

**YELLOW MEDICINE RIVER  
WATERSHED DISTRICT  
AUDITED FINACIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**YELLOW MEDICINE RIVER WATERSHED DISTRICT  
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FOR THE YEAR ENDED DECEMBER 31, 2016**

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**YELLOW MEDICINE RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

**GOVERNING BOARD AND ADMINISTRATIVE PERSONNEL**  
**December 31, 2016**

**Governing Board**

President	Tim Buysse
Vice President	Jeff Hoffman
Secretary	Corey Hoffman
Treasurer	Tim Dritz
Public Relations	Doug Gregoire

**Administrative Personnel**

Administrator	Emily Javens
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# RICHARD W. HOLMBERG, LTD

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Yellow Medicine River Watershed District  
122 North Jefferson  
Minneota, MN 56264

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of Yellow Medicine River Watershed District, as of and for the fiscal year ended December 31, 2016, which collectively comprise the entity'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express 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 provisions of the Minnesota Legal Compliance Audit Guide for Local Governments, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute 6.65. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund, the general fund, of the Yellow Medicine River Watershed District, as of December 31, 2016, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 2017, on our consideration of the Yellow Medicine River Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the 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.

Richard W. Holmberg, Ltd  
Certified Public Accountant

September 11, 2017

**YELLOW MEDICINE RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

This section of the annual financial report of Yellow Medicine River Watershed District, (the Entity) presents a discussion and analysis of the Entity's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the Entity's basic financial statements following this section.

***Financial Highlights***

- The assets of the Entity exceeded liabilities by \$307,015. Of this amount, \$68,773 is restricted for future use in flood control projects by legal regulations or board designations.
- The Entity's total net position for the current year increased by \$97,096.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$235,043 which adequately covers the total administrative expenditures of \$133,502.
- Total project revenues exceeded total project expenditures by \$76,734.

***Using the Financial Section of this Annual Financial Report***

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Entity as a whole and presents a longer-term view of the Entity's finances. Fund financial statements are presented after the Statement of Activities. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

***Statement of Net Position and Statement of Activities***

Our analysis of Yellow Medicine River Watershed District, begins with the Statement of Net Position and the Statement of Activities, which can be found on pages 7 and 8 of this report. One of the most important questions asked about the Entity's finances is, "Is the Entity as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both report information about the Entity as a whole and about its activities in a way that helps answer this question. These financial statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Entity's net position and changes in it. You can think of the Entity's net position – the difference between assets and liabilities – as one way to measure the Entity's financial health, or *financial position*. Over time, *increases or decreases* in the Entity's net assets are one indicator of whether the Entity's financial health is improving or deteriorating. You will need to consider other non-financial factors however, to assess the *overall health* of Yellow Medicine River Watershed District.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

***Fund Financial Statements***

Our analysis of Yellow Medicine River Watershed's major fund addresses the fund financial statements of the general fund and the special revenue funds. All of the Entity's basic services are reported in the governmental fund. Governmental funds focus on how money flows into and out of this fund and the balances left at the year-end that are available for spending. These funds are reported using the cash basis of accounting, which measures cash as it come in as revenue and as it goes out as expenditures. The governmental fund statements provide a detailed short-term view of the Entity's general government operations. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the Entity's programs.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-25 of this report.

***Statement of Net Position***

Yellow Medicine River Watershed's net position increased from one year ago. Our analysis below focuses on the net assets (Table 1) of the Entity's governmental activities.

Table 1 - Statement of Net Position

	December 31, 2016
Current and other assets	\$ 417,372
Total assets and deferred outflows	417,372
Current and other liabilities	110,357
Net Position	
Unrestricted	238,242
Restricted	68,773
Total net position	307,015
Total liabilities and net position	\$ 417,372

Net position of the Entity's governmental activities increased by \$97,096 or 46.3 %. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints, increased primarily due to a large increase in revenues from the State of Minnesota.

