

**PELICAN RIVER WATERSHED DISTRICT
FINANCIAL STATEMENTS AND
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016**

PELICAN RIVER WATERSHED DISTRICT

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INTRODUCTORY SECTION

**PELICAN RIVER WATERSHED DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2016**

POSITION	TERMS EXPIRE	NAME
<u>BOARD OF MANAGERS</u>		
President	May 2019	Dennis Kral
Vice President	May 2018	Orrin Okeson
Treasurer	May 2019	Rick Michaelson
Secretary	May 2018	David Brainard
Manager	May 2019	Janice Haggart
Manager	May 2017	Ginny Imholte
Manager	May 2017	Curt Noyes
<u>STAFF</u>		
Administrator		Tera Guetter

FINANCIAL SECTION



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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 governmental activities, each major fund, and the aggregate remaining fund information of the Pelican River Watershed District (the District), Detroit Lakes, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting. 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.

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 cash basis of accounting 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 cash 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended.

Unmodified Opinion on Cash Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2016, and changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with the cash basis of accounting as described in Note 1.

Other Matters

Required Supplementary Information

Management has omitted the management 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 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 basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The introductory and supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory and supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated May 12, 2017, on our consideration on the District’s compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
May 12, 2017

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2016**

	<u>GOVERNMENTAL</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 2,403,746</u>
Total Assets	<u>2,403,746</u>
LIABILITIES	<u>-</u>
NET CASH POSITION	
Restricted for	
Capital Projects	1,202,279
Special Revenue	568,381
Unrestricted	<u>633,086</u>
Total Net Cash Position	<u><u>\$ 2,403,746</u></u>

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

FUNCTIONS/PROGRAMS	PROGRAM RECEIPTS AND SOURCES				NET CASH SOURCES (USES) AND CHANGES IN NET CASH POSITION
	DISBURSE- MENTS	CHARGES FOR SERVICES	OPERATING	CAPITAL	PRIMARY GOVERNMENTAL ACTIVITIES
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	
Primary Government					
Governmental Activities					
Program					
Aquatic Plant Management	\$ 79,825	\$ -	\$ 9,988	\$ -	\$ (69,837)
Ditch	1,700	-	-	-	(1,700)
Other	115,009	-	750,000	-	634,991
Support Services					
Payroll	239,760	-	-	-	(239,760)
Other	89,902	216,495	-	-	126,593
Debt Service	33,000	-	-	-	(33,000)
Capital Outlay	30,000	-	-	-	(30,000)
Total Primary/Governmental Activities	\$ 589,196	\$ 216,495	\$ 759,988	\$ -	\$ 387,287
General Receipts					
Taxes:					
Property Taxes					\$ 439,287
Special Assessments					98,518
State Aid					2,335
Interest Income					2,864
Other Revenue					68,879
Total General Receipts					611,883
Change in Cash Net Position					999,170
Net Cash Position - Beginning					1,404,576
Net Cash Position - Ending					\$ 2,403,746

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>GENERAL</u>	<u>UTILITY STORMWATER</u>	<u>1C DETROIT & CURFMAN</u>	<u>RICE LAKE BWSR</u>
ASSETS				
Cash and Cash Equivalents	<u>\$ 634,256</u>	<u>\$ 198,590</u>	<u>\$ 86,561</u>	<u>\$ 750,382</u>
Total Assets	<u><u>\$ 634,256</u></u>	<u><u>\$ 198,590</u></u>	<u><u>\$ 86,561</u></u>	<u><u>\$ 750,382</u></u>
 LIABILITIES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>
 CASH FUND BALANCES				
Restricted	-	198,590	86,561	750,382
Unassigned (Deficit)	<u>634,256</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash Fund Balances	<u>634,256</u>	<u>198,590</u>	<u>86,561</u>	<u>750,382</u>
 Total Liabilities and Cash Fund Balances	 <u><u>\$ 634,256</u></u>	 <u><u>\$ 198,590</u></u>	 <u><u>\$ 86,561</u></u>	 <u><u>\$ 750,382</u></u>

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>\$ 733,957</u>	<u>\$ 2,403,746</u>
<u>\$ 733,957</u>	<u>\$ 2,403,746</u>
<u>\$ -</u>	<u>\$ -</u>
735,127	1,770,660
<u>(1,170)</u>	<u>633,086</u>
<u>733,957</u>	<u>2,403,746</u>
<u>\$ 733,957</u>	<u>\$ 2,403,746</u>

