

**PELICAN RIVER WATERSHED DISTRICT
FINANCIAL STATEMENTS AND
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014**

DRAFT

PELICAN RIVER WATERSHED DISTRICT

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INTRODUCTORY SECTION

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PELICAN RIVER WATERSHED DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2014

POSITION	TERMS EXPIRE	NAME
<u>BOARD OF MANAGERS</u>		
President	May 2016	Dennis Kral
Vice President	May 2015	Orrin Okeson
Treasurer	May 2017	Ginny Imholte
Secretary	May 2015	David Brainard
Manager	May 2016	Janice Haggart
Manager	May 2017	Gary Nansen
Manager	May 2016	Rick Michaelson
<u>STAFF</u>		
Administrator		Tera Guetter

FINANCIAL SECTION

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Pelican River Watershed District
Detroit Lakes, Minnesota

We have audited the accompanying financial statements of the Pelican River Watershed District, Detroit Lakes, Minnesota, which comprise the statement of cash and unencumbered cash balances as of December 31, 2014, and the related statement of revenues received and expenditures paid for the year then ended, 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 the financial reporting provisions of the Minnesota Office of the State Auditor. Management is also responsible for 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the District on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Minnesota Office of the State Auditor.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the District as of December 31, 2014, and the revenues it received and the expenditures it paid for the year then ended, in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor as described in Note 1.

Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
April 7, 2015

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TOTAL
ASSETS				
Cash and Cash Equivalents	\$ 673,661	\$ 315,335	\$ 280,998	\$ 1,269,994
Total Assets	<u>\$ 673,661</u>	<u>\$ 315,335</u>	<u>\$ 280,998</u>	<u>\$ 1,269,994</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CASH FUND BALANCES				
Restricted	74,012	315,335	-	389,347
Assigned	-	-	280,998	280,998
Unassigned	599,649	-	-	599,649
Total Cash Fund Balances	<u>673,661</u>	<u>315,335</u>	<u>280,998</u>	<u>1,269,994</u>
Total Liabilities and Cash Fund Balances	<u>\$ 673,661</u>	<u>\$ 315,335</u>	<u>\$ 280,998</u>	<u>\$ 1,269,994</u>

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014**

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TOTAL
RECEIPTS				
Property Taxes	\$ 247,856	\$ 259	\$ 52,770	\$ 300,885
Special Assessments	-	139,572	-	139,572
Permit and Inspection Fees	-	3,050	-	3,050
Intergovernmental				
Grant	-	22,840	-	22,840
Market Value	1,033	-	14	1,047
PERA	308	-	-	308
Other	-	-	51,013	51,013
Charges for Services	-	216,277	-	216,277
Interest	698	66	83	847
Other	2,605	-	-	2,605
Total Receipts	<u>252,500</u>	<u>382,064</u>	<u>103,880</u>	<u>738,444</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	203,533	-	-	203,533
Office Expenses	50,559	-	-	50,559
Manager Per Diem/Expenses	11,582	-	-	11,582
Professional Services	12,559	-	-	12,559
Conservation of Natural Resources				
Current				
Payroll	-	21,924	-	21,924
Office Expenses	-	1,760	9,873	11,633
Manager Per Diem/Expenses	-	-	37	37
Harvest	2,974	70,510	-	73,484
Monitor	-	13,382	-	13,382
Professional Services	-	21,966	45,042	67,008
Ditch	-	1,809	-	1,809
Capital Outlay	4,487	5,004	-	9,491
Debt Service				
Principal	-	29,155	-	29,155
Interest	-	3,845	-	3,845
Total Disbursements	<u>285,694</u>	<u>169,355</u>	<u>54,952</u>	<u>510,001</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(33,194)</u>	<u>212,709</u>	<u>48,928</u>	<u>228,443</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	76,972	10,000	-	86,972
Transfers (Out)	-	(66,972)	(20,000)	(86,972)
Total Other Financing Sources (Uses)	<u>76,972</u>	<u>(56,972)</u>	<u>(20,000)</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	43,778	155,737	28,928	228,443
Fund Balances - Beginning	<u>629,883</u>	<u>159,598</u>	<u>252,070</u>	<u>1,041,551</u>
FUND BALANCES - ENDING	<u>\$ 673,661</u>	<u>\$ 315,335</u>	<u>\$ 280,998</u>	<u>\$ 1,269,994</u>

