

**LOWER MINNESOTA RIVER
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2013

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LOWER MINNESOTA RIVER WATERSHED DISTRICT
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INTRODUCTORY SECTION

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LOWER MINNESOTA RIVER WATERSHED DISTRICT

ORGANIZATION

December 31, 2013

	<u>Term Expires</u>
Board of Managers:	
Kent Francis, President	March 2014
Carla Shutrop, Vice-President	March 2015
Manager - Vacant	
Leonard Kremer, Secretary	March 2014
Yvonne Shirk, Treasurer	March 2015
Attorney - Bruce D. Malkerson	
Administrator - Linda Loomis	

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the
Lower Minnesota River Watershed District
Chaska, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Lower Minnesota River Watershed District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Lower Minnesota River Watershed 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 and each major fund of Lower Minnesota River Watershed District, as of December 31, 2013, 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.

Emphasis of Matter – Implementation of GASB 65

As discussed in Note 12 to the financial statements, in 2013 Lower Minnesota River Watershed District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Lower Minnesota River Watershed District's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated July 29, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Management has omitted the 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 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. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32 and 33, 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lower Minnesota River Watershed District's basic financial statements. The introductory section, individual fund financial statements, supplementary financial information, and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements and supplementary financial information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and supplementary financial information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other information have 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 them.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2014

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BASIC FINANCIAL STATEMENTS

LOWER MINNESOTA RIVER WATERSHED DISTRICT**STATEMENT OF NET POSITION****Statement 1**

December 31, 2013

With Comparative Amounts For December 31, 2012

	Primary Government	
	Governmental Activities	
	2013	2012
Assets:		
Cash and investments	\$707,518	\$384,001
Property taxes receivable:		
Delinquent	10,279	7,735
Due from county	5,717	3,338
Accounts receivable	-	315
Due from other governments	-	1,200
Prepaid items	6,650	7,062
Capital assets - nondepreciable	256,167	256,167
Total assets	<u>986,331</u>	<u>659,818</u>
Liabilities:		
Accounts payable	13,172	22,894
Due to other governments	36,727	19,811
Compensated absences:		
Due within one year	38,965	6,023
Unearned revenue	114,360	-
Total liabilities	<u>203,224</u>	<u>48,728</u>
Net position:		
Net investment in capital assets	256,167	256,167
Unrestricted	526,940	354,923
Total net position	<u>\$783,107</u>	<u>\$611,090</u>

The accompanying notes are an integral part of these financial statements.

LOWER MINNESOTA RIVER WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2013

With Comparative Totals For The Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Totals	
					2013	2012
Primary government:						
Governmental activities:						
General government	\$266,647	\$ -	\$ -	\$ -	(\$266,647)	(\$297,032)
Projects	85,930	-	540	-	(85,390)	(131,316)
Total governmental activities	<u>\$352,577</u>	<u>\$0</u>	<u>\$540</u>	<u>\$0</u>	<u>(352,037)</u>	<u>(428,348)</u>
General revenues:						
Property taxes					521,456	367,224
Grants and contributions not restricted to specific programs					10	28
Unrestricted investment earnings					770	14
Miscellaneous					1,818	5,976
Total general revenues					<u>524,054</u>	<u>373,242</u>
Change in net position					172,017	(55,106)
Net position - January 1					<u>611,090</u>	<u>666,196</u>
Net position - December 31					<u>\$783,107</u>	<u>\$611,090</u>

The accompanying notes are an integral part of these financial statements.

