

**PELICAN RIVER WATERSHED DISTRICT
FINANCIAL STATEMENTS AND
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2012**

PELICAN RIVER WATERSHED DISTRICT

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INTRODUCTORY SECTION

**PELICAN RIVER WATERSHED DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2012**

POSITION	TERMS EXPIRE	NAME
<u>BOARD OF MANAGERS</u>		
President	May 2013	Dennis Kral
Vice President	May 2015	Orrin Okeson
Treasurer	May 2014	Ginny Imholte
Secretary	May 2015	David Brainard
Manager	May 2013	Janice Haggert
Manager	May 2013	William Jordan
Manager	May 2014	Gary Nansen
<u>STAFF</u>		
Administrator		Tera Guetter

FINANCIAL SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

Mick Justin, CPA
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Certified Public Accountants
Minnesota Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pelican River Watershed District, Detroit Lakes, Minnesota, which comprise cash and unencumbered cash for each fund as of December 31, 2012, and the related statements of cash receipts and disbursements and disbursements-budget and actual 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 accounting practices prescribed or permitted by Office of the State Auditor of the State of Minnesota. 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 of 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 District'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 District'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 of the financial statements, the financial statements are prepared by the District using accounting practices prescribed or permitted by Office of the State Auditor of the State of Minnesota, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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 each fund of the District as of December 31, 2012, or changes in financial position or cash flows thereof for the year then ended.

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 of each fund of the District as of December 31, 2012, and their respective cash receipts and disbursements, and budgetary results for the year then ended in accordance with the financial reporting provisions using accounting practices prescribed or permitted by Office of the State Auditor of the State of Minnesota described in Note 1.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
June 20, 2013

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL</u>
ASSETS				
Cash and Cash Equivalents	\$ 512,358	\$ 210,350	\$ 15,417	\$ 738,125
Total Assets	<u>\$ 512,358</u>	<u>\$ 210,350</u>	<u>\$ 15,417</u>	<u>\$ 738,125</u>
 LIABILITIES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>
 CASH FUND BALANCES				
Restricted	29,322	210,350	-	239,672
Assigned	-	-	15,417	15,417
Unassigned	<u>483,036</u>	<u>-</u>	<u>-</u>	<u>483,036</u>
Total Cash Fund Balances	<u>512,358</u>	<u>210,350</u>	<u>15,417</u>	<u>738,125</u>
 Total Liabilities and Cash Fund Balances	 <u>\$ 512,358</u>	 <u>\$ 210,350</u>	 <u>\$ 15,417</u>	 <u>\$ 738,125</u>

PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TOTAL
RECEIPTS				
Property Taxes	\$ 246,634	\$ 3,249	\$ 136,791	\$ 386,674
Special Assessments	-	97,526	-	97,526
Permit and Inspection Fees	-	5,925	325	6,250
Intergovernmental				
Grant	-	25,156	85,996	111,152
Market Value	1,364	-	-	1,364
PERA	308	-	-	308
Charges for Services	-	137,616	-	137,616
Interest	171	110	56	337
Other	3,158	-	1,000	4,158
Total Receipts	<u>251,635</u>	<u>269,582</u>	<u>224,168</u>	<u>745,385</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	146,558	-	-	146,558
Office Expenses	36,903	-	-	36,903
Manager Per Diem/Expenses	17,684	-	-	17,684
Professional Services	11,280	-	-	11,280
Conservation of Natural Resources				
Current				
Payroll	-	45,226	17	45,243
Office Expenses	-	1,716	1,997	3,713
Harvest	5,215	76,665	175	82,055
Manager Per Diem/Expenses	-	253	242	495
Monitor	34	9,094	897	10,025
Professional Services	-	38,259	77,117	115,376
Ditch	-	3,508	-	3,508
Capital Outlay	6,115	1,980	231,645	239,740
Debt Service				
Principal	-	47,623	-	47,623
Interest	-	5,178	-	5,178
Total Disbursements	<u>223,789</u>	<u>229,502</u>	<u>312,090</u>	<u>765,381</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>27,846</u>	<u>40,080</u>	<u>(87,922)</u>	<u>(19,996)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	80,250	-	-	80,250
Transfers (Out)	-	(69,250)	(11,000)	(80,250)
Total Other Financing Sources (Uses)	<u>80,250</u>	<u>(69,250)</u>	<u>(11,000)</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	108,096	(29,170)	(98,922)	(19,996)
Fund Balances - Beginning	<u>404,262</u>	<u>239,520</u>	<u>114,339</u>	<u>758,121</u>
FUND BALANCES - ENDING	<u>\$ 512,358</u>	<u>\$ 210,350</u>	<u>\$ 15,417</u>	<u>\$ 738,125</u>

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012**

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 to expenditure for 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, 2012**

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 2011 the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This standard changed fund balance classifications within the governmental statements.

