

INDEPENDENT AUDITOR'S REPORT

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

FOR THE YEAR ENDED DECEMBER 31, 2015

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
PO Box 707
Pipestone, Minnesota 56164**

CONTENTS OF REPORT		PAGE
INTRODUCTORY SECTION		
GOVERNING BOARD AND ADMINISTRATIVE PERSONNEL		1
FINANCIAL SECTION		
INDEPENDENT AUDITOR'S REPORT		3 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)		7 - 12
BASIC FINANCIAL STATEMENTS		
EXHIBIT A	Statement of Net Position – Cash Basis	14
EXHIBIT B	Statement of Activities – Cash Basis	15
EXHIBIT C	Governmental Funds Combined Balance Sheet – Cash Basis	16
EXHIBIT D	Governmental Funds Combined Statement of Receipts, Disbursements, and Changes in Fund Balance – Cash Basis	17
EXHIBIT E	General Fund Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual – Cash Basis	18
NOTES TO THE FINANCIAL STATEMENTS		19 - 35
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES		
Schedule 1	Combining Balance Sheet – Cash Basis Nonmajor Governmental Funds	36 - 37
Schedule 2	Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis Nonmajor Governmental Funds	38 - 39
Schedule 3	General Fund Combining Balance Sheet – Cash Basis Administrative and Named Projects	40 - 41

CONTENTS OF REPORT		PAGE
Continued		
Schedule 4	General Fund Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis Administrative and Named Projects	42 - 43
Schedule 5	Special Revenue Funds Combining Balance Sheet – Cash Basis	44 - 45
Schedule 6	Special Revenue Funds Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis	46 - 47
OTHER SCHEDULES		
	REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDIT PERFORMED IN ACCORANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49 - 51
Schedule 7	Schedule of Findings and Recommendations	52

Yellow Medicine River Watershed District
Minneota, Minnesota

GOVERNING BOARD AND ADMINISTRATIVE PERSONNEL
DECEMBER 31, 2015

Governing Board

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

Administrative Personnel

Administrator	Cindy Potz (Resigned July 31, 2015)
Interim Administrator	Emily Javens (Oct. 19, 2015 – Feb. 29, 2016)

Yellow Medicine River Watershed District
Minneota, Minnesota

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Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson Sandy, CPA
Amy L. Mollberg, CPA
Sally A. Sterk, CPA
Blake R. Klinsing, CPA
Bryce L. Schelhaas, 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, 2015, 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, 2015, 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 and the respective budgetary comparison for the General Fund.

Report on Partial Comparative Information

We have previously audited the District's 2014 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated April 6, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2014, 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

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.

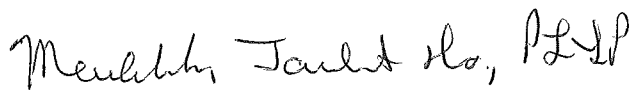
Yellow Medicine River Watershed District
Minnesota, Minnesota

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 in the basis of accounting described in Note 1.

The governing board and administrative personnel and the management's discussion and analysis sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2016, 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
Certified Public Accountants
Pipestone, Minnesota
April 27, 2016

Yellow Medicine River Watershed District
Minneota, Minnesota

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2015

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, 2015, 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 (2015) and the prior year (2014) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2015 fiscal year include the following:

- Governmental net position increased by \$4,656 or 2.3% from December 31, 2014.
- Total governmental revenues increased by \$10,925, or 4.2%, in comparison to fiscal year 2014, and total governmental expenditures increased by \$63,051, or 30.7%, in comparison to fiscal year 2014.

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.

Yellow Medicine River Watershed District
Minneota, Minnesota

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, Ditch 4 Fund, and Ditch 5 Fund, which are considered to be major funds. 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 \$209,919 at the close of the most recent fiscal year. This was an increase of 2.3% from the previous year total of \$205,263.