**YELLOW MEDICINE RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

Table 2 - Statement of Activities

	December 31, 2016
<b>Revenues:</b>	
County Assessments	\$ 309,874
Interest	270
Miscellaneous	7,313
Rent	801
State of Minnesota	35,444
	353,702
 <b>Expenses:</b>	
Administration	135,349
Project Expenses	121,257
Total Expenses	256,606
Change in Net Position	97,096
Net Position - Beginning	209,919
Net Position - Ending	\$ 307,015

***Grant Funding:***

The Yellow Medicine River Watershed District (YMRWD) received an "Accelerated Implementation Grant" from the Board of Soil and Water Resources in 2014 to identify sensitive areas in the watershed that would benefit from additional conservation practices. The District hired the Water Resources Center at Minnesota State University, Mankato to complete the work. Total expenditures were \$110,764 and the YMRWD provided a 25% local match.

The Yellow Medicine River Watershed has been selected by the Minnesota Board of Water and Soil Resources (BWSR) as one of the five pilot areas for the One Watershed, One Plan program. In regards to this program, a memorandum of agreement was signed by the Lac qui Parle, Lincoln, Lyon, and Yellow Medicine County Boards of Commissioners and their respective SWCD Boards of Managers, along with the Yellow Medicine River Watershed District and Area II Minnesota River Basin Projects, Inc. in September of 2014.

***Contacting the Entity's Financial Management:***

This financial report is designed to provide the users with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have any questions about this report or need additional information, contact the office at 122 North Jefferson, Minnesota, MN 56264. The telephone number is 507-872-6720.



**Yellow Medicine Watershed District**  
Statement of Net Position  
Cash Basis  
December 31, 2016

	Governmental Funds
<b>ASSETS</b>	2016
Cash and Cash Equivalents	
Unrestricted Cash	\$ 309,155
Due from Other Funds	108,217
<b>Total Assets</b>	<b>\$ 417,372</b>
<b>LIABILITIES</b>	
Accrued Wages and Payroll Taxes	1,002
Credit Card Payable	1,138
Due to Other Funds	108,217
Total Liabilities	<b>\$ 110,357</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	
Restricted for:	
Ditches	68,773
Unrestricted	238,242
Total Net Position	307,015
Total Liabilities and Net Position	<b>\$ 417,372</b>

See Accompanying Notes to Financial Statements

**Yellow Medicine River Watershed District**  
Statement of Activities  
Cash Basis  
December 31, 2016

<u>Functions</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Government Activities					
Administration	\$ 135,349	\$ 801			\$ (134,548)
Projects	121,257		35,444		(85,813)
Ditches					-
Total	<u>256,606</u>	<u>801</u>	<u>35,444</u>	<u>-</u>	<u>(220,361)</u>

General Revenues	
Property Taxes Levied for:	
General Purposes	309,874
Earnings on Investments	270
Miscellaneous	7,313
Total General Revenues	<u>317,457</u>
Change in Net Position	97,096
Net Position - Beginning	209,919
Net Position - Ending	<u>\$ 307,015</u>

See Accompanying Notes to Financial Statements

**Yellow Medicine Watershed District**  
**Combined Balance Sheet**  
Cash Basis  
December 31, 2016

ASSETS	General Fund	Major Special Revenue Funds				Non-Major Special Revenue Funds	Total Memo Only
		Ditch 2	Ditch 4	Ditch 7	Ditch 8		
Cash and Cash Equivalents							
Cash	\$ 309,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 309,155
Due from Other Funds	-	17,643	30,751	28,090	16,607	15,126	108,217
<b>Total Assets</b>	<b>\$ 309,155</b>	<b>\$ 17,643</b>	<b>\$ 30,751</b>	<b>\$ 28,090</b>	<b>\$ 16,607</b>	<b>\$ 15,126</b>	<b>\$ 417,372</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Credit Card Payable	1,138						\$ 1,138
Accrued Wages and Payroll Taxes	1,002						1,002
Due to Other Funds	107,928					289	108,217
<b>Total Liabilities</b>	<b>110,068</b>					<b>289</b>	<b>\$ 110,357</b>
Fund Balances:							
Restricted	-	17,643	-	28,090	16,607	6,433	68,773
Assigned	21,672	-	-	-	-	-	21,672
Unassigned	177,415	-	30,751	-	-	8,404	216,570
<b>Total Fund Balances</b>	<b>199,087</b>	<b>17,643</b>	<b>30,751</b>	<b>28,090</b>	<b>16,607</b>	<b>14,837</b>	<b>307,015</b>
<b>Total Liabilities, Deferred Inflows of Future Resources, and Fund Balances</b>	<b>\$ 309,155</b>	<b>\$ 17,643</b>	<b>\$ 30,751</b>	<b>\$ 28,090</b>	<b>\$ 16,607</b>	<b>\$ 15,126</b>	<b>\$ 417,372</b>