LOWER MINNESOTA RIVER WATERSHED DISTRICT

BALANCE SHEET

Statement 3

GOVERNMENTAL FUNDS

December 31, 2013

With Comparative Totals For December 31, 2012

	General Fund	Capital Project Fund	Total Governmental Funds	
		Nine Foot Channel Fund	2013	2012
Assets				
Cash and investments	\$934,649	\$ -	\$934,649	\$552,893
Taxes receivable:				
Delinquent	10,279	-	10,279	7,735
Due from county	5,717	-	5,717	3,338
Accounts receivable	-	-	-	315
Due from other governments	-	-	-	1,200
Prepaid items	6,650	-	6,650	7,062
Total assets	\$957,295	\$0	\$957,295	\$572,543
Liabilities, Deferred Inflows of Resources and Fund Balance				
Liabilities:				
Cash overdraft	\$ -	\$227,131	\$227,131	168,892
Accounts payable	13,172	-	13,172	22,894
Due to other governments	36,727	-	36,727	19,811
Unearned revenue	114,360	-	114,360	-
Compensated absences:				
Due within one year	38,965	-	38,965	-
Total liabilities	203,224	227,131	430,355	211,597
Deferred inflows of resources:				
Unavailable revenue	10,279	-	10,279	7,735
Total inflows of resources	10,279	0	10,279	7,735
Fund balance:				
Nonspendable	6,650	-	6,650	7,062
Unassigned	737,142	(227,131)	510,011	346,149
Total fund balance	743,792	(227,131)	516,661	353,211
Total liabilities, deferred inflows of resources and fund balance	\$957,295	\$0	\$957,295	\$572,543
Fund balance reported above			\$516,661	\$353,211
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.			10,279	7,735
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			256,167	256,167
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds - compensated absences.			-	(6,023)
Net position of governmental activities			\$783,107	\$611,090

The accompanying notes are an integral part of these financial statements.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2013
With Comparative Totals For The Year Ended December 31, 2012

Statement 4

	General Fund	Capital Project Fund		Total Governmental Funds	
			Nine Foot Channel Fund		
				2013	2012
Revenues:					
Property taxes - current and delinquent	\$506,556	\$12,356	\$518,912	\$369,595	
Intergovernmental:					
Market value credit	10	-	10	28	
Grants	540	-	540	-	
Investment income	770	-	770	14	
Miscellaneous	1,818	-	1,818	5,976	
Total revenues	<u>509,694</u>	<u>12,356</u>	<u>522,050</u>	<u>375,613</u>	
Expenditures:					
Engineering services	1,403	351	1,754	2,685	
Salaries	109,768	16,031	125,799	127,773	
Payroll taxes and personnel expenses	28,296	6,744	35,040	46,346	
Professional services	22,751	20,776	43,527	61,416	
Insurance	8,223	2,056	10,279	11,086	
Mileage and travel expenses	2,930	716	3,646	4,910	
Office expense	24,395	5,304	29,699	35,967	
Managers meeting expenses	4,077	1,019	5,096	6,217	
509 planning/projects	67,790	-	67,790	131,316	
Newsletter	1,680	420	2,100	3,567	
Cooperative projects	18,140	-	18,140	-	
Lobbying for funding	-	15,730	15,730	-	
Total expenditures	<u>289,453</u>	<u>69,147</u>	<u>358,600</u>	<u>431,283</u>	
Revenues over (under) expenditures	220,241	(56,791)	163,450	(55,670)	
Fund balance (deficit) - January 1	<u>523,551</u>	<u>(170,340)</u>	<u>353,211</u>	<u>408,881</u>	
Fund balance (deficit) - December 31	<u><u>\$743,792</u></u>	<u><u>(\$227,131)</u></u>	<u><u>\$516,661</u></u>	<u><u>\$353,211</u></u>	

The accompanying notes are an integral part of these financial statements.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS

Statement 5

For The Year Ended December 31, 2013

With Comparative Amounts For The Year Ended December 31, 2012

	<u>2013</u>	<u>2012</u>
Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:		
Net changes in fund balance - total governmental funds (Statement 4)	\$163,450	(\$55,670)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	6,023	2,935
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>2,544</u>	<u>(2,371)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$172,017</u></u>	<u><u>(\$55,106)</u></u>

The accompanying notes are an integral part of these financial statements.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lower Minnesota River Watershed District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies:

A. REPORTING ENTITY

The District was established in 1960 under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board. The District covers areas within the following four counties: Carver, Dakota, Hennepin and Scott. The District is operated by a five-member Board of Managers appointed by the respective County boards for staggered three year terms. In accordance with Governmental Accounting Standards Board (GASB) pronouncements and accounting principles generally accepted in the United States of America, the financial statements of the reporting entity should include the primary government and its component units. The District does not have any 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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 all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year 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 are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund - is the general operating fund of the District. It is used to account for all financial resources of the District not directly relating to the Nine Foot Channel Fund. Pursuant to Minnesota Statutes 103D, the District may levy up to \$250,000 for General Fund operations.