Yellow Medicine River Watershed District
 Minneota, Minnesota

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

Table 1		
Statement of Net Position		
As of December 31, 2015		
	<u>2015</u>	<u>2014</u>
Assets		
Current and other assets	210,636	205,263
Capital assets, net of depreciation		
Total Assets	<u>210,636</u>	<u>205,263</u>
Liabilities		
Current and other liabilities	717	
Long-term liabilities		
Total Liabilities	<u>717</u>	<u>-0-</u>
Net Position		
Restricted	73,094	81,917
Unassigned	<u>136,825</u>	<u>123,346</u>
Net Position	<u>209,919</u>	<u>205,263</u>
Total Liabilities & Net Position	<u>210,636</u>	<u>205,263</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, 2015		
	<u>2015</u>	<u>2014</u>
Revenues		
Program Revenues		
Charges for Services	30,000	10,000
Operating Grants and Contributions	26,095	73,069
General Revenues		
Property Taxes	204,009	172,680
Unrestricted Federal and State Aid	6,672	2,993
Earnings on Investments	1,042	1,102
Other	<u>5,288</u>	<u>2,337</u>
Total Revenues	273,106	262,181
Expenses		
Administration	126,592	129,575
Projects	89,936	73,105
Ditches	<u>51,922</u>	<u>2,719</u>
Total Expenses	<u>268,450</u>	<u>205,399</u>
Change in Net Position	<u>4,656</u>	<u>56,782</u>

The District's total revenue consisted of program revenues of \$56,095, property taxes of \$204,009, state and federal aids of \$6,672, investment earnings of \$1,042, and other revenues of \$5,288.

The cost of all governmental activities for the year was \$268,450.

- The users of District programs paid for \$30,000, or 11.2% of the costs. The state government subsidized certain programs with grants and contributions. This totaled \$6,672, or 2.5% 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 2015

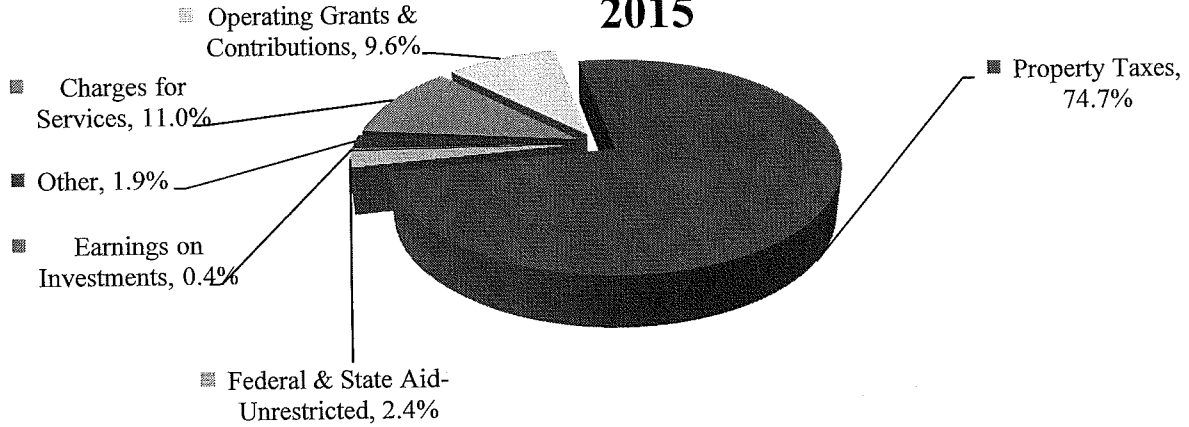
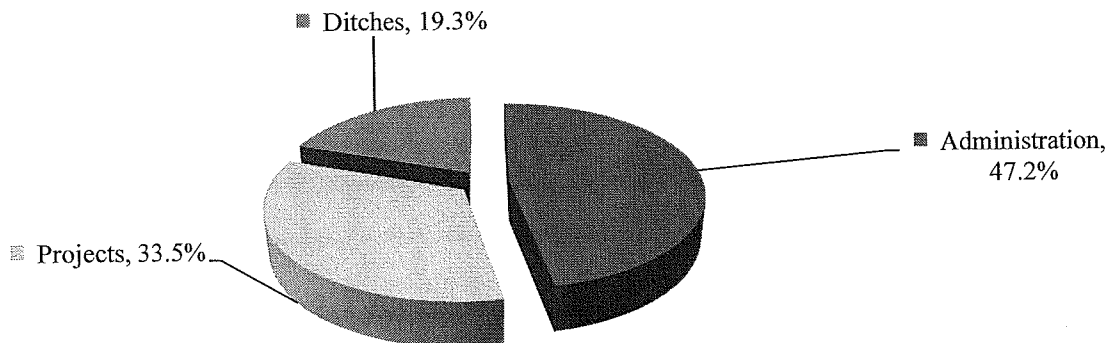