**PELICAN RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016**

	GENERAL	UTILITY STORMWATER	1C DETROIT & CURFMAN	RICE LAKE BWSR
RECEIPTS				
Property Taxes	\$ 244,729	\$ -	\$ -	\$ -
Special Assessments	-	-	59,610	-
Permit and Inspection Fees	-	16,300	-	-
Intergovernmental				
Grant	-	-	7,653	750,000
Market Value	2,027	-	-	-
PERA	308	-	-	-
Other	-	-	-	-
Charges for Services	-	216,495	-	-
Interest	1,444	294	99	382
Other	2,088	-	-	-
Total Receipts	<u>250,596</u>	<u>233,089</u>	<u>67,362</u>	<u>750,382</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	239,760	-	-	-
Operating Expenses	38,996	-	-	-
Manager Per Diem/Expenses	12,766	-	-	-
Professional Services	28,451	-	-	-
Community Relations	9,689	-	-	-
Capital Outlay	30,000	-	-	-
Conservation of Natural Resources				
Current				
Payroll	-	5,746	7,021	-
Operating Expenses	-	4,078	1,572	-
Aquatic Plant Management	-	-	60,774	-
Professional Services	-	30,694	732	-
Ditch	-	-	-	-
Other Program	-	-	-	-
Debt Service				
Principal	-	30,339	-	-
Interest	-	2,661	-	-
Total Disbursements	<u>359,662</u>	<u>73,518</u>	<u>70,099</u>	<u>-</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(109,066)</u>	<u>159,571</u>	<u>(2,737)</u>	<u>750,382</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	114,000	-	-	-
Transfers (Out)	-	(215,000)	(5,296)	-
Total Other Financing Sources (Uses)	<u>114,000</u>	<u>(215,000)</u>	<u>(5,296)</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	4,934	(55,429)	(8,033)	750,382
Cash Fund Balances - Beginning	<u>629,322</u>	<u>254,019</u>	<u>94,594</u>	<u>-</u>
CASH FUND BALANCES - ENDING	<u>\$ 634,256</u>	<u>\$ 198,590</u>	<u>\$ 86,561</u>	<u>\$ 750,382</u>

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 194,558	\$ 439,287
38,908	98,518
-	16,300
-	757,653
-	2,027
-	308
52,345	52,345
-	216,495
645	2,864
481	2,569
<u>286,937</u>	<u>1,588,366</u>

-	239,760
-	38,996
-	12,766
-	28,451
-	9,689
-	30,000

17,053	29,820
10,059	15,709
19,051	79,825
25,595	57,021
1,700	1,700
12,459	12,459
-	30,339
-	2,661
<u>85,917</u>	<u>589,196</u>

<u>201,020</u>	<u>999,170</u>
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132,591	246,591
<u>(26,295)</u>	<u>(246,591)</u>
106,296	-

307,316	999,170
<u>426,641</u>	<u>1,404,576</u>
<u>\$ 733,957</u>	<u>\$ 2,403,746</u>

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The financial statements of the reporting entity include those of the District (the primary government) and the component units for which the primary government is financially accountable. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or the potential component unit is fiscally dependent upon the District. Based on these criteria, there are no organizations considered to be component units of the District.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District or the component unit provides services entirely to the District. These component unit's funds are blended into those of the District by appropriate activity type to compose the primary government presentation. Currently, the District has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the District has no discretely presented component units.

B. Basis of Presentation

1. Government-Wide Statements

The government-wide financial statements (the statement of net cash position and the statement of activities arising from cash transactions) display information about the District taken as a whole. The District shows all operations as governmental activities, because generally, governmental activities are financed through taxes, intergovernmental revenues, and nonexchange revenues.

In the government-wide statement of net cash position, the governmental activities: (a) are presented on a consolidated basis, and (b) are reported on the cash basis of accounting. The District's net position is reported in two parts: (1) restricted net position, and (2) unrestricted net position. The District first utilizes restricted resources to finance qualifying activities.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

1. Government-Wide Statements (Continued)

The statement of activities arising from cash transactions demonstrates the degree to which the direct expenses of each function of the District's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, charges paid by the recipients of goods, services, or privileges provided by a given function or activity, and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

Governmental fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. Funds are organized into one major category: governmental. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

§ Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.