Nine Foot Channel Fund (Capital Project Fund) - is used to account for financial resources to be used for the maintenance of a nine foot channel depth. A designated distance of the Minnesota River within the District's boundaries has been established.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported 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.

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

D. BUDGETARY DATA

The Board of Managers adopts an annual budget for the General Fund of the District. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

The District monitors budget performances on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

The District prepares revenue and expenditure budgets for the District's General Fund. Encumbrance accounting, under which purchase orders, contracts and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

E. CASH AND INVESTMENTS

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

In accordance with the provisions of GASB Statement No. 31, the District reports investments at fair value, based upon quoted market prices, in the financial statements. Also in accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

F. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. The District does not maintain material amounts of inventories of goods and supplies.

G. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the County in October (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

H. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., storm sewers, manholes, control structures, and similar items), and intangible assets such as easements and computer software, are reported in the governmental 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 \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation had historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999 the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District elected to implement the general provisions of GASB Statement No. 34 in 2004 and elected not to report infrastructure assets acquired in years prior to 2003. Land is the only capital asset and is not being depreciated.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District did not acquire any intangible assets since implementing GASB No. 51.

I. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as 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 internally imposed constraints. These constraints are established by Resolution of the Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the Board's intended use. These constraints are established by the District's Board.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the Board's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

J. INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

K. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

L. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay benefits that are vested as severance pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

M. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

N. COMPARATIVE TOTALS

The basic financial statements, required supplementary information, and individual fund financial statements and supplementary financial information include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position 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 will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from the following sources: property taxes.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

P. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund statement of revenue, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this \$2,544 difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2012	(\$7,735)
At December 31, 2013	<u>10,279</u>
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$2,544</u></u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds”. The details of this \$6,023 difference are as follows:

Long term compensated absences payable:	
At December 31, 2012	\$6,023
At December 31, 2013	<u>-</u>
Net adjustments to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$6,023</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District Board, 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% of the deposits not covered by insurance or bonds.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Board or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) 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;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) 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
- f) Time deposits that are fully insured by any federal agency.

The District does not have deposits at December 31, 2013.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional policies addressing custodial credit risk.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - 3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements 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; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

As of December 31, 2013, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Pooled Investments	N/A	\$707,518

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

C. INVESTMENT RISK

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. State law limits investments to commercial paper to those rated in the highest quality category by at least two nationally recognized rating agencies; in any security of the State of Minnesota or any of its municipalities which is rated “A” or better by a national bond rating service for general obligation and rated “AA” or better for a revenue obligation; a general obligation of the Minnesota Housing Finance Agency to those rated “A” or better by a national bond rating agency; mutual funds or money market funds whose investments are restricted to securities described in MS 118A.04. The District does not have an investment policy which further limits its investment choices.

Investment Type	Rating	Rating Organization
Pooled with Carver County	N/A	not rated

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rates of debt investments could adversely affect the fair value of an investment. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the District’s investment in a single issuer. The District does not have an investment policy which addresses the amount the District may invest in any one issuer.

Custodial Credit Risk. For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investment securities that are in the possession of an outside party. As of December 31, 2013, all of the District’s investments were pooled with Carver County.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 3 RECEIVABLES

Significant receivables balances not expected to be collected within one year of December 31, 2013 are as follows:

	<u>General Fund</u>
Delinquent property taxes	<u><u>\$7,600</u></u>

Note 4 UNAVAILABLE REVENUE

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 unavailable revenue reported in the governmental funds were as follows:

	<u>Property Taxes</u>
General Fund	<u><u>\$10,279</u></u>

Note 5 CAPITAL ASSETS

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

	<u>Balance 12/31/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2013</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$256,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$256,167</u>

Note 6 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

GERF 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.