Figure B - Expenses for Fiscal Year 2015



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 \$209,919. In the prior year, the combined fund balance was \$205,263, an increase of \$4,656. The increase of \$4,656 is due primarily to receiving funds for the Ditch 38 Petition in advance of the related expenditures.

Yellow Medicine River Watershed District
 Minneota, Minnesota

Receipts and Disbursements

Receipts of the District's governmental funds totaled \$273,106, while disbursements totaled \$268,450. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Receipts	Disbursements	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	262,157	216,528		45,629
Special Revenue Fund	<u>10,949</u>	<u>51,952</u>		<u>(40,973)</u>
Total	<u>273,106</u>	<u>268,450</u>	<u>-0-</u>	<u>4,656</u>

General Fund Budgetary Highlights

The District is required to adopt an operating budget for the general fund 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 2015, the District did not revise the budget. For fiscal year 2015, general fund receipts were under budget by \$20,343 and general fund disbursements were under budget by \$65,972. These variances were due to receiving less funding than anticipated for various projects and therefore reducing spending 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.

Yellow Medicine River Watershed District
Minneota, Minnesota

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STATEMENT OF NET POSITION
-CASH BASIS-
DECEMBER 31, 2015

	Governmental Funds	
	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash in Bank	<u>210,636</u>	<u>205,263</u>
Total Assets	<u><u>210,636</u></u>	<u><u>205,263</u></u>
<u>Liabilities</u>		
Payroll Liabilities	<u>717</u>	<u>-</u>
Total Liabilities	<u>717</u>	<u>-</u>
<u>Net Position</u>		
Net Investment in Capital Assets	-	-
Restricted For:		
Ditches	73,094	81,917
Unrestricted	<u>136,825</u>	<u>123,346</u>
Total Net Position	<u>209,919</u>	<u>205,263</u>
Total Liabilities and Net Position	<u><u>210,636</u></u>	<u><u>205,263</u></u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Functions</u>	2015				2014	
	<u>Expenses</u>	Program Revenues			Net (Expense)	Net (Expense)
		<u>Charges</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</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	126,592			(126,592)	(130,078)	
Projects	89,936	30,000	26,095	(33,841)	10,467	
Ditches	51,922			(51,922)	(2,719)	
Total	<u>268,450</u>	<u>30,000</u>	<u>26,095</u>	<u>(212,355)</u>	<u>(122,330)</u>	
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes				193,584	162,028	
Ditches				10,425	10,652	
Federal and State Aid Not Restricted to Specific Purposes				6,672	2,993	
Earnings on Investments				1,042	1,102	
Miscellaneous				5,288	2,337	
Total General Revenues				<u>217,011</u>	<u>179,112</u>	
Change in Net Position				4,656	56,782	
Net Position - Beginning				<u>205,263</u>	<u>148,481</u>	
Net Position - Ending				<u>209,919</u>	<u>205,263</u>	

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEET
-CASH BASIS-
DECEMBER 31, 2015

