

INDEPENDENT AUDITOR'S REPORT

**YELLOW MEDICINE
RIVER WATERSHED DISTRICT
MINNEOTA, MINNESOTA 56264**

FOR THE YEAR ENDED DECEMBER 31, 2014

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
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Pipestone, Minnesota 56164**

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Yellow Medicine River Watershed District
Minneota, Minnesota

GOVERNING BOARD AND ADMINISTRATIVE PERSONNEL
DECEMBER 31, 2014

Governing Board

President	Tim Buysse
Vice President	Jeff Hoffman
Secretary	Corey Hoffman
Treasurer	Tim Dritz
Public Relations	John Boulton

Administrative Personnel

Administrator	Cindy Potz
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Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson Sandy, CPA
Amy L. Mollberg, CPA
Sally A. Sterk, CPA
Blake R. Klinsing, CPA

INDEPENDENT AUDITOR'S REPORT

Governing Board
Yellow Medicine River Watershed District
122 North Jefferson
Minneota, Minnesota 56264

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellow Medicine River Watershed District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the 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 as described in Note 1; this includes determining that the cash basis is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Yellow Medicine River Watershed District
Minneota, Minnesota

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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Yellow Medicine River Watershed District as of December 31, 2014, and the respective changes in cash-basis financial position for the year then ended in conformity with the cash basis of accounting described in Note 1.

Report on Partial Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated March 31, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

Yellow Medicine River Watershed District
Minneota, Minnesota

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Yellow Medicine River Watershed District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 6, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota
April 6, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2014

This section of the Yellow Medicine River Watershed District's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on December 31, 2014, within the limitations of the District's cash basis of accounting. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 –*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2014) and the prior year (2013) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2014 fiscal year include the following:

- Governmental net position increased by \$56,782 or 38.2% from December 31, 2013.
- Total governmental revenues increased by \$58,008, or 28.4%, in comparison to fiscal year 2013, and total governmental expenditures increased by \$51,115, or 33.1%, in comparison to fiscal year 2013.

Overview of the Financial Statements

The financial section of the annual report consist of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

District-Wide Statements

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

The two District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, to assess the overall health of the District.

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds.

The District maintains the following fund:

Governmental Funds - The District's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

The District maintains ten governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other nonmajor funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of individual and combining statements elsewhere in the report.

Basis of Accounting

The District has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Yellow Medicine River Watershed District, assets exceeded liabilities by \$205,263 at the close of the most recent fiscal year. This was an increase of 38.2% from the previous year total of \$148,481.

Table 1 is a summarized view of the District's Statement of Net Position.

	<u>2014</u>	<u>2013</u>
Table 1		
Statement of Net Position		
As of December 31, 2014		
Assets		
Current and other assets	287,180	231,680
Capital assets, net of depreciation		
Total Assets	<u>287,180</u>	<u>231,680</u>
Liabilities		
Current and other liabilities	81,917	83,199
Long-term liabilities		
Total Liabilities	<u>81,917</u>	<u>83,199</u>
Net Position		
Restricted	81,917	83,199
Assigned	47,584	12,164
Unassigned	<u>75,762</u>	<u>53,118</u>
Net Position	<u>205,263</u>	<u>148,481</u>
Total Liabilities & Net Position	<u>287,180</u>	<u>231,680</u>

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the District.

Table 2		
Change in Net Position		
For the year ended December 31, 2014		
	<u>2014</u>	<u>2013</u>
Revenues		
Program Revenues		
Charges for Services	10,000	
Operating Grants and Contributions	73,069	14,798
General Revenues		
Property Taxes	172,680	183,408
Unrestricted Federal and State Aid	2,993	3,226
Earnings on Investments	1,102	1,766
Other	<u>2,337</u>	<u>975</u>
Total Revenues	262,181	204,173
Expenses		
Administration	129,575	122,746
Projects	73,105	29,869
Ditches	<u>2,719</u>	<u>1,669</u>
Total Expenses	<u>205,399</u>	<u>154,284</u>
Change in Net Position	<u>56,782</u>	<u>49,889</u>

The District's total revenue consisted of program revenues of \$83,069, property taxes of \$172,680, state and federal aids of \$2,993, investment earnings of \$1,102, and other revenues of \$2,337.

