

**MIDDLE FORK CROW RIVER
WATERSHED DISTRICT
ANNUAL FINANCIAL REPORT**

December 31, 2014

WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

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**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BOARD OF MANAGERS
December 31, 2014**

	<u>Position of the Manager</u>	<u>Term Expires</u>
Robert Hodapp	President and Chair	4/26/15
Bruce Wing	Vice-President	4/26/16
Ruth Schaefer	Secretary	4/26/16
Gordon Behm	Treasurer	4/26/17
Joseph Flanders	Co-Treasurer	4/26/15

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Middle Fork Crow River
Watershed District

We have audited the accompanying financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2014, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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 and each major fund of Middle Fork Crow River Watershed District as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 25 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Managers page and other supplementary information identified in the Table of Contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2015, on our consideration of Middle Fork Crow River Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance the *Government Auditing Standards* in considering Middle Fork Crow Rivers Watershed District's internal control over financial reporting and compliance.

Westberg Eischens, PLLP

WESTBERG EISCHENS, PLLP
Willmar, Minnesota

May 4, 2015

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

INTRODUCTION

A petition was filed with the Minnesota Board of Water and Soil Resources on November 16, 2004 to establish the Middle Fork Crow River Watershed District (District). The District was established on April 27, 2005 under Minnesota Statute § 103D.205.

The District is a local unit of government that works to solve and prevent water related problems. The District will conduct water quality surveys of lakes and streams within the district, conduct education and volunteer programs, implement best management practices, and manage other projects related to fulfilling the purpose of the district.

This section of Middle Fork Crow River Watershed District's annual financial report presents Management's Discussion and Analysis of the District's financial performance during the year ended December 31, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts. They are:

- Independent Auditor's Report,
- Required supplementary information which includes the Management's Discussion and Analysis (this section) and general fund budgetary comparison schedule, and
- Basic financial statements.

The basic financial statements include two kinds of statements that present different views of the District:

- The **District-wide financial statements**, including the statement of net position and statement of activities, provide **short-term** and **long-term** information about the District's **overall** financial status.
- The **fund financial statements** focus on individual parts of the District, reporting the District's operation in **more detail** than the District-wide statements.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-1, summarizes the major features of the District's financial statements, including portions of the District's activities covered and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure A-1 Major Features of the District-wide and Fund Financial Statements		
	District-wide Statements	Governmental Funds
Scope	Entire District	The activities of the District that are not proprietary or fiduciary
Required financial statements	- Statement of net position - Statement of activities	- Balance sheet - Statement of revenue, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

District-wide Statements

The District-wide statements (statement of net position and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional non-financial factors such as community support for District Programs and activities.

In the District-wide financial statement the District's activities are shown in one category titled "governmental activities".

- **Governmental activities** – The District's basic services are reported here, including District Programs and administration. Tax levies, state aid, and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's major funds.

The District maintains the following fund:

- **Governmental funds statements** – The District's basic services are included in governmental funds that generally focus on:
 - 1) how cash and other financial assets that can readily be converted to cash flow in and out, and
 - 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

FINANCIAL HIGHLIGHTS

Key financial highlights from the Statement of Net Position and the Statement of Activities for the 2014 fiscal year include the following:

- Net position totaled \$605,341 in the tenth year of operations.
- Revenues totaled \$805,160 and were \$146,025 more than expenses of \$659,135.
- The District's \$659,135 of expenses were for administrating the District and the revenues were primarily from taxes from the various counties, which are part of the Watershed's District, grants and state aid.