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, 2012**

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. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned.

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 2012 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, 2012**

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).

L. New Accounting Pronouncement

The District implemented Governmental Accounting Standards Board Statement No. 63 (GASB 63) *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statements elements, which are distinct from assets and liabilities.

GASB - Concepts Statement 4 also indentified net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Disclosures of certain information concerning individual funds include:

- The following fund had a deficit fund balance or net position as of December 31, 2012:

Ditch 13	\$	3,531
BWSR		82,043

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.

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, 2012, the District's deposits were not exposed to custodial credit risk.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

A. Deposits and Investments (Continued)

1. Deposits (Continued)

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

In-state accounts

- up to \$250,000 for the combined amount of all time and savings accounts (including NOW accounts)
- up to \$250,000 for the combined amount of all interest-bearing and noninterest-bearing demand deposit accounts (beginning July 21, 2011, banks have been allowed to pay interest on deposit accounts)

Out-of-state accounts

- up to \$250,000 for the combined amount of all deposit accounts

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;
- 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;

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

A. Deposits and Investments (Continued)

2. Investments (Continued)

- 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.

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, 2012, the District had the following cash and cash equivalents:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Rate Risk Maturity Date	
Wells Fargo					
Savings	N/A	N/A	N/A	N/A	\$ 729,662
Deposits	N/A	N/A	N/A	N/A	8,463
					\$ 738,125
Total Cash and Cash Equivalents					\$ 738,125

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

B. Interfund Transfers

Fund	Transfers Out	Fund	Transfers In	Reasons for Transfers
Special Revenue	\$ 69,250	General	\$ 69,250	For admin. expenses and close grant accounts
Capital Projects	11,000	General	11,000	For admin. expenses and close grant accounts
	<u>\$ 80,250</u>		<u>\$ 80,250</u>	

C. Long-Term Debt

The Schedule of Indebtedness as of December 31, 2012, is as follows:

	Interest Rate	Issue Date	Final Maturity Date	Outstanding January 1, 2012	Issue In 2012	Paid In 2012	Outstanding December 31, 2012
<u>Long-Term Indebtedness</u>							
MPCA-SRF0031 Assessments (Original \$300,062)	2.00%	9/3/2002	6/15/2012	\$ 9,167	\$ -	\$ 9,167	\$ -
MPCA-SRF0043 Assessments (Original \$71,062)	2.00%	7/1/2003	6/15/2013	10,438	-	10,438	-
MPCA-SRF0154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	256,078	-	28,018	228,060
Total Long-Term Indebtedness				<u>\$ 275,683</u>	<u>\$ -</u>	<u>\$ 47,623</u>	<u>\$ 228,060</u>

Due Within One Year	
Principal	Interest

Long-Term Indebtedness

MPCA-SRF0154 Assessments	<u>\$ 28,581</u>	<u>\$ 4,419</u>
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The annual debt service requirements to maturity for long-term debt as of December 31, 2012, are as follows:

Year Ending December 31,	Long-Term Indebtedness		Total
	Principal	Interest	
2013	\$ 28,581	\$ 4,419	\$ 33,000
2014	29,155	3,845	33,000
2015	29,741	3,259	33,000
2016	30,339	2,661	33,000
2017	30,949	2,050	32,999
2018 - 2020	79,295	2,378	81,673
Total	<u>\$ 228,060</u>	<u>\$ 18,612</u>	<u>\$ 246,672</u>

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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.

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.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 4 OTHER NOTES (CONTINUED)

A. Defined Benefit Pension Plan – Statewide (Continued)

Plan Description (Continued)

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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS, 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. PECF members are required to contribute 5.83% of their annual covered salary. In 2012, 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, 14.4% 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, 2012, 2011, and 2010, were \$10,404, \$13,851, and \$13,090, 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, 2012, 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.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 4 OTHER NOTES (CONTINUED)

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 June 20, 2013, the date the financial statements were available to be issued.

NOTE 5 COMMITMENTS

The District entered into a lease agreement for office facilities with Wells Fargo Bank requiring monthly lease payments of \$1,100. The terms of this agreement expire April 11, 2014. Total rental expense for 2012 was \$13,200.