The cost of all governmental activities for the year was \$205,399.

- The users of District programs paid for \$10,000, or 4.9% of the costs
- The state government subsidized certain programs with grants and contributions. This totaled \$2,993, or 1.4% of the costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenues for Fiscal Year 2014

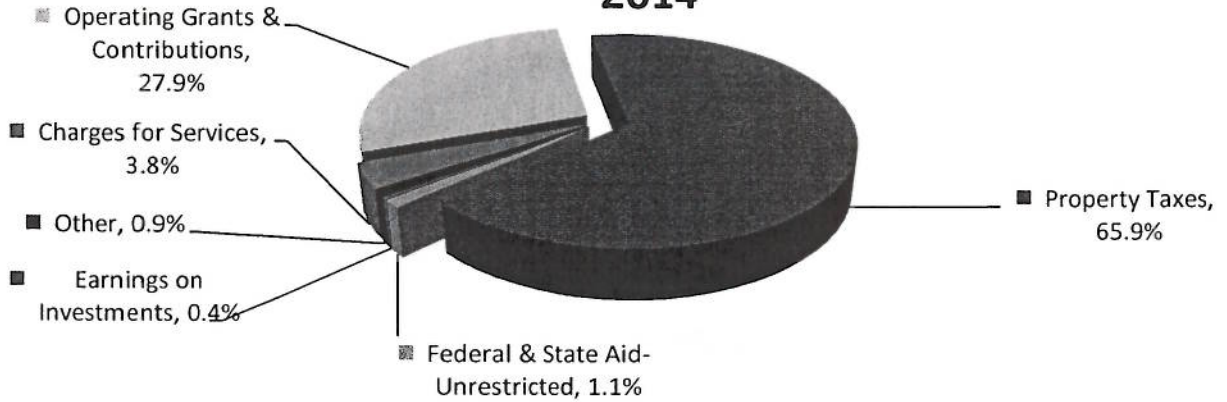
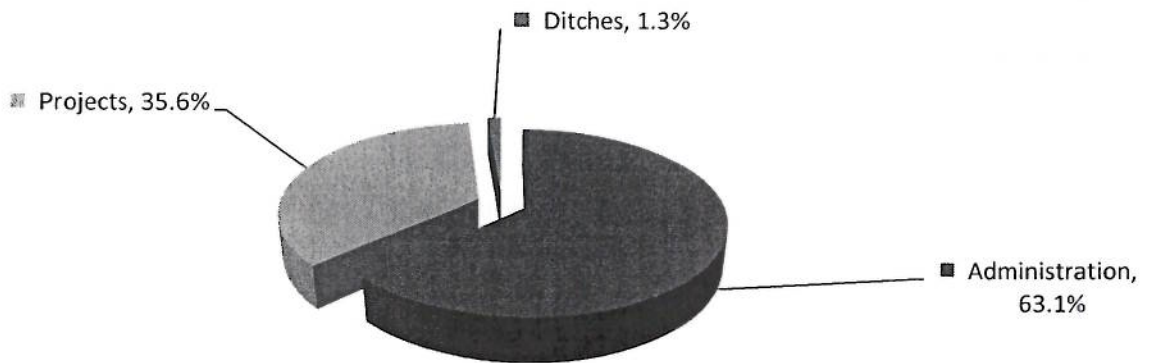


Figure B - Expenses for Fiscal Year 2014



Financial Analysis of the District's Funds (Fund Financial Statements)

Fund Balance/Net Position

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, the governmental funds reported a combined fund balance of \$205,263. In the prior year, the combined fund balance was \$148,481, an increase of \$56,782. The increase of \$56,782 is due primarily to receiving grant funds before the related expenditures were incurred on various projects.

Yellow Medicine River Watershed District
Minneota, Minnesota

Revenues and Expenditures/Expenses

Revenues of the District's governmental funds totaled \$262,181, while expenditures totaled \$205,399. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	250,742	202,680		48,062
Special Revenue Fund	<u>11,439</u>	<u>2,719</u>		<u>8,720</u>
Total	<u>262,181</u>	<u>205,399</u>	<u>-0-</u>	<u>56,782</u>

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2014, the District did not revise the budget. For fiscal year 2014, general fund revenues were under budget by \$13,258 and general fund expenditures were under budget by \$61,320. These variances were due to receiving less funding than anticipated for various projects and therefore reducing expenditures on those projects.

