

CEDAR RIVER WATERSHED DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

**CEDAR RIVER WATERSHED DISTRICT
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DECEMBER 31, 2010**

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CEDAR RIVER WATERSHED DISTRICT

BOARD OF MANAGERS

Mr. Harlen Peck	Chair	Austin, MN
Mr. Al Layman	Vice Chair	Austin, MN
Mr. Jim Gebhardt	Secretary	Waltham, MN
Mr. Mike Jones	Treasurer	Blooming Prairie, MN
Mr. Dan Regner	Manager	Austin, MN
Mr. Steve Kraushaar	Manager	Glenville, MN
Mr. Richard Fuller	Manager	Hayfield, MN

INDEPENDENT AUDITORS' REPORT

Board of Managers
Cedar River Watershed District
Austin, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cedar River Watershed District for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cedar River Watershed District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Cedar River Watershed District, as of December 31, 2010, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Cedar River Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.


LarsonAllen LLP

Austin, Minnesota
May 25, 2011

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FINANCIAL STATEMENTS

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**CEDAR RIVER WATERSHED DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>2010</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 315,770
Taxes Receivable	
Current	3,949
Delinquent	6,990
Due from Other Governments	<u>510</u>
Total Assets	<u>327,219</u>
 NET ASSETS	
Unrestricted	<u>327,219</u>
 Total Net Assets	<u><u>\$ 327,219</u></u>

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

2010					Net (Expense) Revenue and Changes in Net Assets
Functions	Expenses	Program Revenues		Capital Grants and Contributions	Total Governmental Activities
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General Government	\$ 159,222	\$ -	\$ 27,638	\$ -	\$ (131,584)
Total	\$ 159,222	\$ -	\$ 27,638	\$ -	(131,584)
General Revenues:					
Property Taxes Levied for:					
General Purposes					225,379
State Aid Not Restricted to Specific Purposes					26,468
Other					525
Total General Revenues					252,372
Change in Net Assets					120,788
Net Assets - Beginning					206,431
Net Assets - Ending					\$ 327,219

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATERSHED DISTRICT
BALANCE SHEET
DECEMBER 31, 2010**

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 315,770
Taxes Receivable	
Current	3,949
Delinquent	6,990
Due from Other Governments	510
Total Assets	327,219
LIABILITIES	
Deferred Revenue	6,990
Total Liabilities	6,990
FUND BALANCE	
Unreserved	
Designated	71,000
Undesignated	249,229
Total Fund Balance	320,229

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Some of the district's property taxes will be collected subsequent to year-end but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred in the governmental funds.

	6,990
Net Assets of Governmental Activities	\$ 327,219

**CEDAR RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2010**

	General Fund
REVENUES	
Taxes	\$ 225,673
State Revenue	
MPCA	7,638
Property Tax Credits	26,468
Contributions	20,000
Refunds	525
Total Revenues	280,304
EXPENDITURES	
SWCD- Admin Services	60,000
Water Monitoring	14,338
Maps & Data	5,157
TMDL Staffing	9,800
Manager Compensation	9,398
Legal Fees	19,318
Feasibility Study	9,974
Engineering - General	7,900
Manager Expenses	2,288
Professional Fees	2,155
MAWD Sponsored Mtgs/Training	1,342
Audit Expense	2,706
Dues	2,060
Insurance & Bond	1,649
Misc Expenses- Admin	4,966
Newsletter	4,250
Office Supplies	286
Building Rent	600
Postage	1,000
Training & Education	35
Total Expenditures	159,222
Net Change in Fund Balance	121,082
Fund Balances - Beginning	199,147
Fund Balance - Ending	\$ 320,229
Net Change in Fund Balance	\$ 121,082
Amounts reported for governmental activities in the Statement of Activities are different because:	
Delinquent property tax receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds.	
Deferred Revenue - December 31, 2009	(7,284)
Deferred Revenue - December 31, 2010	6,990
Changes in Net Assets of Governmental Activities	\$ 120,788

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (BUDGET TO ACTUAL)
YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 250,000	\$ 250,000	\$ 225,673	\$ (24,327)
State Revenues	-	-	34,106	34,106
Contributions	-	-	20,000	20,000
Refunds	-	-	525	525
Total Revenues	<u>250,000</u>	<u>250,000</u>	<u>280,304</u>	<u>30,304</u>
EXPENDITURES				
SWCD- Admin Services	60,000	60,000	60,000	-
Water Monitoring	10,626	10,626	14,338	3,712
Watershed Projects	72,874	72,874	-	(72,874)
Maps & Data	13,500	13,500	5,157	(8,343)
TMDL Staffing	12,000	12,000	9,800	(2,200)
Manager Compensation	15,000	15,000	9,398	(5,602)
Legal Fees	6,900	6,900	19,318	12,418
Feasibility Study	7,500	7,500	9,974	2,474
Engineering - General	15,000	15,000	7,900	(7,100)
Manager Expenses	6,000	6,000	2,288	(3,712)
Professional Fees	2,000	2,000	2,155	155
MAWD Sponsored Mtgs/Training	5,000	5,000	1,342	(3,658)
Audit Expense	3,000	3,000	2,706	(294)
Dues	2,500	2,500	2,060	(440)
Insurance & Bond	2,000	2,000	1,649	(351)
Equipment	1,000	1,000	-	(1,000)
Misc Expenses- Admin	1,000	1,000	4,966	3,966
Newsletter	500	500	4,250	3,750
Office Supplies	1,000	1,000	286	(714)
Building Rent	600	600	600	-
Postage	1,000	1,000	1,000	-
Training & Education	2,000	2,000	35	(1,965)
Public Information and Education	5,000	5,000	-	(5,000)
Advisory Committee Expenses	2,000	2,000	-	(2,000)
Staff Expenses	2,000	2,000	-	(2,000)
Total Expenditures	<u>250,000</u>	<u>250,000</u>	<u>159,222</u>	<u>(90,778)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>121,082</u>	<u>\$ 121,082</u>
Fund Balances - Beginning			199,147	
Fund Balance - Ending			<u>\$ 320,229</u>	

See accompanying Notes to Financial Statements.

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**CEDAR RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Cedar River Watershed District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Cedar River Watershed District was formed on May 3, 2007 and operates pursuant to applicable Minnesota laws and regulations.

The governing body consists of a seven member Board. Four members are appointed by the Mower County Board of Commissioners, one member by the Steele County Board of Commissioners, one member by the Dodge County Board of Commissioners, and one member by the Freeborn County Board of Commissioners.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all fund and account groups of the District. There are no other entities for which the District is financially accountable.

Basic Financial Statement Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize the primary activity as governmental. Governmental activities are supported by taxes and intergovernmental revenues.

Government-wide financial statements report information about the reporting government as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net of Assets and the Statement of Activities.

**CEDAR RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statement Presentation (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Currently, the District has only one governmental fund.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Investment earnings are recorded when earned because they are measurable and available. A six-month is availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

**CEDAR RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

The District reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The District reports the following major governmental fund:

General Fund – This is the District’s primary operating fund. It accounts for all financial resources of the District.

Property Taxes

Current taxes receivable at December 31, 2010 represent taxes currently remitted by each respective County Auditor. Delinquent taxes receivable consist of tax levies collectible in 2010 and prior years and are offset by deferred revenues in the governmental fund financial statements.

Property taxes are formally levied in December each year and are certified to each respective County for collection in the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Deferred Revenues

Deferred revenues are those revenues where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenues have been reported in the General fund for delinquent taxes.

Designated Fund Balance

Designation of fund balance reflects a tentative plan for future use of funds. The following is a summary of the designated fund balances:

Designated – A designation of \$71,000 of the General Fund has been made by the District. Designation of a fund balance reflects tentative plans for future use of the funds. The funds have been designated for future watershed projects.

Net Assets

Net assets represent the difference between assets and liabilities in the Entity-wide financial statements.

**CEDAR RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2 BUDGETARY INFORMATION

An annual budget is adopted for the General fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Managers. All annual appropriations lapse at fiscal year end.

NOTE 3 DEPOSITS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The District's deposits in the financial institution at December 31, 2010 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

NOTE 4 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; and natural disasters. The District has purchased commercial insurance to handle any loss arising from various risks. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage during the year.

NOTE 5 RELATED PARTY TRANSACTIONS

Management Services

The District has a contractual arrangement with Mower Soil Water Conservation District (SWCD), under which SWCD provides an administrator, financial services and TMDL workload to the District. This arrangement does not alter the authority or responsibility of the Board of Managers of the District. Amounts paid to SWCD for the services described above for the year ended December 31, 2010, were \$80,687.

COMPLIANCE LETTER

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Cedar River Watershed District
Austin, Minnesota

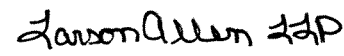
We have audited the financial statements of the Cedar River Watershed District for the year ended December 31, 2010, and have issued our report thereon dated May 25, 2011.

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 Government, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and county and city miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Cedar River Watershed District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Managers of the Cedar River Watershed District, the Office of the State Auditor, and is not intended to be and should not be used by anyone other than the specified parties.


LarsonAllen LLP

Austin, Minnesota
May 25, 2011

LarsonAllen® LLP

CPAs, Consultants & Advisors
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Board of Managers
Cedar River Watershed District
Austin, Minnesota

We have audited the financial statements of the governmental activities and each major fund of the Cedar River Watershed District (the District) for the year ended December 31, 2010, and have issued our report thereon dated May 25, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 28, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.
3. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Other Information in Documents Containing Audited Financial Statements

Our audit opinion, the audited financial statements, and the notes to the financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the District's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 24, 2011.



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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year audited.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No sensitive estimates affecting the financial statements were noted.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with Management

For purposes of this letter, professional standard define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 25, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Managers of the District and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP
LarsonAllen LLP

Austin, Minnesota
May 25, 2011