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Pelican River Watershed District (District) was established on May 27, 1966, under the Minnesota Watershed Act as amended by the State of Minnesota, Water Resources Board. The District was established to carry out the conservation of the natural resources of the District and State of Minnesota through land utilization, flood control, and other needs upon sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. The District has a governing board of seven managers appointed for three-year terms by the Becker County Commissioners.

For financial reporting purposes, the District's financial statements include all funds over which the District's officials exercise oversight responsibility. The financial statements of the reporting entity include those of the District (the primary government) and its component units (no component units). Although, the managers are appointed by the Becker County Commissioners, the District is not a component unit of the County since the County does not have the ability to impose its will on the District or meet the financial benefit or burden consideration.

B. Basis of Presentation - Fund Accounting

The accounting system of the District is organized on a fund basis. Each fund is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which such resources are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one broad fund type category, Governmental Fund Type. The District reports the following major funds:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The General Fund is the general operating fund of the District. It is used to account for financial receipts to be used for general administrative expenditures and for the construction and maintenance of projects of common benefit to the District.

The Harvesting Projects Implementation Fund is also a general fund of the District. It is used for aquatic plant harvesting and chemical application maintenance funds reserved for future replacement of worn-out or unusable equipment or facilities.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds: (Continued)

Special Revenue Funds – The proceeds from specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital project. One or more specific restricted or committed revenues should be the foundation for a special revenue fund and also should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in a special revenue fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

The Utility Fund is used for storm-water treatment activities and facilities. The Utility Fund is funded by charges to each parcel in the District collected by the Becker County Auditor, which are based upon predefined nutrient runoff coefficients. The fund is also used for making loan repayments on the Minnesota Clean Water Partnership Project Loans for restoration of Lake Sallie.

The Survey and Data Acquisition Fund is used for necessary surveys and acquiring data. For future projects where a survey has been paid for from this fund, the costs of the survey as determined by the Managers is included as part of the project work and the sum is repaid to the Survey and Data Acquisition Fund. Receipts can also come from an ad valorem tax assessed every five years.

The Project 1-B and 1-C Maintenance (Aquatic Plant Harvesting) Funds are repair and maintenance funds financed by special assessments against the properties around Sallie, Melissa, and Detroit Lakes. Services provided include aquatic plant management (mechanical harvesting and chemical control), weekly roadside pickup, and shoreline blow-ins, as needed.

The Ditch #11-12, #13 and #14 Maintenance Funds are repair and maintenance funds designated for maintaining and further developing the ditches. They are financed by special assessments.

Capital Project Funds – Financial resources that are restricted, committed, or assigned for expenditures of capital outlay, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds or assets that will be held in trust funds for individuals, private organizations, or other governments).

**PELICAN 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

The District follows the cash basis of accounting for all funds. The Statements of Balances Arising from Cash Transactions and Statements of Cash Receipts, Disbursements, and Changes in Cash Fund Balances were prepared on the cash basis and accordingly, revenues and expenditures are recognized only as cash is received or paid out. These statements do not give effect to receivables, payables, accrued expenses, and inventory, and accordingly, are not presented in accordance with U.S. generally accepted accounting principles (U.S. GAAP). These procedures are in accordance with *City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Regulatory Basis of Accounting* as required by the Office of the State Auditor, which is a special purpose framework other than U.S. GAAP.

D. Assets, Liabilities, and Net Cash

1. Cash and Cash Equivalents

The District pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in an interest bearing savings account.