Capital Assets

As described in Note 1, the District does not own any Capital Assets.

Long-Term Liabilities

As described in Note 1, the District does not have any Long-Term Liabilities.

Factors Bearing on the District's Future

The District is dependent on tax revenue and grants obtained through the State of Minnesota for the vast majority of its funding.

Contacting the District's Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's business office at Yellow Medicine River Watershed District, 122 North Jefferson, Minneota, Minnesota, 56264.

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STATEMENT OF NET POSITION
-CASH BASIS-
DECEMBER 31, 2014

	Governmental Funds	
	2014	2013
<u>Assets</u>		
Cash in Bank	205,263	148,481
Due from Other Funds	81,917	83,199
Total Assets	287,180	231,680
<u>Liabilities</u>		
Due to Other Funds	81,917	83,199
Total Liabilities	81,917	83,199
<u>Net Position</u>		
Net Investment in Capital Assets	-	-
Restricted For:		
Ditches	81,917	83,199
Assigned	47,584	12,164
Unassigned	75,762	53,118
Total Net Position	205,263	148,481
Total Liabilities and Net Position	287,180	231,680

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions	2014				2013
	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>	<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
	<u>For Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>	<u>Changes in</u>
		<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>	<u>Net Position</u>
				<u>Total</u>	<u>Total</u>
				<u>Governmental</u>	<u>Governmental</u>
				<u>Activities</u>	<u>Activities</u>
Governmental Activities					
Administration	130,078			(130,078)	(122,746)
Projects	72,602	10,000	73,069	10,467	(15,071)
Ditches	2,719			(2,719)	(1,669)
Total	<u>205,399</u>	<u>10,000</u>	<u>73,069</u>	<u>(122,330)</u>	<u>(139,486)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes				162,028	162,112
Ditches				10,652	21,296
Federal and State Aid Not Restricted to Specific Purposes				2,993	3,226
Earnings on Investments				1,102	1,766
Miscellaneous				2,337	975
Total General Revenues				<u>179,112</u>	<u>189,375</u>
Change in Net Position				56,782	49,889
Net Position - Beginning				148,481	98,592
Net Position - Ending				<u>205,263</u>	<u>148,481</u>

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEET
-CASH BASIS-
DECEMBER 31, 2014

<u>Assets</u>	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memo Only)</u>	
			<u>2014</u>	<u>2013</u>
Cash in Bank	205,263		205,263	148,481
Due from Other Funds		81,917	81,917	83,199
Total Assets	<u>205,263</u>	<u>81,917</u>	<u>287,180</u>	<u>231,680</u>
<u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Due to Other Funds	72,167	9,750	81,917	83,199
Total Liabilities	<u>72,167</u>	<u>9,750</u>	<u>81,917</u>	<u>83,199</u>
<u>Fund Equity</u>				
Fund Balance-Restricted		81,917	81,917	83,199
Fund Balance-Assigned	47,584		47,584	12,164
Fund Balance-Unassigned	85,512	(9,750)	75,762	53,118
Total Fund Equity	<u>133,096</u>	<u>72,167</u>	<u>205,263</u>	<u>148,481</u>
Total Liabilities and Fund Equity	<u>205,263</u>	<u>81,917</u>	<u>287,180</u>	<u>231,680</u>