**Yellow Medicine River Watershed District**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balance - All Governmental Fund Types - Cash Basis**  
**December 31, 2016**

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
	Fund	Funds	2016
<b>Revenues:</b>			
County Assessments	\$ 219,654	\$ 90,220	\$ 309,874
Interest	270	-	270
Miscellaneous	7,313	-	7,313
Rent	801	-	801
State of Minnesota	35,444	-	35,444
<b>Total Revenues</b>	<b>263,482</b>	<b>90,220</b>	<b>353,702</b>
<b>Expenditures:</b>			
Dues and Fees	4,125	-	4,125
Education	6,543	-	6,543
Insurance	6,616	-	6,616
Meetings	109	-	109
Mileage	6,394	-	6,394
Office Expense	2,562	-	2,562
Payroll Taxes and Benefits	8,732	-	8,732
Professional Fees	22,036	-	22,036
Publishing	745	-	745
Rent	6,150	-	6,150
Projects	107,881	13,376	121,257
Salaries	67,200	-	67,200
Supplies	1,133	-	1,133
Telephone	2,894	110	3,004
<b>Total Expenditures</b>	<b>243,120</b>	<b>13,486</b>	<b>256,606</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>20,362</b>	<b>76,734</b>	<b>97,096</b>
<b>Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses</b>	<b>20,362</b>	<b>76,734</b>	<b>97,096</b>
<b>Fund Balance - January 1</b>	<b>178,725</b>	<b>31,194</b>	<b>209,919</b>
<b>Fund Balance - December 31</b>	<b>\$ 199,087</b>	<b>\$ 107,928</b>	<b>\$ 307,015</b>

**Yellow Medicine Watershed District**  
 General Fund  
 Balance Sheet - Cash Basis  
 Administrative and Named Projects  
 December 31, 2016

	Administration	River Maintenance	Beaver Control	MPCA Contract	PRAP Grant	FEMA 2014	Ditch 39 Petition	Ditch 38 Petition	One Watershed One Plan	BWSR Terrain Analysis Grant	Elimination of Interrelated Transactions	Total (Memo Only)
<b>ASSETS AND OTHER DEBITS</b>												
Assets:												
Cash	\$ 309,155	\$ 7,507	\$ 13,463	\$ 155	\$ 547	\$ 547					\$ (21,672)	\$ 309,155
Due from Special Revenue Funds	-	\$ 7,507	\$ 13,463	\$ 155	\$ 547	\$ 547					\$ (21,672)	\$ 309,155
<b>TOTAL ASSETS</b>	<u>\$ 309,155</u>	<u>\$ 7,507</u>	<u>\$ 13,463</u>	<u>\$ 155</u>	<u>\$ 547</u>	<u>\$ 547</u>						
<b>LIABILITIES AND FUND EQUITY</b>												
Liabilities:												
Credit Card Payable	1,138											1,138
Payroll Liabilities	1,002											1,002
Due to Special Revenue Fund	59,951				17,827		24,608	11,025	4,168	12,021	(21,672)	107,928
<b>TOTAL LIABILITIES</b>	<u>\$ 62,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,827</u>	<u>\$ -</u>	<u>\$ 24,608</u>	<u>\$ 11,025</u>	<u>\$ 4,168</u>	<u>\$ 12,021</u>	<u>\$ (21,672)</u>	<u>\$ 110,068</u>
<b>EQUITY</b>												
Fund Equity:												
Fund Balance		7,507	13,463	155	547	547						21,672
Assigned	247,064				(17,827)		(24,608)	(11,025)	(4,168)	(12,021)		177,415
Unassigned	247,064	7,507	13,463	155	547	547	(24,608)	(11,025)	(4,168)	(12,021)		199,087
<b>TOTAL FUND BALANCE</b>	<u>\$ 309,155</u>	<u>\$ 7,507</u>	<u>\$ 13,463</u>	<u>\$ 155</u>	<u>\$ 547</u>	<u>\$ 547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (21,672)</u>	<u>\$ 309,155</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>												

**Yellow Medicine River Watershed District**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Cash Basis  
 December 31, 2016