	<u>General</u>	<u>Major Special Revenue Funds</u>		<u>Nonmajor Special Revenue Funds</u>	<u>Total (Memo Only)</u>	
		<u>Ditch 4</u>	<u>Ditch 5</u>		<u>2015</u>	<u>2014</u>
<u>Assets</u>						
Cash in Bank	210,636				210,636	205,263
Due from Other Funds				73,094	73,094	81,917
Total Assets	<u>210,636</u>	<u>-</u>	<u>-</u>	<u>73,094</u>	<u>283,730</u>	<u>287,180</u>
<u>Liabilities and Fund Equity</u>						
<u>Liabilities</u>						
Payroll Liabilities	717				717	
Due to Other Funds	31,194	30,846	10,765	289	73,094	81,917
Total Liabilities	<u>31,911</u>	<u>30,846</u>	<u>10,765</u>	<u>289</u>	<u>73,811</u>	<u>81,917</u>
<u>Fund Equity</u>						
Fund Balance-Restricted				73,094	73,094	81,917
Fund Balance-Assigned	35,487				35,487	47,584
Fund Balance-Unassigned	143,238	(30,846)	(10,765)	(289)	101,338	75,762
Total Fund Equity	<u>178,725</u>	<u>(30,846)</u>	<u>(10,765)</u>	<u>72,805</u>	<u>209,919</u>	<u>205,263</u>
Total Liabilities and Fund Equity	<u>210,636</u>	<u>-</u>	<u>-</u>	<u>73,094</u>	<u>283,730</u>	<u>287,180</u>

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

Receipts	General	Major Special Revenue Funds		Nonmajor Special Revenue Funds	Total (Memo Only)	
		Ditch 4	Ditch 5		2015	2014
County	193,584			10,425	204,009	172,680
Interest	518			524	1,042	1,102
Miscellaneous	4,487				4,487	1,036
Permit Fines	-				-	500
Projects	30,000				30,000	10,000
Rent	801				801	801
Federal Aid	1,073				1,073	4,930
State of Minnesota	31,694				31,694	71,132
Total Revenues	262,157			10,949	273,106	262,181
Disbursements						
Dues and Fees	5,860				5,860	
Education	2,525				2,525	5,099
Insurance and Bonds	4,328				4,328	6,281
Interest		357	161	71	589	605
Meals	233				233	278
Payroll Taxes and Benefits	12,615				12,615	11,356
Professional Fees	18,842				18,842	6,953
Publishing	842	14	33		889	950
Rent	6,193				6,193	6,200
Projects	84,298	34,328	13,717	3,149	135,492	71,265
Salaries	58,481				58,481	76,156
Supplies	6,529	46		46	6,621	6,325
Telephone	1,676				1,676	1,552
Travel	14,106				14,106	12,379
Total Expenditures	216,528	34,745	13,911	3,266	268,450	205,399
Excess of Receipts Over (Under)						
Disbursements	45,629	(34,745)	(13,911)	7,683	4,656	56,782
Fund Balance January 1	133,096	3,899	3,146	65,122	205,263	148,481
Fund Balance December 31	<u>178,725</u>	<u>(30,846)</u>	<u>(10,765)</u>	<u>72,805</u>	<u>209,919</u>	<u>205,263</u>

See accompanying notes to the financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Receipts</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
County	200,500	200,500	193,584	(6,916)
Interest	2,000	2,000	518	(1,482)
Miscellaneous			4,487	4,487
Projects			30,000	30,000
Rent			801	801
Federal Aid			1,073	1,073
State of Minnesota	80,000	80,000	31,694	(48,306)
Total Revenues	<u>282,500</u>	<u>282,500</u>	<u>262,157</u>	<u>(20,343)</u>
<u>Disbursements</u>				
Dues and Fees			5,860	5,860
Education	6,000	6,000	2,525	(3,475)
Insurance and Bonds	6,000	6,000	4,328	(1,672)
Meals			233	233
Payroll Taxes and Benefits	10,000	10,000	12,615	2,615
Professional Fees	8,000	8,000	18,842	10,842
Publishing			842	842
Rent	6,000	6,000	6,193	193
Projects	132,500	132,500	84,298	(48,202)
Salaries	92,000	92,000	58,481	(33,519)
Supplies	11,000	11,000	6,529	(4,471)
Telephone	3,000	3,000	1,676	(1,324)
Travel	8,000	8,000	14,106	6,106
Total Expenditures	<u>282,500</u>	<u>282,500</u>	<u>216,528</u>	<u>(65,972)</u>
Excess of Receipts Over (Under)				
Disbursements	<u>-</u>	<u>-</u>	45,629	<u>45,629</u>
Fund Balance January 1			<u>133,096</u>	
Fund Balance December 31			<u><u>178,725</u></u>	

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

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, 2015

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the cash basis of accounting. This basis recognized assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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, 2015

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, 2015 and 2014. 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, 2015

Note 1

Summary of Significant Accounting Policies - continued

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in these categories.