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	General	Special Revenue	Total (Memo Only)	
			2014	2013
County	162,028	10,652	172,680	183,408
Interest	315	787	1,102	1,766
Miscellaneous	1,036		1,036	625
Permit Fines	500		500	
Projects	10,000		10,000	3,298
Rent	801		801	350
Federal Aid	4,930		4,930	
State of Minnesota	71,132		71,132	14,726
Total Revenues	250,742	11,439	262,181	204,173
<u>Expenditures</u>				
Education	5,099		5,099	2,850
Fees				44
Insurance and Bonds	6,281		6,281	4,639
Interest		605	605	1,237
Meals	278		278	414
Payroll Taxes and Benefits	11,356		11,356	11,606
Professional Fees	6,953		6,953	9,530
Publishing	950		950	1,065
Rent	6,200		6,200	6,200
Projects	69,151	2,114	71,265	18,337
Salaries	76,156		76,156	77,828
Supplies	6,325		6,325	6,982
Telephone	1,552		1,552	1,533
Travel	12,379		12,379	12,019
Total Expenditures	202,680	2,719	205,399	154,284
Excess of Revenues Over (Under)				
Expenditures	48,062	8,720	56,782	49,889
Fund Balance January 1	85,034	63,447	148,481	98,592
Fund Balance December 31	133,096	72,167	205,263	148,481

See accompanying notes to the financial statements.

GENERAL FUND
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
County	165,000	165,000	162,028	(2,972)
Interest	3,000	3,000	315	(2,685)
Miscellaneous			1,036	1,036
Permit Fines			500	500
Projects			10,000	10,000
Rent			801	801
Federal Aid			4,930	4,930
State of Minnesota	96,000	96,000	71,132	(24,868)
Total Revenues	264,000	264,000	250,742	(13,258)
<u>Expenditures</u>				
Education	4,000	4,000	5,099	1,099
Insurance and Bonds	6,000	6,000	6,281	281
Meals			278	278
Payroll Taxes and Benefits	8,000	8,000	11,356	3,356
Professional Fees	7,500	7,500	6,953	(547)
Publishing			950	950
Rent	6,000	6,000	6,200	200
Projects	131,000	131,000	69,151	(61,849)
Salaries	81,500	81,500	76,156	(5,344)
Supplies	9,000	9,000	6,325	(2,675)
Telephone	3,000	3,000	1,552	(1,448)
Travel	8,000	8,000	12,379	4,379
Total Expenditures	264,000	264,000	202,680	(61,320)
Excess of Revenues Over (Under) Expenditures	-	-	48,062	48,062
Fund Balance January 1			85,034	
Fund Balance December 31			133,096	

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies**

A. **Financial Reporting Entity**

The Yellow Medicine River Watershed District was organized August 27, 1971, under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District covers areas within the following three counties: Yellow Medicine, Lincoln, and Lyon. A five member Board appointed by the respective County Boards of Commissioners for staggered three-year terms operate the District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. 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 is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

B. **Basic Financial Statement Presentation**

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1

Summary of Significant Accounting Policies-continued

B. Basic Financial Statement Presentation-continued

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

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

Proprietary funds are used to report business-type activities carried on by a governmental unit. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

All governmental funds are accounted for using the cash basis of accounting. Revenues are recognized when received, rather than when earned. Expenditures are recognized when the cash is paid out, regardless of when the liability is incurred. As a result, certain revenues which are earned and expenditures for which there is a liability under generally accepted accounting principles, are not recognized or recorded in the accounting records or the general purpose financial statements.

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, fund equity, revenues and expenditures. Government resources are allocated to and accounted for within individual funds based upon the purpose for which they 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 fund type and two broad fund categories.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies-continued**

D. Fund Accounting-continued
Governmental Funds

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

Special Revenue Funds are established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include the Ditch #1, #2, #4, #5, #7, #8, #16, #17, and #18 funds.

E. Budgets and Budgetary Accounting

Prior to September 1, the Board of Managers adopts an annual budget for expenditures. This budget is used as the basis for current year property tax levies. Public hearings are conducted to obtain taxpayer comments. The budget versus actual is presented only for the general fund and does not include expected revenues or detail for some expenditures.

F. Cash Equivalents

The District recognizes as cash, currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposit which do not have penalties or terms with them that effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

The District recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value due to changes in interest rates.

G. Capital Assets and Long-Term Debt

The District owns some office furniture located at the Minneota office. These assets have not been reported as Capital Assets due to immateriality. The District does not have any long-term liabilities as of December 31, 2014 and 2013. They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies-continued**

H. Property Tax

Property taxes attach as an enforceable lien as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before May 15 and October 15 of the following year. The county bills and collects the District's taxes and remits them to the District. District property tax revenues are recognized when the remittance is received from the County.