	Administration	River Maintenance	Beaver Control	MPCA Contract	PRAP Grant	FEMA 2014	Ditch 39 Petition	Ditch 38 Petition	One Watershed One Plan	BWSR Terrain Analysis Grant	Total (Memo Only)
<b>Receipts</b>											
County Assessments	\$ 219,654	-	-	-	-	-	-	-	-	-	\$ 219,654
Interest	270	-	-	-	-	-	-	-	-	-	270
Miscellaneous	7,313	-	-	-	-	-	-	-	-	-	7,313
Rent	801	-	-	-	-	-	-	-	-	-	801
State of Minnesota										35,444	35,444
Total Revenues	228,038	-	-	-	-	-	-	-	-	35,444	263,482
<b>Disbursements</b>											
Dues and Fees	4,125	-	-	-	-	-	-	-	-	-	4,125
Education	6,490	-	-	-	-	-	-	-	12	41	6,543
Insurance	6,616	-	-	-	-	-	-	-	43	27	6,616
Meetings	39	-	-	-	-	-	-	-	703	-	109
Mileage	5,569	-	122	-	-	-	-	-	-	-	6,394
Office Expense	2,562	-	-	-	-	-	-	-	386	-	2,562
Payroll Taxes and Benefits	7,913	14	36	-	33	-	8,112	7,557	-	350	8,732
Professional Fees	6,367	-	-	-	-	-	-	477	-	-	22,036
Publishing	268	-	-	-	-	-	-	-	-	-	745
Rent	6,150	-	-	-	-	-	-	-	-	-	6,150
Projects	21,585	-	2,740	-	17,575	-	16,496	13,566	475	35,444	107,881
Salaries	61,791	94	235	-	219	-	-	-	2,548	2,313	67,200
Supplies	1,133	-	-	-	-	-	-	-	-	-	1,133
Telephone	2,894	-	-	-	-	-	-	-	-	-	2,894
Total Expenditures	133,502	108	3,133	-	17,827	-	24,608	21,600	4,167	38,175	243,120
<b>Other Financing Resources</b>											
Transfers In	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-	-	-	-
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</b>	94,536	(108)	(3,133)	-	(17,827)	-	(24,608)	(21,600)	(4,167)	(2,731)	20,362
Fund Balance January 1	152,527	7,615	16,595	155	-	547	-	10,575	-	(9,289)	178,725
Fund Balance December 31	\$ 247,063	\$ 7,507	\$ 13,462	\$ 155	\$ (17,827)	\$ 547	\$ (24,608)	\$ (11,025)	\$ (4,167)	\$ (12,020)	\$ 199,087

**Yellow Medicine Watershed District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget to Actual**  
**Cash Basis**  
**December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Budget
<b>Receipts</b>				
County Assessments	\$ 226,500	\$ 226,500	\$ 309,874	\$ 83,374
Interest	2,000	2,000	270	(1,730)
Miscellaneous	-	-	7,313	7,313
Rent	-	-	801	801
State of Minnesota	17,600	17,600	35,444	17,844
Total Revenues	<u>246,100</u>	<u>246,100</u>	<u>353,702</u>	<u>107,602</u>
<b>Disbursements</b>				
Dues and Fees	2,000	2,000	4,125	(2,125)
Education	8,500	8,500	6,543	1,957
Insurance	6,000	6,000	6,616	(616)
Meetings	-	-	109	(109)
Mileage	8,000	8,000	6,394	1,606
Office Expense	3,000	3,000	2,562	438
Payroll Taxes and Benefits	10,000	10,000	8,732	1,268
Professional Fees	21,000	21,000	22,036	(1,036)
Publishing	-	-	745	(745)
Rent	6,000	6,000	6,150	(150)
Projects	92,600	92,600	121,257	(28,657)
Salaries	80,000	80,000	67,200	12,800
Supplies	6,000	6,000	1,133	4,867
Telephone	3,000	3,000	3,004	(4)
Total Expenditures	<u>246,100</u>	<u>246,100</u>	<u>256,606</u>	<u>(10,506)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	\$ -	\$ -	\$ 97,096	\$ 97,096
Fund Balance January 1	-	-	209,919	209,919
Fund Balance December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,015</u>	<u>\$ 307,015</u>