2. Cash Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in Governmental Funds.

Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** – Amounts that should be reported as restricted when constraints placed on the use of resources are either:
 - a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
 - b. Imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Amounts used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Cash (Continued)

2. Cash Fund Balance (Continued)

Governmental Fund Balances: (Continued)

- **Assigned** – Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Amounts that are the residual classification for the General Fund. The General Fund is the only fund that can report a positive unassigned fund balance. It also reports negative residual amounts in other funds.

E. Receipts and Disbursements

1. Receipts

Property Tax Revenue

The District levies its property taxes for the subsequent year during the month of December. Becker and Otter Tail Counties are the collecting agencies for the levy and remits these collections to the District. The District receives its taxes in two installments in June and December.

The property tax levy in 2014 includes certain state credits that are distributed to the District directly by the state. These credits are classified as intergovernmental revenue.

2. Disbursements

The District disburses funds as approved by the District's Board of Managers.

F. Capital Assets

The District records capital assets as disbursements at the time of their purchase.

G. Budgets

Budgets are prepared using the regulatory cash basis, the same method of accounting as the financial statements.

H. Property Tax Collection Calendar

On September 15 of each year, the District provides the County Auditor with preliminary budgets for the following year of the General, Utility, Survey and Data Acquisition, Ditch #11-12, Ditch #13, Ditch #14, Project 1-B, Project 1-C, and LMP-01 Funds. A public hearing and formal resolutions concerning the budget proposals are required prior to the September 15 deadline. Final property tax levies must be certified to the County Auditor no later than five working days after December 20.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax Collection Calendar (Continued)

The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer (May 15 and October 15) and tax settlements are made to the District in June and December of the same year.

I. Use of Estimates

The preparation of financial statements in accordance with regulatory cash basis requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

J. Cash and Cash Equivalents

For purposes of financial reporting, "cash and cash equivalents" include all demand and savings accounts.

K. Internal and Inter-Fund Balances and Activities

In preparing the fund financial statements, inter-fund activity, if any, is reported as inter-fund reimbursements (repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them).

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At December 31, 2014, there were no compliance issues to be noted.

NOTE 3 DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS

A. Deposits and Investments

The District maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as "Cash and Investments." Interest is allocated based on management's estimate of interest earned by fund. In accordance with *Minnesota Statutes*, the District maintains deposits at financial institutions which are authorized by the Board of Managers.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

A. Deposits and Investments (Continued)

1. Deposits

The District is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The District is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged must be at least ten percent more than the amount of deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

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. As of December 31, 2014, the District's deposits were not exposed to custodial credit risk.

Accounts held by an official custodian of a government unit will be insured as follows:

The Federal Deposit Insurance Corporation (FDIC) deposit coverage limit for bank depositors is \$250,000. If the depository bank is located in the State of Minnesota, government depositors are eligible for two separate \$250,000 coverages: one of all time/savings accounts and one for all demand accounts. For deposits in banks outside the State of Minnesota, government depositors have a total coverage of \$250,000 for all demand and time/savings deposit accounts combined.

Authorized collateral includes:

- U.S. government treasury bills, notes, or bonds;
- issues of a U.S. government agency or instruments that are quoted by a recognized industry quotation service available to the government entity;
- a general obligation of a state or local government, with taxing powers, rated "A" or better;
- a revenue obligation of a state or local government, with taxing powers, rate "AA" or better;
- unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

A. Deposits and Investments (Continued)

1. Deposits (Continued)

Authorized collateral includes: (Continued)

- an irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- time deposits insured by any federal agency.