Taxes on homestead property (as defined by State Statutes) are partially reduced by a homestead credit. This credit is paid to the District by the State in lieu of taxes levied against homestead property. The State remits this credit with installments twice each year.

I. Fund Balances

Beginning with fiscal year 2011, the District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

The following are the fund balance categories used by the District:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form (such as inventory or prepaid items) or are legally or contractually required to be maintained intact.

The District has no non-spendable fund balances as of December 31, 2014.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions, or enabling legislation.

The District has restricted fund balances to provide for maintenance of the District's Ditch system. Financing is provided by special assessments levied against benefited property.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 Summary of Significant Accounting Policies-continued

I. Fund Balances-continued

Restricted Fund Balance-continued

The District has the following restricted fund balances as of December 31, 2014:

Special Revenue Funds

Ditch #1	3,674
Ditch #2	17,715
Ditch #4	3,899
Ditch #5	3,146
Ditch #7	28,101
Ditch #8	17,335
Ditch #17	3,572
Ditch #18	<u>4,475</u>
Total All Funds	<u>81,917</u>

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the District Governing Board. In order to establish, modify, or rescind a committed fund balance amount, the Governing Board would need to approve the action at a board meeting.

The District has no committed fund balances as of December 31, 2014.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District has the following assigned fund balances as of December 31, 2014:

General Fund

River Maintenance	1,523
Beaver Control	12,388
Ditch 38 Petition	7,089
BWSR Terrain Analysis Grant	<u>26,584</u>
Total All Funds	<u>47,584</u>

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 Summary of Significant Accounting Policies-continued

I. Fund Balances-continued

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed, or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of December 31, 2014:

General Fund

Administration	93,057
MPCA Contract	(7,361)
FEMA 2014	(184)
Total General Fund	<u>85,512</u>

Special Revenue Funds

Ditch #16	(9,750)
Total Special Revenue Fund	(9,750)
Total All Funds	<u>75,762</u>

J. Net Position

Net position represents the difference between assets and liabilities in the District-wide. Net position investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies-continued**

K. **Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with the cash basis of accounting. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

L. **Estimates**

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

M. **Subsequent Events**

Subsequent events have been evaluated through April 6, 2015, which is the date the financial statements were available to be issued.

Note 2 **Cash and Investments**

A. **Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 2 **Cash and Investments - continued**

A. **Deposits - continued**

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. The District does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the District's bank balance of \$205,263 was exposed to custodial credit risk because it was properly insured and collateralized

B. **Investments**

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) 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, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2014, the District had no investments.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 3 Interfund Receivables and Payables

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Balances at December 31, 2014, were:		
Administrative Fund (General Fund)		72,167
Special Revenue Funds		
Ditch #1	3,674	
Ditch #2	17,715	
Ditch #4	3,899	
Ditch #5	3,146	
Ditch #7	28,101	
Ditch #8	17,335	
Ditch #16		9,750
Ditch #17	3,572	
Ditch #18	<u>4,475</u>	
Total	<u>81,917</u>	<u>81,917</u>

Note 4 Stewardship, Compliance and Accountability
Deficit Fund Balance

Deficit Fund Balance as of December 31, 2014, is as follows:

	<u>Deficit</u>
Ditch #16	9,750

The deficit fund balance is due to expenditures being paid by the above fund prior to receipt of the offsetting revenues. The administrative fund cash balances fund these preliminary expenditures. Cash receipts from petitioners should be sufficient to cover any expenditures incurred.

Construction expenditures should be matched with the receipt of monies from assessment of the benefited properties.

Note 5 Postemployment Benefits Other Than Pension Benefits (OPEB)

The District has no liability for postemployment benefits other than pension benefits.

Note 6 Pension Plan

A. Plan Description

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

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 6 Pension Plan – continued

A. 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 supervisors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on 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 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.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 6

Pension Plan – continued

A. Plan Description - continued

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. 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.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pensions plans equal to the amount required by state statutes. GERS Coordinated Plan members were required to contribute 6.25% of their annual covered salary in 2013. In 2014, the District was required to contribute the following percentage of annual covered payroll: 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$5,526, \$5,648, and \$5,783, respectively. The District's contributions were equal to the contractually required contribution for the year as set by state statute. Contribution rates will increase on January 1, 2015, in the Coordinated Plan (6.5% for members and 7.5% for employers).