COMBINING AND INDIVIDUAL FUND SECTION

**PELICAN RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		AMOUNTS
Beginning Budgetary Fund Balances - January 1	\$ 404,262	\$ 404,262	\$ 404,262	\$ -
RECEIPTS				
Property Taxes	247,000	247,000	246,634	(366)
Intergovernmental				
Market Value	-	-	1,364	1,364
PERA	308	308	308	-
Interest	220	220	171	(49)
Other	-	-	3,158	3,158
Total Receipts	<u>247,528</u>	<u>247,528</u>	<u>251,635</u>	<u>4,107</u>
OTHER FINANCING SOURCES				
Transfers From:				
Special Revenue Funds	<u>81,000</u>	<u>81,000</u>	<u>80,250</u>	<u>(750)</u>
Total Other Financing Sources	<u>81,000</u>	<u>81,000</u>	<u>80,250</u>	<u>(750)</u>
 Total Receipts and Other Financing Sources	 <u>328,528</u>	 <u>328,528</u>	 <u>331,885</u>	 <u>3,357</u>
 Amounts Available for Appropriations	 <u>732,790</u>	 <u>732,790</u>	 <u>736,147</u>	 <u>3,357</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	235,500	235,500	146,558	88,942
Office Expenses	48,250	48,250	36,903	11,347
Manager Per Diem/Expenses	24,000	24,000	17,684	6,316
Professional Services	19,700	19,700	11,280	8,420
Conservation of Natural Resources				
Current				
Harvest/DNR R-T-S Grant	5,769	5,769	5,215	554
Monitoring	-	-	34	(34)
Capital Outlay	<u>7,000</u>	<u>7,000</u>	<u>6,115</u>	<u>885</u>
Total Disbursements	<u>340,219</u>	<u>340,219</u>	<u>223,789</u>	<u>116,430</u>
 BUDGETARY FUND BALANCES - DECEMBER 31	 <u>\$ 392,571</u>	 <u>\$ 392,571</u>	 <u>\$ 512,358</u>	 <u>\$ 119,787</u>

**PELICAN RIVER WATERSHED DISTRICT
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES
SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2012**

	SURVEY AND DATA ACQUISITION	UTILITY
RECEIPTS		
Property Taxes	\$ 3,249	\$ -
Special Assessments	-	-
Intergovernmental	-	-
Permit and Inspection Fees	-	5,925
Charges for Services	-	137,616
Interest	19	58
Total Receipts	3,268	143,599
DISBURSEMENTS		
Conservation of Natural Resources		
Current		
Payroll	9,751	-
Office Expenses	1,605	5
Harvest	-	-
Manager Per Diem/Expenses	-	-
Monitor	9,094	-
Professional Services	-	36,720
Ditch	-	-
Capital Outlay	1,980	-
Debt Service		
Principal	-	47,623
Interest	-	5,178
Total Disbursements	22,430	89,526
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(19,162)	54,073
OTHER FINANCING (USES)		
Transfers (Out)	-	(50,000)
Total Other Financing (Uses)	-	(50,000)
NET CHANGE IN CASH FUND BALANCES	(19,162)	4,073
Fund Balances - Beginning	46,348	105,715
FUND BALANCES (DEFICIT) - ENDING	\$ 27,186	\$ 109,788

REPAIRS AND MAINTENANCE

1B	1C	DITCH 11-12	DITCH 13	DITCH 14	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,249
35,032	62,465	-	13	16	97,526
4,650	20,506	-	-	-	25,156
-	-	-	-	-	5,925
-	-	-	-	-	137,616
10	19	1	-	3	110
<u>39,692</u>	<u>82,990</u>	<u>1</u>	<u>13</u>	<u>19</u>	<u>269,582</u>
16,024	19,451	-	-	-	45,226
53	53	-	-	-	1,716
17,766	58,899	-	-	-	76,665
132	121	-	-	-	253
-	-	-	-	-	9,094
702	837	-	-	-	38,259
-	-	355	3,153	-	3,508
-	-	-	-	-	1,980
-	-	-	-	-	47,623
-	-	-	-	-	5,178
<u>34,677</u>	<u>79,361</u>	<u>355</u>	<u>3,153</u>	<u>-</u>	<u>229,502</u>
<u>5,015</u>	<u>3,629</u>	<u>(354)</u>	<u>(3,140)</u>	<u>19</u>	<u>40,080</u>
<u>(6,625)</u>	<u>(6,625)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(69,250)</u>
<u>(6,625)</u>	<u>(6,625)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>(69,250)</u>
(1,610)	(2,996)	(2,354)	(5,140)	(1,981)	(29,170)
<u>24,180</u>	<u>52,513</u>	<u>2,775</u>	<u>1,609</u>	<u>6,380</u>	<u>239,520</u>
<u>\$ 22,570</u>	<u>\$ 49,517</u>	<u>\$ 421</u>	<u>\$ (3,531)</u>	<u>\$ 4,399</u>	<u>\$ 210,350</u>