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, 2015.

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, 2015

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, 2015:

Special Revenue Funds

Ditch #1	2,977
Ditch #2	17,643
Ditch #7	28,090
Ditch #8	16,607
Ditch #17	3,456
Ditch #18	<u>4,321</u>
Total All Funds	<u>73,094</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, 2015.

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, 2015:

General Fund

River Maintenance	7,615
Beaver Control	16,595
MPCA Contract	155
FEMA 2014	547
Ditch 38 Petition	<u>10,575</u>
Total All Funds	<u>35,487</u>

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

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, 2015:

General Fund

Administration	152,527
BWSR Terrain Analysis	(9,289)
Total General Fund	<u>143,238</u>

Special Revenue Funds

Ditch #4	(30,846)
Ditch #5	(10,765)
Ditch #16	(289)
Total Special Revenue Fund	(41,900)
Total All Funds	<u>101,338</u>

J. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net 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. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

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

K. 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.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. 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, 2014, from which the summarized information was derived.

N. 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.

O. Subsequent Events

Subsequent events have been evaluated through April 27, 2016, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

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.

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, 2015, none of the District's bank balance of \$211,112 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;

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 2 Cash and Investments - continued

B. Investments - continued

- (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, 2015, the District had no investments.

Note 3 Interfund Receivables and Payables

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Balances at December 31, 2015, were:		
Administrative Fund (General Fund)		31,194
Special Revenue Funds		
Ditch #1	2,977	
Ditch #2	17,643	
Ditch #4		30,846
Ditch #5		10,765
Ditch #7	28,090	
Ditch #8	16,607	
Ditch #16		289
Ditch #17	3,456	
Ditch #18	4,321	
Total	<u>73,094</u>	<u>73,094</u>

The various interfund receivables and payables are a result of interfund borrowing to finance projects.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 4 **Stewardship, Compliance and Accountability**
Deficit Fund Balance

Deficit Fund Balance as of December 31, 2015, is as follows:

	<u>Deficit</u>
Ditch #4	30,846
Ditch #5	10,765
Ditch #16	289

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 **Defined Benefit Pension Plan**

The District prepares its financial statements on the cash basis of accounting as described in Note 1 and has not adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* or GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The following footnote is for informational purposes only and includes amounts for deferred inflows of resources, deferred outflows of resources, and net pension liability that would have been recorded under generally accepted accounting principles.

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 5

Defined Benefit Pension Plan - continued

A. Plan Description - continued

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

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% of average salary for each of the first ten years of service and 2.7% 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 ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

B. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 5 **Defined Benefit Pension Plan - continued**

B. **Contributions - continued**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The District's contributions to the GERF for the year ended December 31, 2015, were \$4,390. The District's contributions were equal to the required contributions as set by state statute.

C. **Pension Costs**

At December 31, 2015, the District reported a liability of \$67,373 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was .0013%.

For the year ended December 31, 2015, the District recognized pension expense of \$2,209 for its proportionate share of the GERF's pension expense.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 5 **Defined Benefit Pension Plan - continued**

C. Pension Costs - continued

At December 31, 2015, the District reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	-	3,397
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	6,378	-
Changes in proportion	-	7,046
Contributions paid to PERA subsequent to the measurement date [to be calculated by District]	1,400	-
Total	7,778	10,443

\$1,400 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2016	\$(1,886)
2017	(1,886)
2018	(1,886)
2019	1,593

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 5 **Defined Benefit Pension Plan - continued**

D. **Actuarial Assumptions - continued**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 5

Defined Benefit Pension Plan - continued

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERF net pension liability:	\$105,934	\$67,373	\$35,527

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. 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.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 6 **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.

Note 7 **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 8 **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.

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2015

Note 8

Joint Ventures - continued

Yellow Medicine One Watershed, One Plan Partnership - continued

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 December 31, 2016.