The following Table I reflects the District's condensed summary of the Statements of Net Position as of December 31, 2014 and 2013:

**Table I
Summary of Statements of Net Position
As of December 31,**

<u>Description</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current assets	\$ 820,648	\$ 629,636	\$ 191,012
Capital assets, net of accumulated depreciation	596,884	586,274	10,610
Other assets	-	37,078	(37,078)
Total assets	<u>\$ 1,417,532</u>	<u>\$ 1,252,988</u>	<u>\$ 164,544</u>
Current liabilities	\$ 166,964	\$ 175,666	\$ (8,702)
Long term liabilities	645,227	618,006	27,221
Total liabilities	<u>812,191</u>	<u>793,672</u>	<u>18,519</u>
Net position:			
Net investment in capital assets	596,884	586,274	10,610
Unrestricted	<u>8,457</u>	<u>(126,958)</u>	<u>135,415</u>
Total net position	<u>605,341</u>	<u>459,316</u>	<u>146,025</u>
Total liabilities and net position	<u>\$ 1,417,532</u>	<u>\$ 1,252,988</u>	<u>\$ 164,544</u>

Total assets increased from 2013 to 2014. The major changes to the assets was that the cash balance increased, additional assessments receivable recorded and an advance to the special revenue fund. Liabilities also increased from 2013 to 2014. The primary reasons being the liability the special revenue fund owes to the general fund for covering excess 2014 expenditures and additional debt for State Revolving Fund projects.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Statement of Operations

The results of the District's operations are reported in the statement of activities. Table II presents a condensed summary of data from the District's statements of operations.

**Table II
Summary of Changes in Net Position
For the Year Ended December 31,**

<u>Description</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
REVENUES			
Grants	\$ 401,722	\$ 290,516	\$ 111,206
Tax levy	320,366	295,731	24,635
Special assessments	56,738	43,098	13,640
State aid	1,395	429	966
Interest income	1,530	3,951	(2,421)
Local contributions and miscellaneous	23,409	24,010	(601)
Total revenues	<u>805,160</u>	<u>657,735</u>	<u>147,425</u>
EXPENDITURES			
Meetings/seminars	27,334	14,301	13,033
Contract labor	200,844	93,988	106,856
Administrative	5,166	10,075	(4,909)
BMP implementation expense	178,323	182,314	(3,991)
Professional expenses	25,025	28,519	(3,494)
Employee benefits	8,584	11,098	(2,514)
Dues	3,025	3,766	(741)
Insurance	6,137	4,252	1,885
Payroll expenses	127,283	147,382	(20,099)
Payroll tax expense	9,407	11,821	(2,414)
Utilities	8,038	3,280	4,758
Monitoring	6,718	9,295	(2,577)
Public education	5,345	16,231	(10,886)
Rent	-	3,900	(3,900)
Office expense	2,765	994	1,771
Miscellaneous	4,443	734	3,709
Capital outlay	3,965	1,531	2,434
Depreciation	19,758	9,463	10,295
Interest	16,975	14,763	2,212
Total expenses	<u>659,135</u>	<u>567,707</u>	<u>91,428</u>
Change in net position	146,025	90,028	55,997
Net Position - January 1	<u>459,316</u>	<u>369,288</u>	<u>90,028</u>
Net Position - December 31	<u>\$ 605,341</u>	<u>\$ 459,316</u>	<u>\$ 146,025</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Capital Assets and Debt Administration

As of December 31, 2014, the District had \$596,884 invested in net capital assets. (See Table III.) This amount represents a net increase (including additions and deductions) of \$10,610, from last year.

**Table III
Capital Assets at Year-End**

	2014	2013
Land	\$ 48,663	\$ 48,663
Property, furniture, and equipment	608,025	577,657
Less: accumulated depreciation	(59,804)	(40,046)
 Net Capital Assets	 \$ 596,884	 \$ 586,274

The District's long-term debt as of December 31, 2014, consists of debt used to finance various watershed projects along with financing the construction of the main office. A breakdown of the debt obligations is shown in Table IV.