Note 7

Vacation and Sick Leave

Under the District's personnel policies, full-time employees are granted vacation and sick leave in varying amounts based on their length of service. The accumulation of vacation leave is limited to 40 hours to be carried over the next calendar year. The annual vacation leave accrual is:

Less than 5 years	8 hours per month
5 years but less than 10 years	10 hours per month
10 years but less than 17 years	12 hours per month
17 years but less than 25 years	14 hours per month
25 years or more	16 hours per month

Sick leave is granted at a rate of 8 hours per month. The accumulation of sick leave is limited to 500 hours to be carried over to the next calendar year.

Both vacation and sick leave is pro-rated for part-time employees.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014

Note 8

Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Note 9

Joint Ventures

Yellow Medicine One Watershed, One Plan Partnership

In October 2014, the District entered into a joint powers agreement with the counties of Lac qui Parle, Lincoln, Lyon, and Yellow Medicine; Lac qui Parle Soil and Water Conservation District (SWCD); Lincoln SWCD; Lyon SWCD; Yellow Medicine SWCD; and Area II Minnesota River Basin Projects, Inc (Area II), for the purpose of planning and implementing protection and restoration efforts for the Yellow Medicine River Watershed as part of the Minnesota Board of Water and Soil Resources One Watershed, One Plan grant program. Area II serves as the fiscal agent for this joint venture. Area II is responsible for execution of the grant agreement and maintaining all financial records and accounting.

Each member entity designates one representative from the governing board to a policy committee, with each representative having one vote. Each member entity also designates one or more representatives to an advisory committee for development of a watershed-based plan encompassing participation and benefits for each stakeholder. The policy committee is responsible for recommending a watershed-based plan and initiating the formal review process. Following the review process, each member entity must approve the plan, and the joint venture will submit the plan to the Minnesota Board of Soil and Water Resources. Following approval by the state, each member entity will be responsible for implementing the plan.

This agreement is scheduled to terminate upon completion of the grant project or on June 30, 2016.

Yellow Medicine River Watershed District
Minneota, Minnesota

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GENERAL FUND
COMBINING BALANCE SHEET
ADMINISTRATIVE & NAMED PROJECTS
-CASH BASIS-
DECEMBER 31, 2014

<u>Assets</u>	<u>Administration</u>	<u>River Maintenance</u>	<u>Beaver Control</u>	<u>MPCA Contract</u>
Cash	205,263			
Due from Special Revenue Funds		1,523	12,388	
Total Assets	<u>205,263</u>	<u>1,523</u>	<u>12,388</u>	<u>-</u>
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Due to Special Revenues	112,206			7,361
Total Liabilities	<u>112,206</u>	<u>-</u>	<u>-</u>	<u>7,361</u>
 <u>Fund Equity</u>				
Fund Balance-Assigned		1,523	12,388	
Fund Balance-Unassigned	93,057			(7,361)
Total Fund Balance	<u>93,057</u>	<u>1,523</u>	<u>12,388</u>	<u>(7,361)</u>
Total Liabilities and Fund Balance	<u>205,263</u>	<u>1,523</u>	<u>12,388</u>	<u>-</u>

FEMA 2014	Ditch 38 Petition	BWSR Terrain Analysis Grant	Elimination of Interrelated Transactions	Total (Memo Only)	
				2014	2013
				205,263	148,481
	7,089	26,584	(47,584)	-	-
<u>-</u>	<u>7,089</u>	<u>26,584</u>	<u>(47,584)</u>	<u>205,263</u>	<u>148,481</u>
184			(47,584)	72,167	63,447
<u>184</u>	<u>-</u>	<u>-</u>	<u>(47,584)</u>	<u>72,167</u>	<u>63,447</u>
	7,089	26,584		47,584	12,164
<u>(184)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,512</u>	<u>72,870</u>
<u>(184)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,096</u>	<u>85,034</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,584)</u>	<u>205,263</u>	<u>148,481</u>