Yellow Medicine River Watershed District
 Minneota, Minnesota

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
-CASH BASIS-
DECEMBER 31, 2015

<u>Assets</u>	<u>Ditch #1</u>	<u>Ditch #2</u>	<u>Ditch #7</u>	<u>Ditch #8</u>
Due From Administrative Fund	<u>2,977</u>	<u>17,643</u>	<u>28,090</u>	<u>16,607</u>
Total Assets	<u><u>2,977</u></u>	<u><u>17,643</u></u>	<u><u>28,090</u></u>	<u><u>16,607</u></u>
<u>Liabilities And Fund Equity</u>				
<u>Liabilities</u>				
Due to Administrative Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Equity</u>				
Fund Balance-Restricted	<u>2,977</u>	<u>17,643</u>	<u>28,090</u>	<u>16,607</u>
Fund Balance-Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u><u>2,977</u></u>	<u><u>17,643</u></u>	<u><u>28,090</u></u>	<u><u>16,607</u></u>
Total Liabilities and Fund Equity	<u><u>2,977</u></u>	<u><u>17,643</u></u>	<u><u>28,090</u></u>	<u><u>16,607</u></u>

Schedule 1

<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
			(Memo Only)	
			2015	2014
	3,456	4,321	73,094	74,872
	3,456	4,321	73,094	74,872
<u>-</u>	<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>74,872</u>
289			289	9,750
<u>289</u>	<u>-</u>	<u>-</u>	<u>289</u>	<u>9,750</u>
	3,456	4,321	73,094	74,872
(289)			(289)	(9,750)
<u>(289)</u>	<u>3,456</u>	<u>4,321</u>	<u>72,805</u>	<u>65,122</u>
<u>-</u>	<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>74,872</u>

Yellow Medicine River Watershed District
 Minneota, Minnesota

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
NONMAJOR FUNDS
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Receipts</u>	<u>Ditch #1</u>	<u>Ditch #2</u>	<u>Ditch #7</u>	<u>Ditch #8</u>
County Assessments				
Interest	23	118	199	119
Total Revenues	<u>23</u>	<u>118</u>	<u>199</u>	<u>119</u>
 <u>Disbursements</u>				
Interest				
Projects	720	190	210	847
Supplies				
Total Expenditures	<u>720</u>	<u>190</u>	<u>210</u>	<u>847</u>
 Excess of Revenues Over (Under)				
Expenditures	(697)	(72)	(11)	(728)
Fund Balance January 1	<u>3,674</u>	<u>17,715</u>	<u>28,101</u>	<u>17,335</u>
Fund Balance December 31	<u><u>2,977</u></u>	<u><u>17,643</u></u>	<u><u>28,090</u></u>	<u><u>16,607</u></u>

Schedule 2

<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
			(Memo Only)	
			2015	2014
10,425			10,425	10,607
	29	36	524	756
<u>10,425</u>	<u>29</u>	<u>36</u>	<u>10,949</u>	<u>11,363</u>
71			71	605
847	145	190	3,149	1,459
46			46	
<u>964</u>	<u>145</u>	<u>190</u>	<u>3,266</u>	<u>2,064</u>
9,461	(116)	(154)	7,683	9,299
<u>(9,750)</u>	<u>3,572</u>	<u>4,475</u>	<u>65,122</u>	<u>55,823</u>
<u>(289)</u>	<u>3,456</u>	<u>4,321</u>	<u>72,805</u>	<u>65,122</u>

GENERAL FUND
COMBINING BALANCE SHEET
ADMINISTRATIVE & NAMED PROJECTS
-CASH BASIS-
DECEMBER 31, 2015

<u>Assets</u>	<u>Administration</u>	<u>River Maintenance</u>	<u>Beaver Control</u>	<u>MPCA Contract</u>
Cash	210,636			
Due from Special Revenue Funds		7,615	16,595	155
Total Assets	<u>210,636</u>	<u>7,615</u>	<u>16,595</u>	<u>155</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Payroll Liabilities	717			
Due to Special Revenues	<u>57,392</u>			
Total Liabilities	58,109	-	-	-
<u>Fund Equity</u>				
Fund Balance-Assigned		7,615	16,595	155
Fund Balance-Unassigned	<u>152,527</u>			
Total Fund Balance	<u>152,527</u>	<u>7,615</u>	<u>16,595</u>	<u>155</u>
Total Liabilities and Fund Balance	<u>210,636</u>	<u>7,615</u>	<u>16,595</u>	<u>155</u>