**Table IV
Change in Debt Obligations**

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
MN Clean Water Partnership Project	\$155,520	\$ 76,933	\$ 12,390	\$220,063	\$ 24,836
Limited Tax Bonds, Series 2012A	495,000	-	20,000	475,000	25,000
 Total Debt Obligations	 \$650,520	 \$ 76,933	 \$ 32,390	 \$695,063	 \$ 49,836

General Fund

The General Fund includes the primary operations of the District in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues:

**Table V
General Fund Revenues**

Function	Year Ended December 31,		Change	
	2014	2013	Increase (Decrease)	Percent (%)
Tax levy	\$ 276,866	\$ 252,231	\$ 24,635	8.90%
Special assessments	13,589	13,226	363	2.67%
Grants	401,722	290,516	111,206	27.68%
State aid	1,395	429	966	69.25%
Interest income	1,530	3,951	(2,421)	-158.24%
Local contributions and miscellaneous	23,409	25,031	(1,622)	-6.93%
 Total General Fund Revenues	 \$ 718,511	 \$ 585,384	 \$ 133,127	 18.53%

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

General Fund (continued)

Total General Fund revenue increased by \$133,127 from the previous year. The mix of property tax, state-aid and grants can change significantly from year to year. The driving factor relating to increased revenues was specific to additional grant revenue for watershed projects.

The following schedule presents a summary of General Fund expenditures:

**Table VI
General Fund Expenditures**

Function	Year Ended December 31,		Change	
	2014	2013	Increase (Decrease)	Percent (%)
Conservation of natural resources	\$ 607,596	\$ 529,383	\$ 78,213	12.87%
Total General Fund Expenditures	\$ 607,596	\$ 529,383	\$ 78,213	12.87%

Total General Fund expenditures decreased by \$78,213, or 12.87%, from the previous year. The expenditures decreased in relation to a combination of changes resulting from contract labor, grant expenses and general fund capital expenses.

Special Revenue Fund

The District's Special Revenue Fund was established to manage aquatic watershed projects which receive payments from special assessments from aquatic land owners located within the District.

General Fund Budgetary Highlights

- Actual revenues were \$173,246 more than expected.
- Actual expenditures were \$108,996 over the budgeted amount.
- No revisions were made to the original adopted budget.

Factors Bearing On The Future And Next Year's Budgets And Rates

The District relies on property tax levies, authorized by underlying state statutes, for a significant portion of its revenue. Continuing surges in land development projects will likely cause the District's activities and expenditures to increase during the next two to five years.

Contacting District Management

This financial report is designed to provide the citizens of Kandiyohi, Meeker, Pope, and Stearns County taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Administrator, Middle Fork Crow River Watershed District, PO Box 8, Spicer, MN 56288.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
December 31, 2014**

	General Fund	Special Revenue Fund	Debt Service Fund
ASSETS			
Cash and cash equivalents	\$ 494,094	\$ 30,000	\$ 78,762
Receivables			
Grants	85,177	-	-
Property taxes	6,491	-	-
Assessments	-	1,368	-
Advance to	34,663	-	-
Capital assets			
Non-depreciable	-	-	-
Depreciable - net	-	-	-
	<u>\$ 620,425</u>	<u>\$ 31,368</u>	<u>\$ 78,762</u>
LIABILITIES AND FUND BALANCES/NET POSITION			
Liabilities			
Accounts payable	\$ 69,539	\$ -	\$ -
Accrued vacation	3,088	-	-
Payroll liabilities	6,777	-	-
Unearned revenue	7,724	30,000	-
Advance from	-	34,663	-
Noncurrent liabilities			
Due within one year	-	-	-
Due in more than one year	-	-	-
	<u>87,128</u>	<u>64,663</u>	<u>-</u>
Fund Balances			
Fund balance			
Nonspendable	34,663	-	-
Restricted	-	-	78,762
Assigned	-	-	-
Unassigned	498,634	(33,295)	-
Total Fund Balances	<u>533,297</u>	<u>(33,295)</u>	<u>78,762</u>
Total Liabilities and Fund Balances	<u>\$ 620,425</u>	<u>\$ 31,368</u>	<u>\$ 78,762</u>

Net Position

Net investment in capital assets
Unrestricted

Total Net Position

Total Liabilities and Net Position

The notes to the financial statements are an integral part of this statement.