GENERAL FUND
COMBINING STATEMENT OF REVENUES AND CHANGES IN FUND BALANCE
ADMINISTRATIVE & NAMED PROJECTS
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Administration</u>	<u>River Maintenance</u>	<u>Beaver Control</u>	<u>Lac qui Parle Overflow</u>	<u>Fallen Tree Program</u>	<u>FEMA 2010</u>
County	162,028					
Interest	315					
Miscellaneous	1,036					
Permit Fines	500					
Projects						
Rent	801					
Federal						
State of Minnesota	2,993					
Total Revenues	<u>167,673</u>	-	-	-	-	-
<u>Expenditures</u>						
Education	5,099					
Insurance	6,281					
Meals	278					
Payroll Taxes and Benefits	9,935	263	142			
Professional Fees	6,803					
Publishing	950					
Rent	6,200					
Projects	9,982	7,723	5,780			
Salaries	66,614	1,764	960			
Supplies	6,325					
Telephone	1,552					
Travel	10,059	1,004	617			
Total Expenditures	<u>130,078</u>	<u>10,754</u>	<u>7,499</u>	-	-	-
<u>Other Financing Sources (Uses)</u>						
Transfers In		10,000	10,000	8,559	3,792	4,301
Transfers Out	(45,662)					
Total Other Financing Sources (Uses)	<u>(45,662)</u>	<u>10,000</u>	<u>10,000</u>	<u>8,559</u>	<u>3,792</u>	<u>4,301</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(8,067)	(754)	2,501	8,559	3,792	4,301
Fund Balance January 1	101,124	2,277	9,887	(8,559)	(3,792)	(4,301)
Fund Balance December 31	<u>93,057</u>	<u>1,523</u>	<u>12,388</u>	<u>-</u>	<u>-</u>	<u>-</u>

SWAG	Limestone 1	MPCA Contract	MN River Basin	FEMA 2014	Ditch 38 Petition	BWSR Terrain Analysis Grant	Total (Memo Only)	
							2014	2013
							162,028	162,112
							315	128
							1,036	625
							500	
					10,000		10,000	3,298
							801	350
				4,930			4,930	
		22,354		1,479		44,306	71,132	14,726
-	-	22,354	-	6,409	10,000	44,306	250,742	181,239
							5,099	2,850
							6,281	4,639
							278	414
		1,016					11,356	11,606
		150					6,953	9,530
							950	1,065
							6,200	6,200
		18,440		6,593	2,911	17,722	69,151	17,949
		6,818					76,156	77,828
							6,325	6,982
							1,552	1,533
		699					12,379	12,019
-	-	27,123	-	6,593	2,911	17,722	202,680	152,615
143	7,983		884				45,662	20,000
							(45,662)	(20,000)
143	7,983	-	884	-	-	-	-	-
143	7,983	(4,769)	884	(184)	7,089	26,584	48,062	28,624
(143)	(7,983)	(2,592)	(884)				85,034	56,410
-	-	(7,361)	-	(184)	7,089	26,584	133,096	85,034

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
-CASH BASIS-
DECEMBER 31, 2014

<u>Assets</u>	<u>Ditch #1</u>	<u>Ditch #2</u>	<u>Ditch #4</u>	<u>Ditch #5</u>	<u>Ditch #7</u>
Due From Administrative Fund	3,674	17,715	3,899	3,146	28,101
Total Assets	<u>3,674</u>	<u>17,715</u>	<u>3,899</u>	<u>3,146</u>	<u>28,101</u>
<u>Liabilities And Fund Equity</u>					
<u>Liabilities</u>					
Due to Administrative Fund	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Equity</u>					
Fund Balance-Restricted	3,674	17,715	3,899	3,146	28,101
Fund Balance-Unassigned	-	-	-	-	-
Total Fund Balance	<u>3,674</u>	<u>17,715</u>	<u>3,899</u>	<u>3,146</u>	<u>28,101</u>
Total Liabilities and Fund Equity	<u>3,674</u>	<u>17,715</u>	<u>3,899</u>	<u>3,146</u>	<u>28,101</u>