FEMA 2014	Ditch 38 Petition	BWSR Terrain Analysis Grant	Elimination of Interrelated Transactions	Total (Memo Only)	
				2015	2014
				210,636	205,263
547	10,575		(35,487)	-	-
547	10,575	-	(35,487)	210,636	205,263
				717	
		9,289	(35,487)	31,194	72,167
-	-	9,289	(35,487)	31,911	72,167
547	10,575			35,487	47,584
		(9,289)		143,238	85,512
547	10,575	(9,289)	-	178,725	133,096
547	10,575	-	(35,487)	210,636	205,263

GENERAL FUND
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
ADMINISTRATIVE & NAMED PROJECTS
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Receipts</u>	<u>Administration</u>	<u>River Maintenance</u>	<u>Beaver Control</u>	<u>MPCA Contract</u>
County	193,584			
Interest	518			
Miscellaneous	4,487			
Permit Fines				
Projects				
Rent	801			
Federal				
State of Minnesota	6,672			25,022
Total Revenues	<u>206,062</u>	<u>-</u>	<u>-</u>	<u>25,022</u>
<u>Disbursements</u>				
Dues and Fees	5,770			90
Education	2,525			
Insurance	4,328			
Meals	233			
Payroll Taxes and Benefits	11,993	85	88	393
Professional Fees	9,676			
Publishing	707			
Rent	6,193			
Projects	9,629	2,912	4,735	14,364
Salaries	54,368	563	581	2,597
Supplies	6,157			30
Telephone	1,676			
Travel	13,337	348	389	32
Total Expenditures	<u>126,592</u>	<u>3,908</u>	<u>5,793</u>	<u>17,506</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In		10,000	10,000	
Transfers Out	(20,000)			
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	59,470	6,092	4,207	7,516
Fund Balance January 1	93,057	1,523	12,388	(7,361)
Fund Balance December 31	<u>152,527</u>	<u>7,615</u>	<u>16,595</u>	<u>155</u>

FEMA 2014	Ditch 38 Petition	BWSR Terrain Analysis Grant	Total (Memo Only)	
			2015	2014
			193,584	162,028
			518	315
			4,487	1,036
				500
	30,000		30,000	10,000
			801	801
1,073			1,073	4,930
			31,694	71,132
<u>1,073</u>	<u>30,000</u>	<u>-</u>	<u>262,157</u>	<u>250,742</u>
			5,860	
			2,525	5,099
			4,328	6,281
			233	278
		56	12,615	11,356
	9,166		18,842	6,953
	135		842	950
			6,193	6,200
	17,213	35,445	84,298	69,151
		372	58,481	76,156
342			6,529	6,325
			1,676	1,552
			14,106	12,379
<u>342</u>	<u>26,514</u>	<u>35,873</u>	<u>216,528</u>	<u>202,680</u>
			20,000	45,662
			(20,000)	(45,662)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
731	3,486	(35,873)	45,629	48,062
(184)	7,089	26,584	133,096	85,034
<u>547</u>	<u>10,575</u>	<u>(9,289)</u>	<u>178,725</u>	<u>133,096</u>

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
-CASH BASIS-
DECEMBER 31, 2015

<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	2,977	17,643	-	-	28,090
Total Assets	<u>2,977</u>	<u>17,643</u>	<u>-</u>	<u>-</u>	<u>28,090</u>
<u>Liabilities And Fund Equity</u>					
<u>Liabilities</u>					
Due to Administrative Fund	-	-	30,846	10,765	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>30,846</u>	<u>10,765</u>	<u>-</u>
<u>Fund Equity</u>					
Fund Balance-Restricted	2,977	17,643	-	-	28,090
Fund Balance-Unassigned	-	-	(30,846)	(10,765)	-
Total Fund Balance	<u>2,977</u>	<u>17,643</u>	<u>(30,846)</u>	<u>(10,765)</u>	<u>28,090</u>
Total Liabilities and Fund Equity	<u>2,977</u>	<u>17,643</u>	<u>-</u>	<u>-</u>	<u>28,090</u>