<u>Total Fund Balance</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
\$ 602,856	\$ -	\$ 602,856
85,177	-	85,177
6,491	-	6,491
1,368	124,756	126,124
34,663	(34,663)	-
-	48,663	48,663
-	548,221	548,221
<u>\$ 730,555</u>	<u>\$ 686,977</u>	<u>\$ 1,417,532</u>
\$ 69,539	\$ -	\$ 69,539
3,088	-	3,088
6,777	-	6,777
37,724	-	37,724
34,663	(34,663)	-
-	49,836	49,836
-	645,227	645,227
<u>151,791</u>	<u>660,400</u>	<u>812,191</u>
34,663	(34,663)	
78,762	(78,762)	
-	-	
<u>465,339</u>	<u>(465,339)</u>	
<u>578,764</u>	<u>(578,764)</u>	
<u>\$ 730,555</u>		
	596,884	596,884
	8,457	8,457
	<u>605,341</u>	<u>605,341</u>
	<u>\$ 686,977</u>	<u>\$ 1,417,532</u>

The notes to the financial statements are an integral part of this statement.

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

Total Fund Balance - Governmental Funds	\$ 578,764
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets are reported in the statement of net position but not in the fund balance sheet.</p>	
Governmental Capital Assets	656,688
Less: Accumulated Depreciation	(59,804)
<p>Long-term liabilities are reported on the statement of net position but not in the fund balance sheet.</p>	
Note Payable	(220,063)
Bond payable	(475,000)
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.</p>	
Assessments Receivable	<u>124,756</u>
Net Position - Governmental Activities	<u>\$ 605,341</u>

The notes to the financial statements are an integral part of this statement.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
 FUND STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
 WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
 For the Year Ended December 31, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
REVENUES			
General property tax	\$ 276,866	\$ -	\$ 43,500
Special assessments	13,589	56,738	-
Grants	401,722	-	-
State aid	1,395	-	-
Interest income	1,530	-	-
Local contributions and miscellaneous	<u>23,409</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>718,511</u>	<u>56,738</u>	<u>43,500</u>
EXPENDITURES			
Meetings/Seminars	27,334	-	-
Contract labor	146,385	54,459	-
Administrative	5,166	-	-
BMP implementation expense	187,608	-	-
Professional expenses	25,025	-	-
Employee benefits	8,584	-	-
Dues	3,025	-	-
Insurance	6,137	-	-
Payroll expenses	127,283	-	-
Payroll tax expense	9,407	-	-
Utilities	8,038	-	-
Monitoring	6,718	-	-
Public education	5,345	-	-
Office expense	2,765	-	-
Miscellaneous	4,443	-	-
Capital outlay	34,333	-	-
Depreciation	-	-	-
Debt Service			
Principal	-	-	20,000
Interest	<u>-</u>	<u>-</u>	<u>16,975</u>
TOTAL EXPENDITURES	<u>607,596</u>	<u>54,459</u>	<u>36,975</u>
EXCESS OF REVENUES OVER EXPENDITURES	110,915	2,279	6,525
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	-	-	-
Transfer to other funds	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE/NET POSITION	110,915	2,279	6,525
FUND BALANCE/NET POSITION, Beginning of year	<u>422,382</u>	<u>(35,574)</u>	<u>72,237</u>
FUND BALANCE/NET POSITION, End of year	<u>\$ 533,297</u>	<u>\$ (33,295)</u>	<u>\$ 78,762</u>

The notes to the financial statements are an integral part of this statement.

Total Fund Activities	Adjustments	Governmental Activities
\$ 320,366	\$ -	\$ 320,366
70,327	(13,589)	56,738
401,722	-	401,722
1,395	-	1,395
1,530	-	1,530
<u>23,409</u>	<u>-</u>	<u>23,409</u>
<u>818,749</u>	<u>(13,589)</u>	<u>805,160</u>
27,334	-	27,334
200,844	-	200,844
5,166	-	5,166
187,608	(9,285)	178,323
25,025	-	25,025
8,584	-	8,584
3,025	-	3,025
6,137	-	6,137
127,283	-	127,283
9,407	-	9,407
8,038	-	8,038
6,718	-	6,718
5,345	-	5,345
2,765	-	2,765
4,443	-	4,443
34,333	(30,368)	3,965
-	19,758	19,758
20,000	(20,000)	-
<u>16,975</u>	<u>-</u>	<u>16,975</u>
<u>699,030</u>	<u>(39,895)</u>	<u>659,135</u>
119,719	26,306	146,025
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
119,719	26,306	146,025
<u>459,045</u>	<u>271</u>	<u>459,316</u>
<u>\$ 578,764</u>	<u>\$ 26,577</u>	<u>\$ 605,341</u>

The notes to the financial statements are an integral part of this statement.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014**

Net Change in Fund Balance - Governmental Funds	\$ 119,719
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Cost of capital assets purchased	30,368
Depreciation expense	(19,758)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduced long-term liabilities in the statement of net position.</p>	
Principal repayments	32,390
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Clean Water Partnership grants	(3,105)
Special assessments	<u>(13,589)</u>
Change in Net Position - Governmental Activities	<u>\$ 146,025</u>

The notes to the financial statements are an integral part of this statement.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Watershed District was established on April 27, 2005, because the establishment would benefit the public welfare and public interest, and would advance the purpose of Minnesota Statutes Chapter 103D. The Middle Fork Crow River Watershed District includes approximately 271 square miles in Kandiyohi, Meeker, Pope, and Stearns County.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the Authority's more significant accounting policies:

A. Financial Reporting Entity

The District was established in 2005 pursuant to applicable Minnesota laws and statutes. The District consists of five managers with three managers from Kandiyohi County, one manager from Meeker County and one manager from Stearns County. Board elections are held annually on the second regular meeting of the fiscal year.

B. Basic Financial Statements

The financial statements combine fund level (General, Special Revenue and Debt Service) financial statements and government-wide financial statements (the government activities column). These statements include the financial activities of the overall District.

The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The Special Revenue Fund is used to account for the proceeds of the specific revenue sources that are restricted to expenditures for specified purposes or designated to finance particular projects or activities of the District.

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the District's general obligation debt and capital leases. The District annually levies ad valorem taxes restricted for the retirement of general obligation bonds.

The governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

Governmental fund columns (General, Special Revenue and Debt Service) 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. The Board considers all revenues to be available if collected with 60 days after the end of the current period. Charges for services, grants and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted resources as needed.

D. Cash and Cash Equivalents

The District considers all investment instruments purchased with maturity of three months or less to be cash equivalents. At December 31, 2014, there were no cash equivalents.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. Budgets

The Board has adopted grant budgets for the various grant periods. These budgets may be amended or modified as additional grants are received.

G. Compensated Absences

Under the District's policies, employees are granted paid time off (combined vacation and sick leave) based on their length of services. Unused accumulated vacation time is paid to employees upon termination. Compensated absences are accrued when incurred in the governmental activities column of the financial statements. A liability for this amount is reported in the General Fund.

H. Unearned Revenue

All District funds and the governmental activities defer revenue for resources that have been received, but not yet earned. Governmental funds also report unearned revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

I. Long-Term Obligations

In the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Net Position/Fund Balance

The government-wide fund financial statements use a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets - This category includes all capital assets, net of accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents net position of the City, not restricted for any project or other purpose.

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:

Non-spendable – consists of amounts that cannot be spent because they are either 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.

Committed – consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Managers. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Managers.