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 GERF. That report may be obtained by writing to PERA, 60 Empire Drive #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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The District is required to contribute the following percentages of annual covered payroll in 2013: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF members. The District's contribution to the General Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$6,296, \$8,792, and \$9,974, respectively. The District's contributions were equal to the contractually required contributions for the years as set by state statute.

Note 7 LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2013, was as follow:

	<u>Balance</u> <u>12/31/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences payable	\$6,023	\$32,942	\$ -	\$38,965	\$38,965

Compensated absences payable are generally liquidated by the General Fund.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

TERMINATION BENEFITS

The District had one employee who resigned effective November 30, 2013. The employee’s severance agreement included the payment of three months of salary and benefits along with accrued vacation and sick leave. At December 31, 2013, a portion of the salary and benefits, in the amount of \$3,532 had been paid. The remaining salary and benefits and the accrued vacation and sick leave are included in the compensated absences balance of \$38,965.

Note 8 OPERATING LEASES

At December 31, 2013, the District was obligated under a short-term operating lease for office space from Steinkraus Development, LLC, expiring November 30, 2013. The lease requires monthly payments of \$903, and is currently being continued on a month-to-month basis.

The District was obligated under a long-term operating lease for office equipment from Ricoh starting October 16, 2012, expiring October 16, 2017. The lease requires minimum monthly payments of \$216. In 2013, \$2,592 was paid under this lease agreement.

The following is a schedule of future minimum lease payments under operating leases:

<u>Year Ended</u> <u>December 31,</u>	<u>Office Equipment</u>
2014	\$2,592
2015	2,592
2016	2,592
2017	<u>2,159</u>
Total Minimum Future Lease Payments	<u><u>\$9,935</u></u>

Note 9 CONTINGENCIES

The District’s Administrator resigned as of November 30, 2013. The severance agreement called for payment of three months’ salary and benefits plus 100% of his accrued sick and vacation hours. The District maintains that a maximum of 280 sick hours can be paid out at termination, as this is the maximum sick leave that could be accrued. The former Administrator maintains that the severance agreement also included the accrual sick leave hours in the “sick leave bank” and has obtained an attorney as a result. The account of the claim is \$15,802 (351.6 hours). In the judgment of the Watershed, this claim is remotely recoverable and has not been included in the compensated absences liability at year end.

LOWER MINNESOTA RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 10 FUND BALANCE

CLASSIFICATIONS

At December 31, 2013, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Nine Foot Channel Fund</u>	<u>Total</u>
Nonspendable:			
Prepaid items	\$6,650	\$ -	\$6,650
Unassigned	<u>737,142</u>	<u>(227,131)</u>	<u>510,011</u>
Total	<u><u>\$743,792</u></u>	<u><u>(\$227,131)</u></u>	<u><u>\$516,661</u></u>

Note 11 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, errors and omissions and natural disasters for which the District carries insurance policies. The District retains risk for the deductible portions of the insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the previous three fiscal years.

Note 12 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2013, the District implemented GASB Statements No. 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB No. 14 and No.34* modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (i.e. blending). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in accounts previously presented as liabilities being reclassified as deferred inflows of resources.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER MINNESOTA RIVER WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Statement 6