Governmental Funds

General Fund – To account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted or committed to expenditures for specified purposes.

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 (SADAF) 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.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Funds (Continued)

Special Revenue Funds (Continued)

The Project 1-B and 1-C (Aquatic Plant Management) 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 Projects Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Major and Nonmajor Funds

Fund	Purpose
Major:	
Governmental:	
General	As described above.
Special Revenue	As described above.
Utility Stormwater	
1C Detroit & Curfman	
Capital Projects - Rice Lake BWSR	As described above.
Nonmajor:	
Special Revenue	As described above.
Capital Projects	As described above.

C. Measurement Focus and Basis of Accounting

The District's financial statements are prepared on the cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The government-wide financial statements are reported using the current resources measurement focus, within the limitations of the cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus as applied to the cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenditures when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payables, unpaid goods and services received in the current year, and accrued expenses) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the government-wide financial statements would be presented on the accrual basis of accounting.

D. Assets, Liabilities, and Cash Fund Balance

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.

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.

a. Governmental Cash Fund Balances:

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

- § **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. There is no nonspendable cash fund balance at December 31, 2016.
- § **Restricted** – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.
- § **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Managers ordinance or resolution. There is no committed cash fund balance at December 31, 2016.
- § **Assigned** – Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. There is no assigned cash fund balance at December 31, 2016.
- § **Unassigned** – All amounts not included in other spendable classifications.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Cash Fund Balance (Continued)

2. Cash Fund Balance (Continued)

a. Governmental Cash Fund Balances: (Continued)

The District has not formally adopted a fund balance policy for the General Fund.

b. Use of Restricted Resources:

The District does not have a fund balance policy. If resources from more than one fund balance classification could be spent, it is expected that the Board of Managers will spend resources from fund balance classifications in the following order (first to last, according to the hierarchy set forth by the standard): restricted, committed, assigned, and unassigned or, as special circumstances arise, pending Board approval.

3. Capital Assets

In the Fund Financial Statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental funds upon acquisition.

E. Receipts and Disbursements

1. Receipts

Property Tax Revenue

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

The District also levies special assessments through the counties against property owners who obtain direct benefits from projects. The special assessment collections are recorded in a manner similar to that for property taxes.

The property tax levy in 2016 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. Budgetary Information

Annual budgets for the General Fund are adopted on the cash basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or as amended by the Board of Managers. The original and final budget for the General Fund is presented in the supplementary information. All annual appropriations lapse at year-end.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Use of Estimates

The preparation of financial statements in accordance with the 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.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Disclosure of certain information concerning individual funds include:

Ø The following fund had a deficit cash fund balance as of December 31, 2016:

BWSR Drainage	\$ 1,170
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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 Cash Equivalents. 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 shall 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.

Custodial Credit Risk

The risk that in the event of a financial institution failure, the District's deposits may not be returned. 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, 2016, the District's deposits were not exposed to custodial credit risk. The District's deposits were covered by federal depository insurance or collateral held by the District's agent in the District's name.

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 for all time/savings accounts and one for all demand accounts. For deposits in banks outside the State of Minnesota, government depositors have total coverage of \$250,000 for all demand and time/savings deposit accounts combined.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

A. Deposits and Investments (Continued)

1. Deposits (Continued)

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;
- § general obligation securities of a state or local government, with taxing powers, rated “A” or better;
- § revenue obligation of a state or local government with taxing powers, rated “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 Federal Home Loan Banks 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 fully insured by any federal agency.

Cash balances consist of the following at December 31, 2016:

Carrying Balance	Bank Balance
\$ 2,403,746	\$ 2,414,328

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 are 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 rated “A” or better by a national bond rating service;
- § Revenue obligations of a state or local government with taxing powers 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;
- § An obligation of a school district with an original maturity not exceeding 13 months and rated in the highest category by a national bond rating service or enrolled in the credit enhancement program;
- § Commercial paper issued by a United States corporation or its Canadian subsidiary that is 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;

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

A. Deposits and Investments (Continued)

2. Investments (Continued)

- § High risk mortgage-backed securities that are interest only or principal only or a mortgage derivative security that has an average life greater than 10 years or securities that will have a price change of more than 17%;
- § 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;
- § Bonds issued by Minnesota State Colleges or Universities under Minn. Stat. 136F.90 and 136F.98;
- § Funds held in a debt service fund may be used to purchase an obligation of an issue which is payable from the fund.