<u>Ditch #8</u>	<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
				(Memo Only)	
				<u>2015</u>	<u>2014</u>
<u>16,607</u>		<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>81,917</u>
<u>16,607</u>	<u>-</u>	<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>81,917</u>
	<u>289</u>			<u>41,900</u>	<u>9,750</u>
<u>-</u>	<u>289</u>	<u>-</u>	<u>-</u>	<u>41,900</u>	<u>9,750</u>
<u>16,607</u>		<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>81,917</u>
	<u>(289)</u>			<u>(41,900)</u>	<u>(9,750)</u>
<u>16,607</u>	<u>(289)</u>	<u>3,456</u>	<u>4,321</u>	<u>31,194</u>	<u>72,167</u>
<u>16,607</u>	<u>-</u>	<u>3,456</u>	<u>4,321</u>	<u>73,094</u>	<u>81,917</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-CASH BASIS-
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Receipts</u>	<u>Ditch #1</u>	<u>Ditch #2</u>	<u>Ditch #4</u>	<u>Ditch #5</u>	<u>Ditch #7</u>
County Assessments					
Interest	23	118			199
Total Revenues	<u>23</u>	<u>118</u>	<u>-</u>	<u>-</u>	<u>199</u>
<u>Disbursements</u>					
Interest			357	161	
Publishing			14	33	
Projects	720	190	34,328	13,717	210
Supplies			46		
Total Expenditures	<u>720</u>	<u>190</u>	<u>34,745</u>	<u>13,911</u>	<u>210</u>
Excess of Revenues Over (Under)					
Expenditures	(697)	(72)	(34,745)	(13,911)	(11)
Fund Balance January 1	<u>3,674</u>	<u>17,715</u>	<u>3,899</u>	<u>3,146</u>	<u>28,101</u>
Fund Balance December 31	<u><u>2,977</u></u>	<u><u>17,643</u></u>	<u><u>(30,846)</u></u>	<u><u>(10,765)</u></u>	<u><u>28,090</u></u>

<u>Ditch #8</u>	<u>Ditch #16</u>	<u>Ditch #17</u>	<u>Ditch #18</u>	Total	
				(Memo Only)	
				<u>2015</u>	<u>2014</u>
	10,425			10,425	10,652
119		29	36	524	787
<u>119</u>	<u>10,425</u>	<u>29</u>	<u>36</u>	<u>10,949</u>	<u>11,439</u>
	71			589	605
				47	
847	847	145	190	51,194	2,114
	46			92	
<u>847</u>	<u>964</u>	<u>145</u>	<u>190</u>	<u>51,922</u>	<u>2,719</u>
(728)	9,461	(116)	(154)	(40,973)	8,720
<u>17,335</u>	<u>(9,750)</u>	<u>3,572</u>	<u>4,475</u>	<u>72,167</u>	<u>63,447</u>
<u>16,607</u>	<u>(289)</u>	<u>3,456</u>	<u>4,321</u>	<u>31,194</u>	<u>72,167</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 cash basis financial statements of the Yellow Medicine River Watershed District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements – cash basis, and have issued our report thereon dated April 27, 2016.

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 2015-I and 2015-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 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.

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*. 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.


Other Matters

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
Certified Public Accountants
Pipestone, Minnesota

April 27, 2016

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-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.
- Cause: The district indicated that it has a limited number of employees. Due to the limited number of employees, the District cannot adequately segregate accounting duties.
- 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.

2015-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. The District auditors prepared the financial statements as of December 31, 2015.
- Criteria: Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.
- Cause: The District could put together the financial statements on the cash basis of accounting; however, they have requested assistance in ensuring all required disclosures are properly included and changes made by GASB are implemented.
- 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. The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements.