets, net	\$ 288,251	\$ 453,018	\$ -	\$ 741,269

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 35,400	\$ -	\$ -	\$ 35,400
Capital assets being depreciated				
Sanitary system	2,142,041	-	-	2,142,041
Machinery and equipment	8,670	-	-	8,670
Total capital assets being depreciated	2,150,711	-	-	2,150,711
Less accumulated depreciation for				
Sanitary system	(716,067)	(73,456)	-	(789,523)
Machinery and equipment	(1,060)	(578)	-	(1,638)
Total accumulated depreciation	(717,127)	(74,034)	-	(791,161)
Total capital assets being depreciated, net	1,433,584	(74,034)	-	1,359,550
Business-type activities capital assets, net	\$ 1,468,984	\$ (74,034)	\$ -	\$ 1,394,950

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

Governmental activities	
General government	\$ 4,068
Total depreciation expense - governmental activities	\$ 4,068
Business-type activities	
Hidden River	\$ 12,363
Rest a While	2,644
Clearwater Harbor	56,402
Wandering Ponds	2,625
Total depreciation expense - business-type activities	\$ 74,034

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

A. Net Position/Fund Balance

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position at December 31, 2013 includes the following:

Net Investment in Capital Assets:

Land	\$	235,853
Construction in progress		461,779
Machinery and equipment		51,037
Less: accumulated depreciation		(7,400)
Total Net Investment in Capital Assets		741,268

Unrestricted		1,020,460
Total Governmental Activities Net Position	\$	1,761,728

Business-Type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position at December 31, 2013 includes the following:

Net Investment in Capital Assets:

Land	\$	35,400
Sanitary system		2,142,041
Machinery and equipment		8,670
Less: accumulated depreciation		(791,161)
Total Net Investment in Capital Assets		1,394,950

Unrestricted		227,557
Total Business-Type Activities Net Position	\$	1,622,507

Note 4 OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

Note 4 OTHER INFORMATION – (Continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

B. 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 complaint. Management has determined that exposure to loss cannot be reasonably estimated due to the likelihood of an unfavorable outcome being neither probable nor remote.

C. Change in accounting principle

For the year ended December 31, 2013, the District implemented GASB 65, *Items Previously Reported as Assets and Liabilities* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. 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.

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, 2013

	Original And Final Budget	Actual Amount	Variance From Budget
Revenues			
Property taxes	\$ 233,000	\$ 249,932	\$ 16,932
Intergovernmental	0	5,010	5,010
Miscellaneous income	22,100	2,514	(19,586)
Interest income	4,000	1,860	(2,140)
Total Revenue	259,100	259,316	216
Expenditures			
General Government			
Wages and benefits	7,300	4,843	(2,457)
Office supplies	700	395	(305)
Operating Supplies	0	77	77
Accounting	36,900	39,300	2,400
Audit	8,100	8,175	75
Engineering fees	25,000	18,452	(6,548)
Legal fees	2,500	(312)	(2,812)
Management fees	45,000	39,917	(5,083)
Other professional services	100	7	(93)
Communication	1,300	986	(314)
Transportation	1,350	2,020	670
Conference registration	600	0	(600)
Other travel costs	400	0	(400)
Legal notices	4,000	5,013	1,013
Printing and binding	1,000	423	(577)
Insurance	2,500	1,591	(909)
Rentals	3,200	3,122	(78)
Miscellaneous	400	21	(379)
Dues and suscriptions	4,000	4,225	225
Property Tax	1,150	1,130	(20)
Total General Government	145,500	129,385	(16,115)
Education Program			
Wages and benefits	750	347	(403)
Office supplies	100	0	(100)
Management fees	1,000	719	(281)
Other Professional Services	0	625	625
Communication	300	0	(300)
Transportation	1,000	739	(261)
Other Travel costs	900	437	(463)
Printing and binding	500	347	(153)
Miscellaneous	150	0	(150)
Total Education Program	4,700	3,214	(1,486)

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, 2013

	<u>Original And Final Budget</u>	<u>Actual Amount</u>	<u>Variance From Budget</u>
Expenditures - continued			
Other Expenditures			
Advisory committee	\$ 1,000	\$ 98	\$ (902)
Grant application	7,000	1,155	(5,845)
Filter strip program	10,500	7,090	(3,410)
Plan/Plat review	700	0	(700)
Website	1,500	1,317	(183)
Other special projects	6,207	5,268	(939)
Total Other Expenditures	<u>26,907</u>	<u>14,928</u>	<u>(11,979)</u>
 Total Expenditures	 <u>177,107</u>	 <u>147,527</u>	 <u>(29,580)</u>
 Excess Revenues Over (Under) Expenditures	 81,993	 111,789	 29,796
 Other Financing Sources (Uses)			
Operating transfers out	<u>(80,000)</u>	<u>(80,000)</u>	<u>0</u>
 Change in Fund Balance	 <u>\$ 1,993</u>	 31,789	 <u>\$ 29,796</u>
 Fund Balance - Beginning		 <u>479,193</u>	
 Fund Balance - Ending		 <u>\$ 510,982</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, 2013

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes	\$ 0	\$ 1,730	\$ 1,730
Special assessments	156,430	165,176	8,746
Intergovernmental	140,860	243,147	102,287
Miscellaneous income	0	151	151
Interest income	1,850	928	(922)
Total Revenue	<u>299,140</u>	<u>411,132</u>	<u>111,992</u>
Expenditures			
1980 Project Maintenance			
Wages and benefits	150	0	(150)
Office Supplies	300	324	24
Repairs	150	181	31
Accounting	500	0	(500)
Engineering fees	6,600	1,500	(5,100)
Legal fees	0	435	435
Management fees	1,000	1,767	767
Other Professional Services	1,000	2,235	1,235
Communication	300	460	160
Transportation	50	134	84
Insurance	800	688	(112)
Repairs	19,080	647	(18,433)
Rentals	1,200	559	(641)
Miscellaneous	0	33	33
Kingston Wetland Restoration			
Operating Supplies	150	412	262
Accounting	500	0	(500)
Engineering Fees	46,650	0	(46,650)
Legal Fees	0	4,736	4,736
Management Fees	2,250	5,528	3,278
Other Professional Services	1,500	1,024	(476)
Transportation	300	1,945	1,645
Repairs/Maintenance Contractual	9,900	820	(9,080)
Rentals	0	1,470	1,470
Miscellaneous	0	792	792
Improvements Other Than Building	86,860	0	(86,860)
Capital Outlay	0	265,757	265,757

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, 2013

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Expenditures - (Continued)			
Fertilizer Field Trial			
Operating Supplies	\$ 0	\$ 2,149	\$ 2,149
Professional fees	124,964	78,671	(46,293)
Transporation	0	916	916
Repairs	0	2,367	2,367
Rentals	0	116	116
Capital Outlay	0	11,858	11,858
Total Expenditures	304,204	387,524	83,320
Excess of Revenue Over (Under) Expenditures	\$ (5,064)	23,608	\$ 28,672
Fund Balance - January 1		236,255	
Fund Balance - December 31		\$ 259,863	

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CEDAR #06-1 MAINTENANCE
For the Year Ended December 31, 2013

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Special Assessments	\$ 30,000	\$ 135,335	\$ (105,335)
Miscellaneous income	0	10,150	(10,150)
Interest income	200	655	455
Total Revenue	30,200	146,140	(115,940)
Expenditures			
Supplies	350	1,385	1,035
Accounting	1,450	0	(1,450)
Engineering Fees	500	2,273	1,773
Legal fees	0	759	759
Management	300	4,988	4,688
Other Professional Services	6,000	2,679	(3,321)
Communication	150	667	517
Transportation	100	684	584
Insurance	300	486	186
Repair and Maintenance	20,000	3,624	(16,376)
Rentals	0	981	981
Miscellaneous	0	271	271
Permits	750	0	(750)
Land	0	51,772	51,772
Capital Outlay	0	32,353	32,353
Refunds & Reimbursements	0	156	156
Total Expenditures	29,900	103,078	73,178
Excess of Revenues Over (Under) Expenditures	\$ 300	43,062	\$ (42,762)
Fund Balance - Beginning		44,512	
Fund Balance - Ending		\$ 87,574	

SUPPLEMENTARY INFORMATION

CLEARWATER RIVER WATERSHED DISTRICT
ANNANDALE, MINNESOTA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Special Revenue Funds			
	Data Acquisition	Clearwater Lake Milfoil	Cedar Lake AIS	Louisa & Marie AIS
ASSETS				
Cash and investments	\$ 6,318	\$ 43,806	\$ 48,155	\$ 15,623
Property taxes receivable	225	0	0	0
Special assessments receivable	<u>0</u>	<u>1,287</u>	<u>65</u>	<u>37</u>
Total Assets	<u>\$ 6,543</u>	<u>\$ 45,093</u>	<u>\$ 48,220</u>	<u>\$ 15,660</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,558	\$ 431	\$ 0	\$ 0
Unearned Revenue	<u>0</u>	<u>21,071</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>10,558</u>	<u>21,502</u>	<u>0</u>	<u>0</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Delinquent Taxes	<u>207</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Committed:				
Special Revenue	0	23,591	48,220	15,660
Unassigned				
Special Revenue	<u>(4,222)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balance	<u>(4,222)</u>	<u>23,591</u>	<u>48,220</u>	<u>15,660</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 6,543</u>	<u>\$ 45,093</u>	<u>\$ 48,220</u>	<u>\$ 15,660</u>