Interest Rate Risk

The risk 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 that the District manages 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

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

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 is in the possession of an outside party. The District is not exposed to custodial credit risk.

Concentration of Credit Risk

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.

There were no investments at December 31, 2016.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

B. Interfund Transfers

<u>Transfers Out:</u>		<u>Transfers in:</u>		
<u>Fund Description</u>	<u>Amount</u>	<u>Fund Description</u>	<u>Amount</u>	<u>Description</u>
1 1B Sal & Mel	\$ 4,000	General	\$ 4,000	For administrative expenses
2 1C Detroit & Curfman	4,000	General	4,000	For administrative expenses
3 Ditch 11-12	2,000	General	2,000	For administrative expenses
4 Ditch 14	2,000	General	2,000	For administrative expenses
5 Ditch 13	2,000	General	2,000	For administrative expenses
6 Utility Stormwater	90,000	General	90,000	For administrative expenses
7 Lake Mgmt Project-01	10,000	General	10,000	For administrative expenses
8 Lake Mgmt Project-01	5,000	SADAF	5,000	For administrative expenses
9 1B Sal & Mel	1,295	Aquatic Plant Management	1,295	For operating expenses
10 1C Detroit & Curfman	1,296	Aquatic Plant Management	1,296	For operating expenses
11 Utility Stormwater	125,000	Rice Lake	125,000	For matching funds for the grant

The Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances reports net transfers by fund.

C. Long-term Liabilities

Compensated Absences

The accrued compensated absences for the year ended December 31, 2016, was as follows:

<u>Governmental Activities</u>	<u>Ending Balance</u>	<u>Due in More Than One Year</u>
Other Liabilities:		
Accrued Compensated Absences	\$ 12,881	\$ 12,881

Accrued compensated absences are payable from the General Fund.

The Schedule of Indebtedness is as follows:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1, 2016</u>	<u>Issued In 2016</u>	<u>Paid In 2016</u>	<u>Outstanding December 31, 2016</u>
<u>Long-Term Indebtedness</u>							
MPCA-SRFO154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	\$ 140,582	\$ -	\$ 30,339	\$ 110,243

	<u>Due Within One Year</u>	
	<u>Principal</u>	<u>Interest</u>
<u>Long-Term Indebtedness</u>		
MPCA-SRFO154 Assessments	\$ 30,949	\$ 2,051

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

C. Long-term Liabilities (Continued)

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

Year Ending December 31,	Long-Term Indebtedness		
	Principal	Interest	Total
2017	\$ 30,949	\$ 2,051	\$ 33,000
2018	31,571	1,429	33,000
2019	32,206	794	33,000
2020	15,517	155	15,672
	<u>\$ 110,243</u>	<u>\$ 4,429</u>	<u>\$ 114,672</u>

D. Cash Fund Balances

At December 31, 2016, Governmental Cash Fund Balances consist of the following:

	General	Utility Stormwater	1C Detroit & Curfman	Rice Lake BWSR	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:						
Capital Projects	\$ -	\$ -	\$ -	\$ 750,382	\$ 451,897	\$ 1,202,279
Special Revenue	-	198,590	86,561	-	283,230	568,381
Total Restricted	-	198,590	86,561	750,382	735,127	1,770,660
Unassigned (Deficit)	634,256	-	-	-	(1,170)	633,086
Total Fund Balance	<u>\$ 634,256</u>	<u>\$ 198,590</u>	<u>\$ 86,561</u>	<u>\$ 750,382</u>	<u>\$ 733,957</u>	<u>\$ 2,403,746</u>

NOTE 4 OTHER NOTES

A. Contracts

Wells Fargo Bank

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 November 30, 2019. Total rental expense for 2016 was \$15,595.

B. 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). This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 OTHER NOTES (CONTINUED)

B. 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.

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 all 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 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the PERA's website at www.mnpera.org.

**PELICAN RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 OTHER NOTES (CONTINUED)

B. Defined Benefit Pension Plan – Statewide (Continued)

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in 2016. In 2016, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.5% for Coordinated Plan members. The District's contribution to the Public Employees Retirement Fund for the year ending December 31, 2016, was \$13,451. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

C. 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, 2016, 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.

D. 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 grant funds 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 cannot be made.