Yellow Medicine Watershed District  
 Special Revenue Funds  
 Combining Balance Sheet  
 Cash Basis  
 December 31, 2016

	Ditch #1	Ditch #2	Ditch #4	Ditch #5	Ditch #7	Ditch #8	Ditch #16	Ditch #17	Ditch #18	Total (Memo Only)
<b>ASSETS AND OTHER DEBITS</b>										
Assets:										
Due from Administrative Fund	\$ 2,977	\$ 17,643	\$ 30,751	\$ 4,418	\$ 28,090	\$ 16,607	\$ -	\$ 3,456	\$ 4,275	\$ 108,217
<b>TOTAL ASSETS</b>	<u>\$ 2,977</u>	<u>\$ 17,643</u>	<u>\$ 30,751</u>	<u>\$ 4,418</u>	<u>\$ 28,090</u>	<u>\$ 16,607</u>	<u>\$ -</u>	<u>\$ 3,456</u>	<u>\$ 4,275</u>	<u>\$ 108,217</u>
<b>LIABILITIES AND FUND EQUITY</b>										
Liabilities:										
Due to Administrative Fund							289			289
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289</u>
<b>EQUITY</b>										
Fund Equity:										
Fund Balance	2,977	17,643	30,751	4,418	28,090	16,607	(289)	3,456	4,275	68,773
Restricted										39,155
Unassigned										107,928
<b>TOTAL EQUITY</b>	<u>2,977</u>	<u>17,643</u>	<u>30,751</u>	<u>4,418</u>	<u>28,090</u>	<u>16,607</u>	<u>(289)</u>	<u>3,456</u>	<u>4,275</u>	<u>107,928</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 2,977</u>	<u>\$ 17,643</u>	<u>\$ 30,751</u>	<u>\$ 4,418</u>	<u>\$ 28,090</u>	<u>\$ 16,607</u>	<u>\$ -</u>	<u>\$ 3,456</u>	<u>\$ 4,275</u>	<u>\$ 108,217</u>



**Yellow Medicine River Watershed District**  
Special Revenue Funds  
Combing Statement of Revenues, Expenditures and Changes in Fund Balance  
Cash Basis  
December 31, 2016

	Ditch #1	Ditch #2	Ditch #4	Ditch #5	Ditch #7	Ditch #8	Ditch #16	Ditch #17	Ditch #18	Total (Memo Only)
<b>Receipts</b>										
County Assessments										
Total Revenues	-	-	\$ 65,034	\$ 25,186	-	-	-	-	-	\$ 90,220
			65,034	25,186	-	-	-	-	-	90,220
<b>Disbursements</b>										
Projects			3,373	10,003						13,376
Supplies			64						46	110
Total Expenditures	-	-	3,437	10,003	-	-	-	-	46	13,486
			3,437	10,003	-	-	-	-	46	13,486
Excess of Revenues Over (Under) Expenditures	-	-	61,597	15,183	-	-	-	-	(46)	76,734
Fund Balance January 1	2,977	17,643	(30,846)	(10,765)	28,090	16,607	(289)	3,456	4,321	31,194
Fund Balance December 31	\$ 2,977	\$ 17,643	\$ 30,751	\$ 4,418	\$ 28,090	\$ 15,807	\$ (289)	\$ 3,456	\$ 4,275	\$ 107,928

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

**B. Basis of Presentation**

**1. Government-Wide Statements**

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results differ from those estimates.

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

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

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued)**

Proprietary funds are used to report business-type activities carried on by a governmental unit. Not activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

**2. Fund Financial Statements**

Governmental fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses.

Funds are organized into one major category: governmental. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

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

*Governmental Funds*

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

**Special Revenue Funds** - To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted or committed to expenditures for specified purposes. These funds include the Ditch #1, #2, #4, #5, #7, #8, #16, #17, and #18 funds.

**C. Budgets and Budgetary Accounting**

Prior to September 1<sup>st</sup>, 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.

**D. Measurement Focus and Basis of Accounting**

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus as applied to the cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenditures when they result from cash transactions. As a result of the use of the cash

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Measurement Focus and Basis of Accounting (Continued)**

basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payables, unpaid goods and services received in the current year, and accrued expenses) are not recorded in these financial statements.

