

OKABENA-CHEDA WATERSHED DISTRICT

WORTHINGTON, MINNESOTA

REPORT ON AUDIT OF

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

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OKABENA-OCHEDEA WATERSHED DISTRICT

WORTHINGTON, MINNESOTA

ORGANIZATION

	<u>Position</u>
Les Johnson	President
Rolf Mahlberg	Vice President
Jeff Rogers	Secretary
Casey Ingenthron	Treasurer
James McGowan	Manager
Dan Livdahl	Administrator

Advisory Committee:

Doug Anton	Herman Hinders
Don Basche	Tom Krohn
David Benson	Paul Langseth
Bob Demuth, Jr.	Scott Rall
Dick Duba	Robert Rohrer
Galen Gordon	Eric Roos
Dwayne Haffield	Keith Schroeder

DENNIS L. RICK, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants
Minnesota Society of Certified Public Accountants

DENNIS L. RICK, CPA
TISHA S. PAPLOW, CPA
ANDREA M. JOHNSON, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Managers
Okabena-Ocheda
Watershed District
Worthington, Minnesota

We have audited the accompanying financial statements of the governmental activities, of the general fund, of the Okabena-Ocheda Watershed District, Worthington, Minnesota, as of and for the year ended December 31, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Okabena-Ocheda Watershed District's management. 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. 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, of the general fund, of the Okabena-Ocheda Watershed District as of December 31, 2011 and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 5, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dennis L. Rick, LTD.

Worthington, Minnesota
May 1, 2012



OKABENA-OCHEDA WATERSHED DISTRICT
MANGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

This section of the annual financial report of the Okabena-Ocheda Watershed District presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. This information is designed to focus on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the District's basic financial statements following this section.

USING THIS ANNUAL REPORT

This annual report consists of the: Management's Discussion and Analysis, Independent Auditor's Report, the Basic Financial Statements, Notes to the Financial Statements and Report on Compliance and Internal Control. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities on pages 6 and 7 provide information about the activities of the Okabena-Ocheda Watershed District as a whole and presents a longer-term view of the Okabena-Ocheda Watershed District's finances. Fund financial statements start on page 6. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Okabena-Ocheda Watershed District's operations in more detail than the government-wide statements by providing information about the Okabena-Ocheda Watershed District's most significant funds. Since Okabena-Ocheda Watershed District's are single-purpose special purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentations. Okabena-Ocheda Watershed District has elected to present in this format.

Statement of Net Assets and Statement of Activities

Our analysis of the Okabena-Ocheda Watershed District begins with the Statement of Net Assets and the Statement of Activities of which can be found on pages 6 and 7 of this report. One of the most important questions asked about the District's finances is, "is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These 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 District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider non-financial factors to assess the overall health of the District.

OKABENA-OCHEDEA WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

In the Statement of Net Assets and the Statement of Activities, the District presents governmental activities. All of the District's basic services are reported here. Appropriations from the county and state also finance activities.

REPORTING THE OKABENA-OCHEDEA

WATERSHED DISTRICT'S GENERAL FUND

FUND FINANCIAL STATEMENTS

Our analysis of the Okabena-Ochedea Watershed District's (WSD) general fund begins on page 6. The financial statements continue on page 7 and provide detailed information about the district as a whole. The WSD presents only a general fund, which is a governmental fund. All of the WSD's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the WSD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the WSD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

Notes to the Financial Statement

The Notes to the Financial Statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of Significant Accounting Policies; 2) Deposits and Investments; and 3) Risk Management. The Notes to the Financial Statements are on pages 8 - 13.

Statement of Net Assets

The total assets of the District's governmental activities decreased by \$11,495 from one year ago, (from 2010 to 2011), due to the District having expenditures in excess of revenues in 2011. Under the fund balance, the Assigned funds are designated for certain programs specified by the State and/or District. Unassigned are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - which was \$88,160 in 2010 and \$76,665 in 2011, an decrease of \$11,495 or approximately 13%.

Statement of Net Assets:	<u>Governmental Activities</u>	
	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
Current and Other Assets	\$ 106,122	\$ 117,617
Total Assets	<u>\$ 106,122</u>	<u>\$ 117,617</u>
Fund Balance:		
Assigned	\$ 29,457	\$ 29,457
Unassigned	76,665	88,160
Total Fund Balance	<u>\$ 106,122</u>	<u>\$ 117,617</u>

OKABENA-OCHEDA WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENTAL ACTIVITIES

The District's total revenues increased by \$82,256, or 51% over revenues from one year ago (from 2010 to 2011). The total cost of all programs and services increased by \$115,036, or 82% (from 2010 to 2011).

Changes in Net Assets:

	<u>Governmental Activities</u>	
	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
Revenues		
County	\$ 116,057	\$ 116,771
State	13,679	12,960
Other Governmental	9,551	9,324
Grant Revenue	18,430	2,422
Charge for Services	-	275
Interest	521	974
Property Rent	3,575	6,736
Sale of Property	73,650	-
Misc. Revenue	7,876	11,621
Total Revenues	<u>\$ 243,339</u>	<u>\$ 161,083</u>
Expenditures		
General Government	\$ 91,346	\$ 88,757
Projects	39,473	34,877
Grant	18,794	2,422
Contributions	105,221	13,742
Total Expenditures	<u>\$ 254,834</u>	<u>\$ 139,798</u>
Change in Net Assets	<u>\$ (11,495)</u>	<u>\$ 21,285</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report was designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Les Johnson at the Okabena-Ocheda Watershed District, PO Box 114, Worthington, Minnesota 56187-2822 or call (507)372-8228.

OKABENA - OCHEDA WATERSHED DISTRICT
WORTHINGTON, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General</u> <u>Fund</u>	<u>Adjustment</u> <u>Note E</u>	<u>Government-wide</u> <u>Statement of</u> <u>Net Assets</u>
<u>ASSETS</u>			
Cash	\$ 35,259	\$ -	\$ 35,259
Investments	<u>70,863</u>	<u>-</u>	<u>70,863</u>
Total Assets	106,122	-	106,122
 <u>FUND BALANCE</u>			
Fund Balance			
Assigned	29,457	(29,457)	-
Unassigned	<u>76,665</u>	<u>(76,665)</u>	<u>-</u>
Total Fund Balance	\$ <u>106,122</u>	\$ <u>(106,122)</u>	\$ <u>-</u>
 <u>NET ASSETS</u>			
Unrestricted		\$ <u>106,122</u>	\$ <u>106,122</u>
Total Net Assets		\$ <u>106,122</u>	\$ <u>106,122</u>

The notes to the financial statements are an integral part of this statement.

OKABENA - OCHEDA WATERSHED DISTRICT
WORTHINGTON, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>	<u>Adjustment Note E</u>	<u>Government-wide Statement of Net Assets</u>
<u>REVENUES</u>			
Intergovernmental	\$ 139,287	\$ -	\$ 139,287
Grant Revenue	18,430	-	18,430
Charges for Services	550	-	550
Investment Earnings	534	-	534
Property Rent	3,575	-	3,575
Sale of Property	73,650	-	73,650
Miscellaneous	7,313	-	7,313
Total Revenues	<u>243,339</u>	<u>-</u>	<u>243,339</u>
<u>EXPENDITURES</u>			
Conservations			
Current	<u>254,834</u>	<u>-</u>	<u>254,834</u>
Total Expenditures	<u>254,834</u>	<u>-</u>	<u>254,834</u>
Excess of Revenues Over Expenditures	(11,495)	-	(11,495)
Fund Balance/Net Assets January 1, 2011	<u>117,617</u>	<u>-</u>	<u>117,617</u>
Fund Balance/Net Assets December 31, 2011	<u>\$ 106,122</u>	<u>\$ -</u>	<u>\$ 106,122</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

I. Summary of Significant Accounting Policies

The financial reporting policies of the Okabena-Ocheda Watershed District conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. Financial Reporting Entity

The District is organized under the provisions of MN Stat. Chapter 103C and is governed by a Board of Managers composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The Okabena-Ocheda Watershed District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

Each fiscal year, the District develops a work plan which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objective.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles, the District does not have any component units.

B. Basis Of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Okabena-Ocheda Watershed District as a whole. They include all funds of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011

I. Summary of Significant Accounting Policies (continued)

B. Basis Of Presentation (continued)

Fund Financial Statements:

Fund financial statements of the Okabena-Ocheda Watershed District are organized into a single general fund.

General Fund

The General Fund is the primary operating fund of the Okabena-Ocheda Watershed District. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenue is recognized when all eligibility requirements have been met. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Project expenditures represent costs that are funded from federal, state or district revenues. State project expenditures consist of grants to participants of the Cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011

D. Assets, Liabilities And Equity Accounts

Assets

Cash and Investments

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the Okabena-Ocheda Watershed District.

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Equity

Government-wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The WSD reports no restriction on net assets as of December 31, 2011.
- b. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

The District adopted the provisions of Governmental Accounting Standards Board Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions for the year ended December 31, 2011. This standard changed fund balance classifications within the fund level statements.

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- a. Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.
- b. Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.
- c. Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Board of Trustees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011

D. Assets, Liabilities And Equity Accounts (Continued)

Fund Financial Statements (Continued)

- d. Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the Association's intended use. These constraints are established by the Board of Trustees.
- e. Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

E. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliations between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation is the reporting of fund balances. Fund balances are reported as net assets in accordance with Government Accounting Standards Board Rule 34.

II. Deposits and Investments

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2011, the District's deposits totaled \$106,122, of which \$35,259 was cash deposits \$70,863 was invested in a money market account and none was invested in certificates of deposit. Minnesota statutes require that all District deposits be covered by insurance, surety bond or collateral. At December 31, 2011, all the District's deposits were covered by insurance.

III. Defined Benefit Pension Plans

a. Plan Description:

All full-time and certain part-time employees of the Okabena-Ocheda Watershed District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, Called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011

III. Defined Benefit Pension Plans (Continued)

a. Plan Description (Continued):

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, or 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 THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011

III. Defined Benefit Pension Plans (Continued)

b. Funding Policy:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2011. In 2011 the Okabena-Ocheda Watershed District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$3,505, \$3,286, and \$3,162, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

IV. 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; employee health; and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and worker's compensation are insured through Minnesota Counties Insurance Trust. The District is covered for errors and omissions through Minnesota Counties Insurance Trust. The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

To The Board of Managers
Okabena-Ocheda Watershed District
Worthington, Minnesota

We have audited the financial statements of the governmental activities of the general fund, of the Okabena-Ocheda Watershed District, Worthington, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 1, 2012.

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 Political Subdivisions 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 Political Subdivisions contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

This report is intended solely for the information and use of management, Board of Managers, and state and county agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Dennis L. Rick, LTD

Worthington, Minnesota
May 1, 2012