2. Investments

The District has an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes 118A.04 and 118A.05 as follows:

- Governmental bonds, notes, bills, mortgages, and other securities, which were direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage- backed securities defined as "high risk";
- General obligations of a state or local government with taxing powers which was rated "A" or better by a national bond rating service;
- Revenue obligations of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service;
- General obligations of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service;
- Commercial papers issued by the United States corporation or its Canadian subsidiaries and that was rated in the highest quality category by at least two nationally recognized rating agencies, and matures in 270 days or less; Time deposits fully insured by the Federal Deposit Insurance Corporation;
- Bankers acceptances issued by United States banks;
- Its own temporary obligations issued under Minn. Stat. §§ 429.091, subd. 7 (special assessments), 469.178 subd. 5 (tax increment bonds), or 475.61, subd. 6.

Interest Rate Risk

The risk is that changes in interest rates could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District may manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by statute.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

A. Deposits and Investments (Continued)

2. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount that it may invest in any one issuer.

At December 31, 2014, the District had the following cash and cash equivalents:

Cash and Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Wells Fargo					
Savings	N/A	N/A	N/A	N/A	\$ 983,720
Deposits	N/A	N/A	N/A	N/A	20,565
American National Bank					
Money Market	N/A	N/A	N/A	N/A	245,578
Bell State Bank & Trust					
Deposits	N/A	N/A	N/A	N/A	20,131
Total Cash and Cash Equivalents					<u>\$ 1,269,994</u>

B. Interfund Transfers

Fund	Transfers Out	Fund	Transfers In	Reasons for Transfers
Special Revenue	\$ 66,972	General	\$ 76,972	For admin. expenses and close grant accounts
Capital Projects	20,000	Special Revenue	10,000	For admin. expenses and close grant accounts
	<u>\$ 86,972</u>		<u>\$ 86,972</u>	

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

C. Long-Term Debt

The Schedule of Indebtedness is as follows:

	Interest Date	Issue Date	Final Maturity Date	Outstanding January 1, 2014	Issue In 2014	Paid In 2014	Outstanding December 31, 2014
<u>Long-Term Indebtedness</u>							
MPCA-SPFO154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	\$ 199,479	\$ -	\$ 29,155	\$ 170,324

	<u>Due Within One Year</u>	
	<u>Principal</u>	<u>Interest</u>
<u>Long-Term Indebtedness</u>		
MPCA-SRFO154 Assessments	\$ 29,741	\$ 3,259

The annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31,	Long-Term Indebtedness		
	Principal	Interest	Total
2015	\$ 29,741	\$ 3,259	\$ 33,000
2016	30,339	2,661	33,000
2017	30,949	2,051	33,000
2018	31,571	1,429	33,000
2019	32,206	794	33,000
2020	15,518	154	15,672
	<u>\$ 170,324</u>	<u>\$ 10,348</u>	<u>\$ 180,672</u>

NOTE 4 OTHER NOTES

A. Defined Benefit Pension Plan - Statewide

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), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 OTHER NOTES (CONTINUED)

A. Defined Benefit Pension Plan – Statewide (Continued)

Plan Description (Continued)

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. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

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.

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 10 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 10 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF 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 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. 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 single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be 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.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 OTHER NOTES (CONTINUED)

A. Defined Benefit Pension Plan – Statewide (Continued)

Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF, PEPFF, and PECF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. PECF members are required to contribute 5.83% of their annual covered salary. In 2014, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, 15.3% for PEPFF members, and 8.75% for PECF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$12,720, \$11,924, and \$10,404, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

B. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. In order to protect against these risks of loss, the District purchases commercial insurance. During the year ended December 31, 2014, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the District's commercial coverage in any of the past three years.

C. Contingencies

The District participates in state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of grants received may be required. The District is not aware of any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. An estimate of possible loss or range of loss can not be made.

D. Significant Effects of Subsequent Events

Subsequent events have been evaluated through April 7, 2015, the date the financial statements were available to be issued.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 COMMITMENTS

The District entered into a lease agreement for office facilities with Wells Fargo Bank requiring monthly lease payments of \$1,300. The terms of this agreement expire April 11, 2019. Total rental expense for 2014 was \$13,879.