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

**E. Assets, Liabilities, and Cash Fund Balance**

**1. Cash and 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 because of changes in interest rates.

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

**2. Cash Fund Balance**

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

a. Governmental Cash Fund Balances: In the governmental fund financial statements, cash fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. There is no nonspendable cash fund balance at December 31, 2016.
- **Restricted** – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

2. **Cash Fund Balance (Continued)**

The District has the following restricted fund balances as of December 31, 2016:

<b>Special Revenue Funds</b>	
Ditch #2	\$17,643
Ditch #7	28,090
Ditch #8	16,607
Non-Major	6,433
Total All Funds	\$68,773

- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Managers ordinance or resolution. There is no committed cash fund balance at December 31, 2016.
- **Assigned** – Amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed.

The District has the following assigned fund balances as of December 31, 2016:

<b>General Fund</b>	
Named Projects	\$21,672

- **Unassigned** – All amounts not included in other spendable classifications.

The District has the following unassigned balances as of December 31, 2016:

<b>General Fund</b>	
Administration	\$177,415
<b>Special Revenue Fund</b>	
Ditch #4	30,751
Non-Major	8,404
Total All Funds	\$216,570

- a. **Governmental Cash Fund Balances**: The District has not formally adopted a fund balance policy for the General Fund.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**3. Capital Assets**

In the Fund Financial Statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental funds upon acquisition. The District owns office furniture that is housed in their primary workspace in Minneota. Due to the immateriality, these assets are not reported as Capital Assets.

F. Receipts and Disbursements

**1. Receipts**

Property Tax Revenue

The District levies its property taxes within the District for the subsequent year during the month of December. Lyon, Yellow Medicine, and Lincoln counties are the collecting agencies for the levy and remit these collections to the District. The District receives its taxes in two installments in July and December.

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

**2. Disbursements**

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

G. Budgetary Information

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

2. **DETAILED NOTES ON ACCOUNTS**

A. Deposits and Investments

Deposits:

Minnesota Statute 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be covered 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 institutions banking day, not covered by insurance or bonds.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. DETAILED NOTES ON ACCOUNTS (Continued)**

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 standard 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 at a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

As of December 31, 2016, the carrying amount of the District's demand deposits with financial institutions was \$309,155, and the bank balance was \$309,785. All of the bank balance was covered by federal depository insurance at year-end.

A reconciliation of cash as shown on the Combined Balance Sheet for the District as of December 31, 2016 follows:

Checking	\$	14,498
Savings		295,287
Carrying Amount of Deposits	\$	309,785

**Investments:**

The District may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligation rated "AA" or better; general obligations of the Minnesota Housing Agency rated "A" or better; bankers' acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment contracts guaranteed by a United States commercial bank, domestic branch, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District does not have any investment policies that would further limit investment choices.

The District does not carry any investments on its financial statements as of December 31, 2016.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**A. Plan Description**

Yellow Medicine River Watershed District participates in the following defined benefit pension plans 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.

General Employees Retirement Plan (GERF)

All Full-time and certain part-time employees of the Yellow Medicine River Watershed 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.

**B. 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% 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.

GERF Benefits

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 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 of the remaining years. The annual accrual rate for a Coordinated Plan member is 1.2% 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 the 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 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.

**C. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.



**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, Yellow Medicine River Watershed District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for the Coordinated Plan. Yellow Medicine River Watershed District's contributions to the GERF for the year ended June 30, 2016, were \$2,920. Yellow Medicine River Watershed District's contributions were equal to the required contributions for each year as set by state statute.

**D. Pension Costs**

GERF Pension Costs

At June 30, 2016, the entity reported a liability of \$48,717, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The entity's proportion of the net pension liability was based on the corporation'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, 2016, the entity's proportion was .0006%.

For the year ended June 30, 2016, the entity recognized pension expense of \$(2,317) for its proportionate share of GERF's pension expense.

At June 30, 2016, the corporation reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$7,039	
Changes in actuarial assumptions	\$9,539	
Differences between expected and actual economic experience		\$2,912
Change in proportionate share of net pension liability.		\$27,208
<b>Total</b>	<b>\$16,578</b>	<b>\$30,120</b>

\$2,680 reported as deferred outflows of resources related to pensions resulting from Yellow Medicine River Watershed District's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016, 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	7.50%

Salary increases were based on a service related table. Mortality rates for active members, retirees, survivors and debilitants were based on RP-2000 tables for males or females, appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the GERF 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.