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 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. Pursuant to District Policy, the Board of Managers is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the General Fund.

The District uses 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 balances when expenditures are made.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The Administrator submits an annual budget to the Board of Managers for the General Fund. Once approved, the Board of Managers may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Disbursements in Excess of Appropriations

The general fund disbursements exceeded the amounts budgeted for the year ended December 31, 2014.

	Disbursements	Appropriations	Excess
General Fund	\$ 607,596	\$ 498,600	\$ 108,996

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Deposits

In accordance with Minnesota statutes, the District is authorized to designate a depository for public funds and to invest in certificates of deposit. The Minnesota statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bond; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the 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.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. It is the District's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. At December 31, 2014, the District deposits were entirely covered by federal depository insurance or collateral held by the District or its agent in the District's name.

NOTE 4 CAPITAL ASSETS

Capital assets are reported in the governmental activities column of the financial statements. Capital assets are defined by the entity as purchases made for items with an individual cost of \$2,500 or more. Such assets are recorded at historical cost or estimated cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 CAPITAL ASSETS (continued)

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

Capital Asset Category	Useful Life
Computer equipment	5 years
Furniture	7 years
Monitoring equipment	10 years
Educational tools (exhibits)	15 years
Property	40 years

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assests, non-depreciated				
Land	\$ 48,663	\$ -	\$ -	\$ 48,663
Capital assets, depreciated				
Property, furniture, and equipment	577,657	30,368	-	608,025
Less: accumulated depreciation for				
Property, furniture, and equipment	<u>(40,046)</u>	(19,758)	-	<u>(59,804)</u>
Governmental Activities Capital Assets, Net	<u>\$ 586,274</u>			<u>\$ 596,884</u>

NOTE 5 LONG-TERM DEBT

Note Payable to the State of Minnesota through its Minnesota Pollution Control Agency (MPCA) dated June 19, 2008 for the maximum amount of \$200,000. The MPCA will disburse funds to the District on an incurred cost reimbursement basis, after the MPCA has approved the specific Project Work Plans. The interest rate of 2% will begin to accrue on each disbursement on the day the MPCA delivers the funds to the District. The loan is secured by a general obligation promissory note and the date to begin repaying the note is deferred until the note has been fully disbursed, the Project has been fully completed or the Project Implementation Period has expired, whichever comes first. The note is due in semiannual installments of \$7,228 beginning December 2011 through June 2021, interest at 2%.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 5 LONG-TERM DEBT (continued)

Following is the Final Repayment Schedule outlined in the agreement:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,766	\$ 1,691	\$ 14,457
2016	13,022	1,435	14,457
2017	13,284	1,179	14,463
2018	13,551	905	14,456
2019	13,824	633	14,457
2020-2021	21,259	427	21,686
Total	<u>\$ 87,706</u>	<u>\$ 6,270</u>	<u>\$ 93,976</u>

Note Payable to the State of Minnesota through its Minnesota Pollution Control Agency (MPCA) dated June 30, 2011 for the maximum amount of \$200,000. The MPCA will disburse funds to the District on an incurred cost reimbursement basis, after the MPCA has approved the specific Project Work Plans. The interest rate of 2% will begin to accrue on each disbursement on the day the MPCA delivers the funds to the District. The loan is secured by a general obligation promissory note and the date to begin repaying the note is deferred until the note has been fully disbursed, the Project has been fully completed or the Project Implementation Period has expired, whichever comes first. The note is due in semiannual installments of \$7,328 beginning June 2015 through December 2024, interest at 2%.

Following is the Estimated Repayment Schedule outlined in the agreement:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,070	\$ 2,585	\$ 14,655
2016	12,313	2,342	14,655
2017	12,561	2,094	14,655
2018	12,814	1,841	14,655
2019	13,071	1,584	14,655
2020-2024	69,404	3,876	73,280
Total	<u>\$ 132,233</u>	<u>\$ 14,322</u>	<u>\$ 146,555</u>

The Limited Tax Bond in the amount of \$495,000 was used to finance construction of a building for the District's offices. The District will have a levy of ad valorem taxes on all taxable property within the district. The Bond will mature on February 1, 2028 and requires semi-annually payments bearing an interest rate of 3.5%.