SUPPLEMENTARY INFORMATION SECTION

**PELICAN RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		\$
Beginning Cash Fund Balance - January 1	\$ 629,322	\$ 629,322	\$ 629,322	\$ -
RECEIPTS				
Property Taxes	247,000	247,000	244,729	(2,271)
Intergovernmental				
Market Value	-	-	2,027	2,027
PERA	308	308	308	-
Interest	1,000	1,000	1,444	444
Other	-	-	2,088	2,088
Total Receipts	<u>248,308</u>	<u>248,308</u>	<u>250,596</u>	<u>2,288</u>
OTHER FINANCING SOURCES				
Transfers From:				
Special Revenue Funds	-	-	104,000	104,000
Capital Projects Funds	-	-	10,000	10,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>114,000</u>	<u>114,000</u>
 Total Receipts and Other Financing Sources	 <u>248,308</u>	 <u>248,308</u>	 <u>364,596</u>	 <u>116,288</u>
 Amounts Available for Appropriation	 <u>877,630</u>	 <u>877,630</u>	 <u>993,918</u>	 <u>116,288</u>
DISBURSEMENTS				
General Government				
Current				
Payroll	258,000	258,000	239,760	18,240
Operating Expenses	55,450	55,450	38,996	16,454
Manager Per Diem/Expenses	20,500	20,500	12,766	7,734
Professional Services	61,900	61,900	28,451	33,449
Community Relations	4,000	4,000	9,689	(5,689)
Capital Outlay	30,000	30,000	30,000	-
Total Disbursements (Charges to Appropriations)	<u>429,850</u>	<u>429,850</u>	<u>359,662</u>	<u>70,188</u>
CASH FUND BALANCE - DECEMBER 31	<u>\$ 447,780</u>	<u>\$ 447,780</u>	<u>\$ 634,256</u>	<u>\$ 186,476</u>

**PELICAN RIVER WATERSHED DISTRICT
 COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2016**

	SPECIAL REVENUE FUNDS			
	SADAF (SURVEY)	AQUATIC PLANT MANAGEMENT	1B SAL & MEL	DITCH 11-12
RECEIPTS				
Property Taxes	\$ 145,000	\$ -	\$ -	\$ -
Special Assessments	-	-	38,811	-
Intergovernmental	-	-	2,345	-
Interest	45	85	68	10
Other	-	21	-	-
Total Receipts	<u>145,045</u>	<u>106</u>	<u>41,224</u>	<u>10</u>
DISBURSEMENTS				
Conservation of Natural Resources				
Current				
Payroll	10,507	-	6,546	-
Operating Expenses	850	2,592	1,430	42
Aquatic Plant Management	-	-	19,051	-
Professional Services	-	-	595	-
Ditch	-	-	-	233
Other Program	7,774	-	-	-
Total Disbursements	<u>19,131</u>	<u>2,592</u>	<u>27,622</u>	<u>275</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>125,914</u>	<u>(2,486)</u>	<u>13,602</u>	<u>(265)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	5,000	2,591	-	-
Transfers (Out)	-	-	(5,295)	(2,000)
Total Other Financing Sources (Uses)	<u>5,000</u>	<u>2,591</u>	<u>(5,295)</u>	<u>(2,000)</u>
NET CHANGE IN CASH FUND BALANCES	130,914	105	8,307	(2,265)
Cash Fund Balances (Deficit) - Beginning	<u>(76)</u>	<u>74,058</u>	<u>56,949</u>	<u>8,850</u>
CASH FUND BALANCES (DEFICIT) - ENDING	<u>\$ 130,838</u>	<u>\$ 74,163</u>	<u>\$ 65,256</u>	<u>\$ 6,585</u>