**PELICAN RIVER WATERSHED DISTRICT
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES
CAPITAL PROJECTS FUNDS
YEAR ENDED DECEMBER 31, 2012**

	CONSTRUCTION AND IMPLEMENTATION			TOTAL
	CWP	BWSR	LMP-01	
RECEIPTS				
Property Taxes	\$ -	\$ -	\$ 136,791	\$ 136,791
Intergovernmental Grant	14,156	-	71,840	85,996
Charges for Services	-	-	325	325
Interest	12	29	15	56
Other	-	-	1,000	1,000
Total Receipts	<u>14,168</u>	<u>29</u>	<u>209,971</u>	<u>224,168</u>
DISBURSEMENTS				
Conservation of Natural Resources Current				
Payroll	-	17	-	17
Office Expenses	-	7	1,990	1,997
Harvest	-	-	175	175
Manager Per Diem/Expenses	-	242	-	242
Monitor	897	-	-	897
Professional Services	2,136	20,850	54,131	77,117
Capital Outlay	-	231,645	-	231,645
Total Disbursements	<u>3,033</u>	<u>252,761</u>	<u>56,296</u>	<u>312,090</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>11,135</u>	<u>(252,732)</u>	<u>153,675</u>	<u>(87,922)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>(11,439)</u>	<u>11,439</u>	<u>(11,000)</u>	<u>(11,000)</u>
Total Other Financing Sources (Uses)	<u>(11,439)</u>	<u>11,439</u>	<u>(11,000)</u>	<u>(11,000)</u>
NET CHANGE IN CASH FUND BALANCES	(304)	(241,293)	142,675	(98,922)
Fund Balances (Deficit) - Beginning	<u>12,166</u>	<u>159,250</u>	<u>(57,077)</u>	<u>114,339</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ 11,862</u>	<u>\$ (82,043)</u>	<u>\$ 85,598</u>	<u>\$ 15,417</u>

SUPPLEMENTAL INFORMATION SECTION (UNAUDITED)

**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2012**

	INTEREST RATE	ISSUE DATE	FINAL MATURITY DATE	OUTSTANDING JANUARY 1, 2012	ISSUED IN 2012	PAID IN 2012	OUTSTANDING DECEMBER 31, 2012
<u>Long-Term Indebtedness</u>							
MPCA-SRF0031 Assessments (Original \$300,062)	2.00%	9/3/2002	6/15/2012	\$ 9,167	-	\$ 9,167	-
MPCA-SRF0043 Assessments (Original \$71,062)	2.00%	7/1/2003	6/15/2013	10,438	-	10,438	-
MPCA-SRF0154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	256,078	-	28,018	228,060
Total Long-Term Indebtedness				<u>\$ 275,683</u>	<u>-</u>	<u>\$ 47,623</u>	<u>\$ 228,060</u>

**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2012**

FUND	SOURCE OF REVENUE AND PURPOSE	AMOUNT
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There are no accounts receivable as of December 31, 2012.

**SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
DECEMBER 31, 2012**

FUND	VENDOR NAME	CLAIM NUMBER	AMOUNT
General	ACS	13514	\$ 47
General	AEM Technology	13515	130
General	Briggs, Ramstad & Skoyles	13517	145
General	Emmons & Olivier Resources	13518	1,753
General	Jobs HQ	13519	788
General	Office of Enterprise Tech.	13521	77
General	Wenck Associates, Inc.	13523	1,243
General	Xerox Corporation	13524	241
General	Noah & Associates	13543	1,063
			\$ 5,487

OTHER REPORTS SECTION

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Minnesota Society of
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**INDEPENDENT AUDITOR'S
REPORT ON MINNESOTA LEGAL COMPLIANCE**

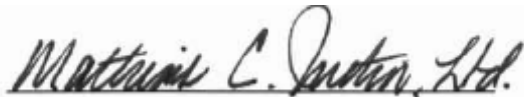
To the Board of Managers
Pelican River Watershed District
Detroit Lakes, Minnesota

We have audited the accompanying financial statements of the Pelican River Watershed District, Detroit Lakes, Minnesota, which comprise cash and unencumbered cash for each fund as of December 31, 2012, and the related statements of cash receipts and disbursements and disbursements-budget and actual for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2013.

The Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six main 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 Pelican River Watershed District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
June 20, 2013