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COMBINING AND INDIVIDUAL FUND SECTION

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**PELICAN RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)
Beginning Budgetary Fund Balances - January 1	\$ 629,883	\$ 629,883	\$ 629,883	\$ -
RECEIPTS				
Property Taxes	247,000	247,000	247,856	856
Intergovernmental				
Market Value	-	-	1,033	1,033
PERA	308	308	308	-
Interest	200	200	698	498
Refunds	-	-	2,605	2,605
Total Receipts	<u>247,508</u>	<u>247,508</u>	<u>252,500</u>	<u>4,992</u>
OTHER FINANCING SOURCES				
Transfers From:				
Special Revenue Funds	54,000	54,000	56,972	2,972
Capital Projects Funds	20,000	20,000	20,000	-
Total Other Financing Sources	<u>74,000</u>	<u>74,000</u>	<u>76,972</u>	<u>2,972</u>
 Total Receipts and Other Financing Sources	 <u>321,508</u>	 <u>321,508</u>	 <u>329,472</u>	 <u>7,964</u>
 Amounts Available for Appropriations	 <u>951,391</u>	 <u>951,391</u>	 <u>959,355</u>	 <u>7,964</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	239,500	239,500	203,533	35,967
Office Expenses	54,650	54,650	50,559	4,091
Manager Per Diem/Expenses	24,000	24,000	11,582	12,418
Professional Services	34,850	34,850	12,559	22,291
Conservation of Natural Resources				
Current				
Harvest/DNR R-T-S Grant	-	-	2,974	(2,974)
Capital Outlay	7,000	7,000	4,487	2,513
Total Disbursements	<u>360,000</u>	<u>360,000</u>	<u>285,694</u>	<u>74,306</u>
 BUDGETARY FUND BALANCES - DECEMBER 31	 <u>\$ 591,391</u>	 <u>\$ 591,391</u>	 <u>\$ 673,661</u>	 <u>\$ 82,270</u>
				(82,270)

**PELICAN RIVER WATERSHED DISTRICT
 COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH FUND BALANCES
 SPECIAL REVENUE FUNDS
 YEAR ENDED DECEMBER 31, 2014**

	SURVEY AND DATA ACQUISITION	UTILITY
RECEIPTS		
Property Taxes	\$ 259	\$ -
Special Assessments	-	-
Intergovernmental	-	-
Permit and Inspection Fees	-	3,050
Charges for Services	-	216,277
Interest	3	29
Total Receipts	<u>262</u>	<u>219,356</u>
DISBURSEMENTS		
Conservation of Natural Resources		
Current		
Payroll	10,474	-
Office Expenses	452	1,050
Harvest	-	-
Monitor	13,382	-
Professional Services	-	18,756
Ditch	-	-
Capital Outlay	5,004	-
Debt Service		
Principal	-	29,155
Interest	-	3,845
Total Disbursements	<u>29,312</u>	<u>52,806</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(29,050)</u>	<u>166,550</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	<u>10,000</u>	<u>(50,000)</u>
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(50,000)</u>
NET CHANGE IN CASH FUND BALANCES	(19,050)	116,550
Fund Balances (Deficit) - Beginning	<u>27,610</u>	<u>39,581</u>
FUND BALANCES - ENDING	<u>\$ 8,560</u>	<u>\$ 156,131</u>