<u>Ditch #8</u>	<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
				(Memo Only)	
				<u>2014</u>	<u>2013</u>
<u>17,335</u>		<u>3,572</u>	<u>4,475</u>	<u>81,917</u>	<u>83,199</u>
<u>17,335</u>	<u>-</u>	<u>3,572</u>	<u>4,475</u>	<u>81,917</u>	<u>83,199</u>
	<u>9,750</u>			<u>9,750</u>	<u>19,752</u>
<u>-</u>	<u>9,750</u>	<u>-</u>	<u>-</u>	<u>9,750</u>	<u>19,752</u>
<u>17,335</u>		<u>3,572</u>	<u>4,475</u>	<u>81,917</u>	<u>85,283</u>
	<u>(9,750)</u>			<u>(9,750)</u>	<u>(38,933)</u>
<u>17,335</u>	<u>(9,750)</u>	<u>3,572</u>	<u>4,475</u>	<u>72,167</u>	<u>46,350</u>
<u>17,335</u>	<u>-</u>	<u>3,572</u>	<u>4,475</u>	<u>81,917</u>	<u>66,102</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Ditch #1</u>	<u>Ditch #2</u>	<u>Ditch #4</u>	<u>Ditch #5</u>	<u>Ditch #7</u>
County Assessments			45		
Interest	48	177		31	279
Total Revenues	<u>48</u>	<u>177</u>	<u>45</u>	<u>31</u>	<u>279</u>
<u>Expenditures</u>					
Fees					
Interest					
Projects	1,459		655		
Total Expenditures	<u>1,459</u>	<u>-</u>	<u>655</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under)					
Expenditures	(1,411)	177	(610)	31	279
Fund Balance January 1	<u>5,085</u>	<u>17,538</u>	<u>4,509</u>	<u>3,115</u>	<u>27,822</u>
Fund Balance December 31	<u><u>3,674</u></u>	<u><u>17,715</u></u>	<u><u>3,899</u></u>	<u><u>3,146</u></u>	<u><u>28,101</u></u>

<u>Ditch #8</u>	<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
				(Memo Only)	
				<u>2014</u>	<u>2013</u>
	10,607			10,652	21,296
172		35	45	787	1,638
<u>172</u>	<u>10,607</u>	<u>35</u>	<u>45</u>	<u>11,439</u>	<u>22,934</u>
					44
	605			605	1,237
				2,114	388
<u>-</u>	<u>605</u>	<u>-</u>	<u>-</u>	<u>2,719</u>	<u>1,669</u>
172	10,002	35	45	8,720	21,265
<u>17,163</u>	<u>(19,752)</u>	<u>3,537</u>	<u>4,430</u>	<u>63,447</u>	<u>42,182</u>
<u><u>17,335</u></u>	<u><u>(9,750)</u></u>	<u><u>3,572</u></u>	<u><u>4,475</u></u>	<u><u>72,167</u></u>	<u><u>63,447</u></u>

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

Governing Board
Yellow Medicine River Watershed District
Minnesota, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States the financial statements of the Yellow Medicine River Watershed District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 6, 2015.

Internal Control over Financial Reporting

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

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

Yellow Medicine River Watershed District
Minneota, Minnesota

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2014-I and 2014-II to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that 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.

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

Yellow Medicine River Watershed District
Minneota, Minnesota

Purpose of this Report

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

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

April 6, 2015

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

- 2014-I Lack of segregation of duties.
- Condition: The District has limited personnel available to perform accounting duties.
- Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
- Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by separate individuals.
- Recommendation: The District should design internal controls to provide for proper segregation of duties.
- Response: This is not unusual in a District of this size. The District has studied the situation and found that it is economically infeasible to design the system of internal control to adequately provide for the segregation of duties. The Board will monitor personnel duties.
-
- 2014-II Lack of expertise by District personnel to prepare cash basis financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America
- Condition: The District personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles.
- Criteria: Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.
- Effect: District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.
- Recommendation: The District should provide personnel with adequate training to develop expertise to prepare financial statements in accordance with generally accepted accounting principles.
- Response: This is not unusual in a District of this size. It is economically infeasible for the District to provide the necessary training for personnel to acquire and maintain this expertise.