CAPITAL PROJECTS FUNDS

DITCH 13	DITCH 14	LAKE MGMT PROJECT-01	BWSR DRAINAGE	RICE LAKE	TOTAL
\$ -	\$ -	\$ 49,558	\$ -	\$ -	\$ 194,558
19	78	-	-	-	38,908
-	-	50,000	-	-	52,345
4	9	245	-	179	645
-	-	460	-	-	481
<u>23</u>	<u>87</u>	<u>100,263</u>	<u>-</u>	<u>179</u>	<u>286,937</u>
-	-	-	-	-	17,053
42	42	4,305	695	61	10,059
-	-	-	-	-	19,051
-	-	25,000	-	-	25,595
1,467	-	-	-	-	1,700
-	-	1,443	3	3,239	12,459
<u>1,509</u>	<u>42</u>	<u>30,748</u>	<u>698</u>	<u>3,300</u>	<u>85,917</u>
<u>(1,486)</u>	<u>45</u>	<u>69,515</u>	<u>(698)</u>	<u>(3,121)</u>	<u>201,020</u>
-	-	-	-	125,000	132,591
<u>(2,000)</u>	<u>(2,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(26,295)</u>
<u>(2,000)</u>	<u>(2,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>125,000</u>	<u>106,296</u>
(3,486)	(1,955)	54,515	(698)	121,879	307,316
<u>3,934</u>	<u>7,895</u>	<u>176,368</u>	<u>(472)</u>	<u>99,135</u>	<u>426,641</u>
<u>\$ 448</u>	<u>\$ 5,940</u>	<u>\$ 230,883</u>	<u>\$ (1,170)</u>	<u>\$ 221,014</u>	<u>\$ 733,957</u>

**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2016**

	INTEREST RATE	ISSUE DATE	FINAL MATURITY DATE	OUTSTANDING JANUARY 1, 2016	ISSUED IN 2016	PAID IN 2016	OUTSTANDING DECEMBER 31, 2016
<u>Long-Term Indebtedness</u>							
MPCA-SRFO154 Assessments (Original \$297,073)	2.00%	11/1/2010	6/15/2020	<u>\$ 140,582</u>	<u>\$ -</u>	<u>\$ 30,339</u>	<u>\$ 110,243</u>

**PELICAN RIVER WATERSHED DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
YEAR ENDED DECEMBER 31, 2016**

FUND	SOURCE OF REVENUE AND PURPOSE		AMOUNT
1B Sal & Mel	Becker County	Special Assessments	\$ 879
1C Detroit & Curfman	Becker County	Special Assessments	698
Ditch 11-12	Becker County	Special Assessments	9
Ditch 13	Becker County	Special Assessments	6
General	Becker County	Property Taxes	3,476
General	Ottertail County	Property Taxes	17
Lake Management Project-01	Becker County	Property Taxes	710
Lake Management Project-01	Ottertail County	Property Taxes	3
SADAF (Survey)	Becker County	Property Taxes	2,059
SADAF (Survey)	Ottertail County	Property Taxes	11
Utility Stormwater	Becker County	Charges for Services	4,964
			<u>\$ 12,832</u>

**SCHEDULE OF ACCOUNTS PAYABLE
YEAR ENDED DECEMBER 31, 2016**

FUND	VENDOR NAME		CLAIM NUMBER	AMOUNT
Rice Lake-BWSR Grant	Houston Engineering	Engineering	14262	\$ 20,743
Rice Lake-PRWD Match	Houston Engineering	Engineering	14262	10,875
General	David Brainard	December Expenses	EFT-320	11
General	Janice Haggart	December Expenses	EFT-321	116
General	Ginny Imholte	December Expenses	EFT-322	101
General	Dennis Kral	December Expenses	EFT-323	123
General	Richard Michaelson	December Expenses	EFT-324	15
General	Curtis Noyes	December Expenses	EFT-325	11
General	Orrin Okeson	December Expenses	EFT-326	130
General	David Brainard	December Per Diems	EFT-303	208
General	Janice Haggart	December Per Diems	EFT-304	485
General	Ginny Imholte	December Per Diems	EFT-305	416
General	Dennis Kral	December Per Diems	EFT-306	485
General	Richard Michaelson	December Per Diems	EFT-307	138
General	Curtis Noyes	December Per Diems	EFT-308	208
General	Orrin Okeson	December Per Diems	EFT-309	416
				<u>\$ 34,481</u>

OTHER REPORT SECTION



JUSTIN CLASEN & COMPANY, LTD.

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Minnesota Society of
Certified Public Accountants

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 12, 2017.

The Minnesota Legal Compliance Audit Guide for Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because it is not applicable to the District. Additionally, we tested for compliance with the authority to issue public debt.

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 Other Political Subdivisions*, except that the District did not comply with the public purpose policy and they did not bid a purchase over the Minn. Stat. § 471.345 threshold. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
May 12, 2017