REPAIRS AND MAINTENANCE

1B	1C	DITCH 11-12	DITCH 13	DITCH 14	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259
36,264	59,905	14,460	19,173	9,770	139,572
4,111	18,729	-	-	-	22,840
-	-	-	-	-	3,050
-	-	-	-	-	216,277
11	19	1	1	2	66
<u>40,386</u>	<u>78,653</u>	<u>14,461</u>	<u>19,174</u>	<u>9,772</u>	<u>382,064</u>
5,111	6,339	-	-	-	21,924
69	189	-	-	-	1,760
14,743	55,767	-	-	-	70,510
-	-	-	-	-	13,382
701	836	208	1,210	255	21,966
-	-	400	1,212	197	1,809
-	-	-	-	-	5,004
-	-	-	-	-	29,155
-	-	-	-	-	3,845
<u>20,624</u>	<u>63,131</u>	<u>608</u>	<u>2,422</u>	<u>452</u>	<u>169,355</u>
<u>19,762</u>	<u>15,522</u>	<u>13,853</u>	<u>16,752</u>	<u>9,320</u>	<u>212,709</u>
(5,486)	(5,486)	(2,000)	(2,000)	(2,000)	(56,972)
<u>(5,486)</u>	<u>(5,486)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(56,972)</u>
14,276	10,036	11,853	14,752	7,320	155,737
<u>32,095</u>	<u>66,605</u>	<u>(1,578)</u>	<u>(7,116)</u>	<u>2,401</u>	<u>159,598</u>
<u>\$ 46,371</u>	<u>\$ 76,641</u>	<u>\$ 10,275</u>	<u>\$ 7,636</u>	<u>\$ 9,721</u>	<u>\$ 315,335</u>

**PELICAN RIVER WATERSHED DISTRICT
 COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED DECEMBER 31, 2014**

	CONSTRUCTION AND IMPLEMENTATION RICE LAKE	BWSR - DRAINAGE	LMP-01	TOTAL
RECEIPTS				
Property Taxes	\$ -	\$ -	\$ 52,770	\$ 52,770
Intergovernmental				
Reimbursement	-	-	51,013	51,013
Market Value	-	-	14	14
Interest	30	-	53	83
Total Receipts	<u>30</u>	<u>-</u>	<u>103,850</u>	<u>103,880</u>
DISBURSEMENTS				
Conservation of Natural Resources				
Current				
Office Expenses	-	426	9,447	9,873
Manager	-	-	37	37
Professional Services	-	3,198	41,844	45,042
Total Disbursements	<u>-</u>	<u>3,624</u>	<u>51,328</u>	<u>54,952</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>30</u>	<u>(3,624)</u>	<u>52,522</u>	<u>48,928</u>
OTHER FINANCING SOURCES (USES)				
Transfers (Out)	-	-	(20,000)	(20,000)
Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
NET CHANGE IN CASH FUND BALANCES	30	(3,624)	32,522	28,928
Fund Balances - Beginning	<u>100,001</u>	<u>-</u>	<u>152,069</u>	<u>252,070</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ 100,031</u>	<u>\$ (3,624)</u>	<u>\$ 184,591</u>	<u>\$ 280,998</u>

SUPPLEMENTAL INFORMATION SECTION (UNAUDITED)

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**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2014**

	<u>INTEREST RATE</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>OUTSTANDING JANUARY 1, 2014</u>	<u>ISSUED IN 2014</u>	<u>PAID IN 2014</u>	<u>OUTSTANDING DECEMBER 31, 2014</u>
<u>Long-Term Indebtedness</u>							
MPCA-SRFO154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	<u>\$ 199,479</u>	<u>\$ -</u>	<u>\$ 29,155</u>	<u>\$ 170,324</u>

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**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2014**

FUND	SOURCE OF REVENUE AND PURPOSE	AMOUNT
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There are no accounts receivable as of December 31, 2014.

**SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
DECEMBER 31, 2014**

FUND	VENDOR NAME	CLAIM NUMBER	AMOUNT
Capital Projects	Verizon	14008	\$ 64
General	Ailie Tree Service, Inc.	14000	625
General	Arvig	14001	51
General	Bank of America	14002	1,326
General	Central Market	14004	73
General	Hannaheer's	14005	80
General	Office of Enterprise	14007	85
Special Revenue	Minnesota DNR	14006	29
			\$ 2,333

OTHER REPORTS SECTION

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**INDEPENDENT AUDITOR'S
REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the Board of Managers
Pelican River Watershed District
Detroit Lakes, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Pelican River Watershed District, Detroit Lakes Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2015.

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 the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
April 7, 2015