For The Year Ended December 31, 2013

With Comparative Actual Amounts For The Year Ended December 31, 2012

	2013		Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenue:					
Property taxes - current and delinquent	512,500	\$512,500	\$506,556	(\$5,944)	\$357,223
Intergovernmental:					
Market value homestead credit	-	-	10	10	28
Grants	7,200	7,200	540	(6,660)	-
Investment income	-	-	770	770	14
Miscellaneous	-	-	1,818	1,818	5,976
Total revenue	<u>519,700</u>	<u>519,700</u>	<u>509,694</u>	<u>(10,006)</u>	<u>363,241</u>
Expenditures:					
Engineering services	4,000	4,000	1,403	2,597	2,685
Salaries	70,857	70,857	109,768	(38,911)	102,218
Payroll taxes and personnel expenses	22,529	22,529	28,296	(5,767)	37,077
Professional services	19,200	19,200	22,751	(3,551)	30,824
Insurance	8,080	8,080	8,223	(143)	8,863
Mileage and travel expenses	4,000	4,000	2,930	1,070	3,928
Office expense	25,320	25,320	24,395	925	28,942
Managers meeting expenses	4,800	4,800	4,077	723	4,974
509 planning/projects	140,000	140,000	67,790	72,210	131,091
Newsletter	1,200	1,200	1,680	(480)	2,919
Cooperative projects	211,000	211,000	18,140	192,860	-
Total expenditures	<u>510,986</u>	<u>510,986</u>	<u>289,453</u>	<u>221,533</u>	<u>353,521</u>
Revenue over (under) expenditures	<u>\$8,714</u>	<u>\$8,714</u>	220,241	<u>\$211,527</u>	9,720
Fund balance - January 1			<u>523,551</u>		<u>513,831</u>
Fund balance - December 31			<u>\$743,792</u>		<u>\$523,551</u>

LOWER MINNESOTA RIVER WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2013

Note A **BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General Fund.

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INDIVIDUAL FUND FINANCIAL STATEMENTS

LOWER MINNESOTA RIVER WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
GENERAL FUND
December 31, 2013
With Comparative Amounts For December 31, 2012

Statement 7

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and investments	\$934,649	\$552,893
Taxes receivable:		
Delinquent	10,279	7,589
Due from county	5,717	3,227
Accounts receivable	-	252
Due from other governments	-	1,200
Prepaid items	6,650	7,062
Total assets	<u><u>\$957,295</u></u>	<u><u>\$572,223</u></u>
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities:		
Accounts payable	\$13,172	\$21,272
Due to other governments	36,727	19,811
Unearned revenue	114,360	-
Compensated absences:		
Due within one year	38,965	-
Total liabilities	<u><u>203,224</u></u>	<u><u>41,083</u></u>
Deferred inflows of resources:		
Unavailable revenue	10,279	7,589
Total deferred inflows of resources	<u><u>10,279</u></u>	<u><u>7,589</u></u>
Fund balance:		
Nonspendable	6,650	7,062
Unassigned	737,142	516,489
Total fund balance	<u><u>743,792</u></u>	<u><u>523,551</u></u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$957,295</u></u>	<u><u>\$572,223</u></u>

LOWER MINNESOTA RIVER WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 8

	<u>2013</u>	<u>2012</u>
Revenue:		
Property taxes - current and delinquent	\$506,556	\$357,223
Intergovernmental:		
Market value homestead credit	10	28
Grants	540	-
Investment income	770	14
Miscellaneous	1,818	5,976
Total revenue	<u>509,694</u>	<u>363,241</u>
Expenditures:		
Engineering services	1,403	2,685
Cooperative projects	18,140	-
Salaries	109,768	102,218
Payroll taxes and personnel expenses	28,296	37,077
Professional services	22,751	30,824
Insurance	8,223	8,863
Mileage and travel expenses	2,930	3,928
Office expense	24,395	28,942
Managers meeting expenses	4,077	4,974
509 planning/projects	67,790	131,091
Newsletter	1,680	2,919
Total expenditures	<u>289,453</u>	<u>353,521</u>
Revenue over expenditures	220,241	9,720
Fund balance - January 1	<u>523,551</u>	<u>513,831</u>
Fund balance - December 31	<u><u>\$743,792</u></u>	<u><u>\$523,551</u></u>

LOWER MINNESOTA RIVER WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
CAPITAL PROJECT FUND - NINE FOOT CHANNEL FUND
December 31, 2013
With Comparative Amounts For December 31, 2012

Statement 9

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Taxes receivable:		
Delinquent	\$ -	\$146
Due from county	-	111
Account receivable	-	63
	<u>-</u>	<u>63</u>
Total assets	<u>\$0</u>	<u>\$320</u>
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities:		
Cash overdraft	\$227,131	\$168,892
Accounts payable	-	1,622
Total liabilities	<u>227,131</u>	<u>170,514</u>
Deferred inflows of resources:		
Unavailable revenue	<u>0</u>	<u>146</u>
Total deferred inflows of resources	<u>0</u>	<u>146</u>
Fund balance:		
Unassigned	<u>(227,131)</u>	<u>(170,340)</u>
Total fund balance	<u>(227,131)</u>	<u>(170,340)</u>
Total liabilities and fund balance	<u>\$0</u>	<u>\$320</u>

LOWER MINNESOTA RIVER WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
CAPITAL PROJECT FUND - NINE FOOT CHANNEL FUND
For The Year Ended December 31, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 10

	<u>2013</u>	<u>2012</u>
Revenues:		
Property taxes current	<u>\$12,356</u>	<u>\$12,372</u>
Expenditures:		
Salaries	16,031	25,555
Engineering services	351	-
Payroll taxes and personnel expenses	6,744	9,269
Professional services	20,776	30,592
Insurance	2,056	2,223
Mileage and travel expenses	716	982
Office expense	5,304	7,025
Managers meeting expenses	1,019	1,243
509 planning/projects	-	225
Newsletter	420	648
Lobbying for funding	15,730	-
Total expenditures	<u>69,147</u>	<u>77,762</u>
Revenue over (under) expenditures	(56,791)	(65,390)
Fund balance (deficit) - January 1	<u>(170,340)</u>	<u>(104,950)</u>
Fund balance (deficit) - December 31	<u><u>(\$227,131)</u></u>	<u><u>(\$170,340)</u></u>

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SUPPLEMENTARY FINANCIAL INFORMATION

LOWER MINNESOTA RIVER WATERSHED DISTRICT
SCHEDULE OF 509 PLANNING/PROJECT EXPENDITURES
December 31, 2013
With Comparative Amounts For December 31, 2012

Exhibit 1

	<u>2013</u>	<u>2012</u>
Expenditures:		
Seminary Fen	\$ -	\$1,482
Savage Fen	-	855
Miscellaneous	-	7,338
Resource plan implementation	17,567	79,771
Eagle Creek	-	10,707
LMR Model	-	4,700
Groundwater	-	5,013
Data collection	-	20,695
Public education	350	755
Cost share program	19,750	-
Monitoring	30,123	-
	<u>30,123</u>	<u>-</u>
Total expenditures	<u><u>\$67,790</u></u>	<u><u>\$131,316</u></u>

OTHER INFORMATION - UNAUDITED

LOWER MINNESOTA RIVER WATERSHED DISTRICT
SCHEDULE OF CUMULATIVE EXPENDITURES
December 31, 2013

Table 1

	Cumulative Total Through 2012	2013 Activity	Cumulative Total Through 2013
Expenditures:			
General and administrative expenses	\$6,752,135	\$272,670	\$7,024,805
Special projects:			
Assumption Creek	8,642		8,642
Nichols Fen / Harnack / Kennealy Creeks	3,330		3,330
City of Burnsville	305		305
Chaska	1,231		1,231
Seminary Fen	39,007	540	39,547
Met Council	771		771
Chaska Creek	56,093		56,093
Chaska Lanes	5,219		5,219
Willow Creek	37,716		37,716
Groundwater monitoring	85,004	30,123	115,127
LMR model	51,105		51,105
Savage Fen	21,449		21,449
Fort Snelling State Park roadway relocation	60,023		60,023
Office of water resource and research	36,200		36,200
Mohr Park - Bloomington well project	11,956		11,956
Aerial photos	6,100		6,100
East Chaska Creek diversion	21,225		21,225
Special study	4,968		4,968
Legislative committee hearing	7,056		7,056
Flood plain - regulations and litigation	15,064		15,064
Cooperative projects with municipalities	1,339,258		1,339,258
Contingency reserve	10,884		10,884
State flood plain analysis	5,150		5,150
Savage - Credit River	24,465		24,465
Department of Natural Resources - Rice Lake	140		140
Off Channel fleeing	9,849		9,849
Deans Lake	4,984		4,984
Environmental assessment for McGowan Barge	1,357		1,357
Scott County - Historical Park	5,000		5,000
Scott County - Murphy's Landing	60,430		60,430
Prior Lake - Spring Lake	21,167		21,167
Casperson landing cooperative project	44,874		44,874
River bank stabilization	780		780
General benefit projects	773		773
Metro Council gauging station	46,802		46,802
55/62 intersection	6,538		6,538
Eagle Creek	91,222		91,222
Data collection	33,700		33,700
Resource plan implementation	34,277	17,567	51,844
Eden Prairie SWMP	1,554		1,554
Nichols Fen	4,949		4,949
Courthouse - firearms - clayhole	32,649		32,649
Cooperative project contingency reserve	33,210		33,210
Trout stream	904		904

LOWER MINNESOTA RIVER WATERSHED DISTRICT
SCHEDULE OF CUMULATIVE EXPENDITURES
December 31, 2013

Table 1

	Cumulative Total Through 2012	2013 Activity	Cumulative Total Through 2013
Expenditures (con't):			
BWSR Challenge Grant engineer	\$6,106		\$6,106
Rainwater garden	35,000		35,000
Gully erosion inventory	7,000		7,000
Dakota County Fen	2,778		2,778
Miscellaneous	11,233		11,233
509 Plan general	27,641		27,641
Local management plans	5,040		5,040
Management plan	229,574		229,574
Chaska Lakes	12,171		12,171
Watershed assistance	7,881		7,881
Natural resources map	276		276
Public education	9,015	350	9,365
Strategic Resource evaluation	79,771		79,771
Cost share program	-	19,750	19,750
USGS	-	17,600	17,600
Nine Foot Channel	42,234		42,234
	<u>42,234</u>	<u>350</u>	<u>42,234</u>
Total expenditures	<u><u>\$9,515,235</u></u>	<u><u>\$358,600</u></u>	<u><u>\$9,873,835</u></u>

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OTHER REPORTS

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REPORT ON INTERNAL CONTROL

To the Board of Managers and Management
Lower Minnesota River Watershed District
Chaska, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Lower Minnesota River Watershed 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 Lower Minnesota River Watershed 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 Lower Minnesota River Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lower Minnesota River Watershed District's internal control.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, Lower Minnesota River Watershed District's Board of Managers and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2014

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MINNESOTA LEGAL COMPLIANCE REPORT

To the Honorable Managers of the
Lower Minnesota River Watershed District
Chaska, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of Lower Minnesota River Watershed District, as of and for the year ended December 31, 2013 and the related notes to the financial statements, and have issued our report thereon dated April 25, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Section 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 above listed categories except we did not test for compliance with the provisions for public indebtedness as Lower Minnesota River Watershed District had no debt.

In connection with our audit, nothing came to our attention that caused us to believe that Lower Minnesota River Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in finding 2013-1. 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 Lower Minnesota River Watershed District noncompliance with the above referenced provisions.

This report is intended solely for the information and use of management, Lower Minnesota River Watershed District's Board of Managers and the State Auditor, and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2014

Lower Minnesota River Watershed District
Report on Compliance With Minnesota Legal
Compliance Audit Guide for Political Subdivisions

2013-1 Out-of-State Travel Policy

Criteria: Minnesota Statute 471.661 reads as follows:

471.661 Out-of-State Travel

The governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must have on record a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government. The policy must be approved by a recorded vote and specify:

- (1) when travel outside the state is appropriate;
- (2) applicable expense limits; and
- (3) procedures for approval of the travel.

The policy must be made available for public inspection upon request and reviewed annually. Subsequent changes to the policy must be approved by a recorded vote.

Condition: The Watershed has not adopted an out-of-state travel policy.

Cause: Unknown.

Effect: An implied or verbal policy is subject to greater variation of its meaning and the likelihood of misinterpretation increases when a policy is not in writing.

Recommendation: We recommend the Watershed adopt an out-of-state travel policy in accordance with Minnesota Statute 471.661.

Views of Responsible Officials and Planned Corrective Action: As new Administrator for the District, Linda Loomis intends to create a policy manual that would include an out-of-state travel policy.