Special Revenue Funds				
Augusta Channel Clean Out	Lake Augusta Milfoil	Clearwater Grass/Bog Removal	Section Lake Outlet	Nonmajor Governmental Funds
\$ (32,983)	\$ 18,628	\$ (6,009)	\$ 2,749	\$ 96,287
0	0	0	0	225
<u>961</u>	<u>69</u>	<u>75</u>	<u>65</u>	<u>2,559</u>
<u>\$ (32,022)</u>	<u>\$ 18,697</u>	<u>\$ (5,934)</u>	<u>\$ 2,814</u>	<u>\$ 99,071</u>
\$ 0	\$ 1,310	\$ 471	29	\$ 12,799
0	2,166	1,128	1,578	25,943
<u>0</u>	<u>3,476</u>	<u>1,599</u>	<u>1,607</u>	<u>38,742</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>207</u>
0	15,221	0	0	102,692
<u>(32,022)</u>	<u>0</u>	<u>(7,533)</u>	<u>1,207</u>	<u>(42,570)</u>
<u>(32,022)</u>	<u>15,221</u>	<u>(7,533)</u>	<u>1,207</u>	<u>60,122</u>
<u>\$ (32,022)</u>	<u>\$ 18,697</u>	<u>\$ (5,934)</u>	<u>\$ 2,814</u>	<u>\$ 99,071</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, 2013

	Special Revenue Funds			
	Data Acquisition	Clearwater Lake Milfoil	Cedar Lake AIS	Louisa & Marie AIS
Revenues:				
General Property taxes	\$ 124	\$ 574	\$ 41	\$ 68
Special assessments	26	40,392	6,803	7,785
Miscellaneous Income	18	93	4	4
Interest income	43	133	150	77
Total Revenue	211	41,192	6,998	7,934
Expenditures:				
Current	31,510	35,641	21	13,950
Excess Revenues Over (Under) Expenditures	(31,299)	5,551	6,977	(6,016)
Other Financing Sources (Uses)				
Transfer in	30,000	0	0	0
Change in Fund Balance	(1,299)	5,551	6,977	(6,016)
Fund Balance - January 1	(2,923)	18,040	41,243	21,676
Fund Balance - December 31	\$ (4,222)	\$ 23,591	\$ 48,220	\$ 15,660

Special Revenue Funds

Augusta Channel Clean Out	Lake Augusta Milfoil	Clearwater Grass/Bog Removal	School Section Lake Outlet	Total Nonmajor Governmental Funds
\$ 29	\$ 10	\$ 10	\$ 1,932	\$ 2,788
5,322	3,563	2,477	0	66,368
4	44	62	48	277
<u>0</u>	<u>57</u>	<u>0</u>	<u>6</u>	<u>466</u>
<u>5,355</u>	<u>3,674</u>	<u>2,549</u>	<u>1,986</u>	<u>69,899</u>
<u>21</u>	<u>3,428</u>	<u>1,303</u>	<u>517</u>	<u>86,391</u>
<u>5,334</u>	<u>246</u>	<u>1,246</u>	<u>1,469</u>	<u>(16,492)</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,000</u>
5,334	246	1,246	1,469	13,508
<u>(37,356)</u>	<u>14,975</u>	<u>(8,779)</u>	<u>(262)</u>	<u>46,614</u>
<u>\$ (32,022)</u>	<u>\$ 15,221</u>	<u>\$ (7,533)</u>	<u>\$ 1,207</u>	<u>\$ 60,122</u>

OTHER REPORTS

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

June 7, 2014

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Clearwater River Watershed District the (District) as of and for the year ended December 31, 2103, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District has no outstanding debt or tax increment financing since the District has no tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

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March 26, 2014

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, each major fund, and the aggregate remaining fund information of the Clearwater River Watershed District (the District) as of and for the year ended December 31, 2013, 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 District Board 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.

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 Administrator controls and maintains the check stock. The Administrator also opens the mail, sets up and maintains vendors, approves vouchers for payment, prepares checks, signs checks with the Treasurer, and maintains the accounting records. Additionally, the Administrator 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 Administrator, 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 District Board is aware of this condition and monitor all financial information.

This communication is intended solely for the information and use of the governance 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