The long-term expected rate of return on pension plan investments is 7.5%. 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%

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. 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.

**Yellow Medicine River Watershed  
District  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**G. Pension Liability Sensitivity**

The following presents the entity'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 entity'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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Entity's Proportionate Share of the GERF Net Pension Liability	\$69,193	\$48,717	\$31,851

**H. Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://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.

**1. Other Information**

**A. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The District's management is not aware of any incurred but not reported claims.

**B. Statement of Orders Issued**

The District publishes the minutes showing to whom and for what orders are drawn. For this reason this schedule is not included in the financial statements.

# RICHARD W. HOLMBERG, LTD

## Certified Public Accountant

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### **INDEPENDENT AUDITOR'S 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***

Members of the Council  
Yellow Medicine River Watershed Conservation District  
Minneota, Minnesota

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Yellow Medicine River Watershed Conservation District, Minnesota as of and for the year ended December 31, 2016, and the related remaining fund information of Yellow Medicine River Watershed Conservation District, Minnesota's basic financial statements and have issued our report thereon dated September 11, 2017.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered Yellow Medicine River Watershed Conservation District, Minnesota's internal control over financial reporting (internal control) 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 Yellow Medicine River Watershed Conservation District, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Yellow Medicine River Watershed Conservation District, Minnesota's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the 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 responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 responses to be material weaknesses as items 2016-1 and 2016-2.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yellow Medicine River Watershed Conservation District, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under *Government Auditing Standards*.

The Yellow Medicine River Watershed Conservation District, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Yellow Medicine River Watershed Conservation District, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Richard W. Holmberg, Ltd  
Certified Public Accountant

September 11, 2017

**Yellow Medicine River Watershed District**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Prior Audit:**

2015-1: Segregation of Duties is repeated as item 2016-1.

2015-2: Lack of Expertise is repeated as item 2016-2.

**CURRENT AUDIT YEAR FINDINGS AND RESPONSES**

**Internal Controls:**

**2016-1 Lack of segregation of duties**

Deficiency: The District has limited personnel available to perform accounting duties

Criteria: A good internal control contemplates an adequate segregation of duties so that no one individual handles transactions from inception to completion.

Cause: The District indicated that it has a limited number of employees. Therefore, the District cannot adequately segregate accounting duties.

Effect: As a result of the lack of segregation of duties, personnel are performing duties for which, internal control purposes, should be performed by separate individuals.

Recommendation: While we recognize that the District is not large enough to permit adequate segregation of duties in all respects, it is important that you be aware of this deficiency and design internal controls to provide for proper segregation of duties where possible. This comment should not reflect negatively on the staff and is based solely on staff size.

Response: This is not unusual in a organization of this size. The District has studied the situation and found that it is not economically feasible to design the system of internal controls to adequately provide for the segregation of duties.

Corrective Plan of Action: The Council will monitor personnel duties.

**2016-2 Lack of expertise by City personnel to prepare accrual basis financial statements**

Condition: The District personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles. The District auditor prepared the financial statements as of December 31, 2016.

Criteria: Internal controls should be in place that provide reasonable assurance that the financial statements are prepared in accordance with generally accepted accounting principles.

Cause: The District could put together the financial statements on the accrual basis of accounting, however, they have requested assistance in ensuring all required disclosures are properly included and changes made by GASB are implemented.

Effect: The District's 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 an organization of this size. It is not economically feasible for the District to provide the necessary training for personnel to acquire and maintain this expertise.

Corrective Plan of Action: 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.

# RICHARD W. HOLMBERG, LTD

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Board of Directors  
Yellow Medicine River Watershed District  
122 North Jefferson  
Minnesota, MN 56264

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 Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Yellow Medicine River Watershed District, as of and for the year ended December 31, 2016 and the related notes to the financial statements, and have issued our report thereon dated September 11, 2017.

The *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, contains seven 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 study included all of the listed categories except tax increment financing and public indebtedness that does not apply to this Entity.

In connection with our audit, nothing came to our attention to indicate that the Yellow Medicine River Watershed District, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*. 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 Yellow Medicine River Watershed District, noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, is not suitable for any other purpose.

Richard W. Holmberg, Ltd  
Certified Public Accountant

September 11, 2016