Following is the Final Repayment Schedule outlined in the agreement:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 25,000	\$ 16,188	\$ 41,188
2016	30,000	15,225	45,225
2017	30,000	14,175	44,175
2018	30,000	13,125	43,125
2019	30,000	12,075	42,075
2020-2023	135,000	37,014	172,014
2024-2028	195,000	17,413	212,413
Total	<u>\$ 475,000</u>	<u>\$ 125,215</u>	<u>\$ 600,215</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 5 LONG-TERM DEBT (continued)

Long-term liability activity for the year ended December 31, 2014, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
MN Clean Water Partnership Project	\$100,220	\$ -	\$ 12,390	\$ 87,830	\$ 12,766
MN Clean Water Partnership Project	55,300	76,933	-	132,233	12,070
Limited Tax Bonds	<u>495,000</u>	<u>-</u>	<u>20,000</u>	<u>475,000</u>	<u>25,000</u>
	<u>\$650,520</u>	<u>\$ 76,933</u>	<u>\$ 32,390</u>	<u>\$695,063</u>	<u>\$ 49,836</u>

NOTE 6 PROPERTY TAXES AND SPECIAL ASSESSMENTS

An ad valorem property tax may be levied against all properties in the District with levy limits prescribed by state statute. Property tax levies must be approved by the District Board and certified by the Kandiyohi, Meeker, Pope and Stearns County Auditors in October of each year for collection in the following year. Taxes are payable to the Counties in two installments by May 15 and October 15.

Special assessment levies may be approved by the District Board for maintenance and construction purposes in accordance with state statutes. These assessments are charged against those properties benefiting from the maintenance and construction. Special assessments must be certified to the County Auditors in a manner similar to property taxes.

Property taxes and special assessments receivable consist of amounts certified to Kandiyohi, Meeker, Pope and Stearns County but not yet collected. Special assessments receivable are recorded when the full levy amount is submitted to the County, though actual assessment against property owners may occur over several years.

NOTE 7 DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All employees of the District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund (PERF), which is a cost sharing, multiple-employer retirement plan. These plans are established and administered in accordance with Minn. Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 7 DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)

A. Plan Description (continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all Public Employees Retirement Fund members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the year ending December 31, 2014, 2013, and 2012 were \$6,184, \$8,818, and \$9,608, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

The District does not accrue a liability for other post-employment benefits because they do not have an employer sponsored health plan.

NOTE 9 SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 4, 2015, the date the financial statements were available to be issued.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGET AND ACTUAL
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax levy	\$ 319,841	\$ 319,841	\$ 276,866	\$ (42,975)
Special assessments	35,000	35,000	13,589	(21,411)
State aid	-	-	1,395	1,395
Grants	186,173	186,173	401,722	215,549
Interest income	3,351	3,351	1,530	(1,821)
Local contributions and miscellaneous	<u>900</u>	<u>900</u>	<u>23,409</u>	<u>22,509</u>
 Total Revenues	 <u>545,265</u>	 <u>545,265</u>	 <u>718,511</u>	 <u>173,246</u>
EXPENDITURES				
Meetings/seminars	18,000	18,000	27,334	9,334
Contract labor	114,884	114,884	146,385	31,501
Administrative	22,076	22,076	5,166	(16,910)
BMP implementation expense	131,155	131,155	187,608	56,453
Professional expenses	31,800	31,800	25,025	(6,775)
Employee benefits	-	-	8,584	8,584
Dues	4,000	4,000	3,025	(975)
Insurance	4,000	4,000	6,137	2,137
Payroll expenses	163,535	163,535	127,283	(36,252)
Payroll tax expense	-	-	9,407	9,407
Utilities	-	-	8,038	8,038
Monitoring	-	-	6,718	6,718
Office expense	-	-	7,208	7,208
Public education	5,650	5,650	5,345	(305)
Capital outlay	<u>3,500</u>	<u>3,500</u>	<u>34,333</u>	<u>30,833</u>
 Total Expenditures	 <u>498,600</u>	 <u>498,600</u>	 <u>607,596</u>	 <u>108,996</u>
 Net Change in Fund Balance	 46,665	 46,665	 110,915	 <u>\$ 282,242</u>
 Fund Balance, Beginning	 <u>422,382</u>	 <u>422,382</u>	 <u>422,382</u>	
 Fund Balance, Ending	 <u>\$ 469,047</u>	 <u>\$ 469,047</u>	 <u>\$ 533,297</u>	

The notes to the required supplementary information are an integral part of this statement.

MIDDLE FORK CROW RIVER WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, the District Manager prepares a draft budget for the upcoming fiscal year. Before September 15, the proposed budget is presented to the District Board for review. The Board holds public hearings and a final budget must be prepared and adopted no later than September 15.

The appropriated budget is prepared by fund and function. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the function level.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The general fund disbursements exceeded the amounts budgeted for the year ended December 31, 2014.

	<u>Disbursements</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 607,596	\$ 498,600	\$ 108,996

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Managers
Middle Fork Crow River Watershed District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Middle Fork Crow River Watershed District's basic financial statements, and have issued our report thereon dated May 4, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middle Fork Crow River Watershed District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as items 2007-002 and 2008-001 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as item 2007-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middle Fork Crow River Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories

In connection with our audit, nothing came to our attention that caused us to believe that Middle Fork Crow River Watershed 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.

Middle Fork Crow River Watershed District's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Westberg Eischens, PLLP

Westberg Eischens, PLLP
May 4, 2015

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year Ended December 31, 2014**

I. FINDINGS RELATED TO FINANCIAL STATEMENTS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2007-001

Criteria:

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition:

Due to the limited size of the District's business staff, the District has limited segregation of duties.

Questioned Costs:

None

Context:

The District has informed us that the small size of its business office staff precludes proper separation of duties at this time.

Effect:

The District is unable to maintain separation of incompatible duties.

Cause:

Limited number of staff in the business office

Recommendation:

We recommend that the District continue to separate incompatible duties as best it can within the limits of what the District considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (Continued)
Year Ended December 31, 2014**

Finding 2007-002

Criteria:

Generally, a system of internal control includes the ability to understand and prepare the District's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

Due to the limited size of the District's business staff and related resources available, the District has relied upon the auditor to prepare the financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America.

Questioned Costs:

None

Context:

The District has informed us that the small size and qualifications of its business office staff precludes the District from preparing its own financial statements.

Effect:

The District is unable to prepare GAAP based financial statements.

Cause:

Limited number and qualifications of staff in the business office

Recommendation:

We recommend that the District continue to review the auditor-prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under generally accepted accounting principles.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-002

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District reviews draft financial statements with the auditor in an effort to increase management's understanding and to provide input into the required disclosures.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (Continued)
Year Ended December 31, 2014**

Finding 2008-001

Criteria:

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control.

Condition:

During our audit, we proposed numerous adjustments that resulted in significant changes to the District's financial statements.

Questioned Costs:

None

Context:

The District's limited size, training and qualifications of business office personnel have precluded the District from the ability to properly identify and correct financial misstatements.

Effect:

The District's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

Cause:

Inadequate internal controls and monitoring of internal controls by qualified District personnel.

Recommendation:

We recommend that the District review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements.

CORRECTIVE ACTION PLAN (CAP)

Finding 2008-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to review internal controls and work to design modifications that will increase internal control and the ability to detect material misstatements.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable