

PIONEER-SARAH CREEK WATERSHED
MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
December 31, 2012

Pioneer-Sarah Creek Watershed Management Commission

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Pioneer-Sarah Creek Watershed Management Commission (the Commission), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Commission's 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 standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 reasonable basis for our audit opinion.

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 major fund of the Commission as of December 31, 2012, and the respective changes in the financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The prior year partial comparative information has been derived from the Commission's financial statements for the year ended December 31, 2011 and, in our report dated April 8, 2012, we expressed an unqualified opinion on the financial statements of the governmental activities and major fund. The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended December 31, 2011, from which such information was derived.



The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Commission has not presented the MD&A that is necessary to supplement, although not be a part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Johnson + Company, Ltd.

March 15, 2013

BASIC FINANCIAL STATEMENTS

Pioneer-Sarah Creek Watershed Management Commission

Statement of Net Position and
Governmental Fund Balance Sheet

As of December 31, 2012

(with Comparative Actual Amounts as of December 31, 2011)

	Governmental Activities	
	2012	2011
Assets		
Investments	\$ 104,068	\$ 102,154
Accounts receivable	3,170	4,264
Total assets	<u>\$ 107,238</u>	<u>\$ 106,418</u>
Liabilities and Fund Balances/Net Position		
Liabilities		
Accounts payable	\$ 21,069	\$ 11,382
Fund balances/net position		
Restricted fund balances/net position		
Restricted for guarantee fees	14,363	14,363
Assigned fund balances/net position		
Assigned for third generation plan	44,510	36,161
Assigned for capital improvement projects	3,000	-
Assigned for watershed restoration and protection plan	20,086	-
Unrestricted/unassigned fund balances/net position	4,210	44,512
Total assigned or unrestricted fund balances/net position	<u>71,806</u>	<u>80,673</u>
Total fund balances/net position	<u>86,169</u>	<u>95,036</u>
Total liabilities and fund balances/net position	<u>\$ 107,238</u>	<u>\$ 106,418</u>

Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balances/Net Position
Budget and Actual
Year Ended December 31, 2012
(with Comparative Actual Amounts for the Year Ended December 31, 2011)

	Governmental Activities			
	2012		2011	
	Original and Final Budget	(Audited)	(Over) Under	(Audited)
Program/project expenditures/expenses				
General government				
Invertebrate monitoring	\$ -	\$ -	\$ -	\$ 1,500
Lakes monitoring	5,850	5,300	550	5,240
Stream monitoring	6,800	6,800	-	-
Project reviews	4,500	1,352	3,148	4,959
WCA - expense	3,500	216	3,284	3,433
Watershed wide TMDL/WRAPP	-	1,183	(1,183)	731
Lake Sarah TMDL	-	361	(361)	1,873
Technical support	12,000	15,720	(3,720)	894
SWAG watershed assessment	11,720	11,479	241	27,646
Manure management - TRPD	13,993	-	13,993	-
Capital improvement projects	3,000	-	3,000	-
Lake Independence projects	5,500	2,650	2,850	1,588
Total program/project expenditures/expenses	66,863	45,061	21,802	47,864
Program/project revenues				
General government				
Membership dues	74,260	74,260	-	74,260
Third generation plan	15,000	15,000	-	15,000
WCA administration fees	1,000	200	(800)	550
Project review fees	2,500	900	(1,600)	2,500
Manure management - TRPD	13,993	-	(13,993)	-
Watershed wide TMDL/WRAPP	731	-	(731)	-
Invertebrate monitoring	1,500	-	(1,500)	-
SWAG watershed assessment grant	11,720	11,220	(500)	26,919
Total program/project revenues	120,704	101,580	(19,124)	119,229
Net program/project revenues	53,841	56,519	2,678	71,365
General expenditures/expenses				
Administration	52,000	45,224	6,776	41,607
Insurance	3,100	2,561	539	2,615
Legal and audit services	5,500	4,587	913	4,953
Website	2,500	1,519	981	2,312
Education	6,000	3,233	2,767	6,664
Bookkeeping	-	218	(218)	-
Second generation plan administration	-	1,413	(1,413)	16,488
Third generation plan	15,000	6,650	8,350	1,339
Total general expenditures/expenses	84,100	65,405	18,695	75,978
General revenues				
Interest and dividend income	15	19	4	20
Total general revenues	15	19	4	20
Net general revenues (expenditures/expenses)	(84,085)	(65,386)	18,699	(75,958)
Change in net position	\$ (30,244)	(8,867)	\$ 21,377	(4,593)
Fund balances/net position - assigned or unrestricted				
Beginning of year		80,673		85,266
End of year	Appendix 6	\$ 71,806		\$ 80,673
See notes to basic financial statements				

OTHER REQUIRED REPORTS

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements
December 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization

The Pioneer-Sarah Creek Watershed Management Commission is formed under a Joint Powers Agreement, as amended according to Minnesota Statutes Sections 103B.201 through 103B.255 and Minnesota Rules Chapter 8410 relating to Metropolitan Area Local Water Management and its reporting requirements. Pioneer-Sarah Creek Watershed Management Commission was established in October, 1984 to protect and manage the natural resources of the Pioneer-Sarah Creek Watershed.

The Commission is considered a governmental unit, but is not a component unit of any of its members. As a governmental unit, the Commission is exempt from federal and state income taxes.

Reporting Entity

A joint venture is a legal entity resulting from a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain either an ongoing financial interest or an ongoing financial responsibility. The Commission is considered a joint venture.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Commission (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component's unit board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units required to be included in the Commission's financial statements.

Government-Wide and Fund Financial Statement Presentation

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information about the reporting government as a whole. These statements include all the financial activities of the Commission. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants or contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

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. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fund Financial Statement Presentation

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, expenditures, additions, and deductions. Resources are allocated to, and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The resources of the Commission are accounted for in one fund:

- **General Fund (Governmental Fund Type)** - This fund is used to receive dues and miscellaneous items which may be disbursed for any and all purposes authorized by the bylaws of the Commission.

Typically, separate fund financial statements are provided for Governmental Funds. However, due to the simplicity of the Commission's operation, the Governmental Fund financial statements have been combined with the Government-Wide statements.

Budgets

The amounts shown in the financial statements as "budget" represent the budget amounts based on the modified accrual basis of accounting. A budget for the General Fund is adopted annually by the Commission. Appropriations lapse at year-end and encumbrance accounting is not used. Budgetary control is at the fund level.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

The Commission follows the policy of expensing any supplies or small equipment at the time of purchase. The Commission currently has no capitalized assets.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Commission is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The Commission participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property, casualty, and other miscellaneous insurance coverage's. LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The Commission pays an annual premium to LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage during the year ended December 31, 2012.

Members' Contributions

Members' contributions are calculated based on the member's share of the taxable market value of all real property within the watershed to the total market value of all real property in the watershed.

Receivables

The Commission utilizes an allowance for uncollectible accounts to value its receivables; however, all of the receivables as of December 31, 2011 have been collected and the receivables of \$3,170 at December 31, 2012 were collected in 2013.

Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements.

Change in Accounting Principle

For the year ended December 31, 2011, the Commission has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Commission is implementing this standard retroactively, meaning prior year fund balance classifications have been restated. More information on these fund balance classifications is included elsewhere in these notes.

Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended December 31, 2011, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 2 - ASSETS, LIABILITIES AND NET POSITION

A. Deposits

In accordance with applicable Minnesota Statutes, the Commission maintains a checking account authorized by the Commission.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable 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 of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The Commission has no additional deposit policies addressing custodial credit risk.

At year-end, the Commission had no funds held in its bank account. All funds were transferred to their 4M Fund investment account. (see below)

B. Investments

At December 31, 2012 and 2011 the Commission held \$104,068 and \$102,154 (approximate cost and fair value), respectively, in investments with PMA Financial Network in Minnesota 4M Funds Holdings.

The 4M fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The 4M Fund is a customized cash management and investment program for Minnesota public funds that is allowable under Minnesota Statutes. The fair value of the position in the pool is the same as the value of the pool shares.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 2 - ASSETS, LIABILITIES AND NET POSITION (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk - For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the Commission would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the Commission's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive 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 obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, 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; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The Commission's investment policies do not further address credit risk.

Concentration Risk - This is the risk associated with investing a significant portion of the Commission's investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The Commission does not have an investment policy limiting the concentration of investments.

Interest Rate Risk - This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Commission does not have an investment policy limiting the duration of investments.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 3 - FUND BALANCE CLASSIFICATIONS

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable** - amounts that are not in spendable form (such as inventory) or are required to be maintained intact;
- **Restricted** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation;
- **Committed** - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- **Assigned** - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- **Unassigned** - amounts that are available for any purpose; these amounts are reported only in the general fund.

The Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Commission through adoption or amendment of the budget as intended for specific purpose.

Restricted fund balance is comprised of the following:

The WCA Monitoring Guarantee Restricted Funds are for wetland mitigation projects. The initial monitoring fee is set by the commission per project and is to be reduced over a five year period provided the project meets the requirement of the mitigation.

The WCA Replacement Guarantee Restricted Funds are received as guarantee that the mitigation will perform as required. Upon completion, and if the project meets the qualified plan requirements, these financial guarantees are refunded.

The Administrative Guarantee Restricted Funds are received as guarantee that the project administration fees are paid. The restricted amount is reduced as project-related administrative expenses arise. Any residual funds not used are refunded upon completion of the project.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2012

NOTE 4 - COMMITMENTS AND CONTRACTS

Three Rivers Park District (the District) - Lake Sarah TMDL

In 2008, the Commission entered into an agreement to pay the District up to \$44,913 to complete a Total Maximum Daily Load (TMDL) study of Lake Sarah. As of December 31, 2011, the Commission incurred total costs of \$35,413 to the District in project-related expenses since the inception of the agreement.

In a separate contract, the Minnesota Pollution Control Agency (MNPCA) has agreed to reimburse the Commission up to \$34,913 of the costs associated with this project. The District invoiced the MNPCA directly and has been paid \$31,422 as of December 31, 2009. This project was completed in 2011.

Three Rivers Park District (the District) - Lake Independence project

The Commission and the District have entered into a Cooperative Water Resources Management Project Joint Powers Agreement to assess the water quality and prevent further degradation at Lake Independence. The Commission and the District will share responsibilities, as outlined in the contract. The District will provide up to \$50,000 in cost-sharing funding for this project. The Commission paid \$5,187 and \$1,588 in project-related expenses during 2007 and 2011, respectively. There were no project-related expenses in 2008, 2009 or 2010. In 2012, the Commission paid \$170 and invoiced \$170 for reimbursements, which was recorded as accounts receivable as of December 31, 2012.

Minnesota Pollution Control Agency (MPCA) - Surface Water Assessment Grant

In 2010, the Commission received a grant for up to \$65,825 for watershed-wide water assessments. The Commission earned revenue of \$11,220, \$26,919 and \$27,186 from this grant during 2012, 2011 and 2010, respectively. The Commission incurred expenditures of \$11,220, \$27,646 and \$28,104 in associated costs for 2012, 2011 and 2010, respectively. The terms of the grant were completed in 2012.

NOTE 5 - MEMBERS' CONTRIBUTIONS

Dues received from members were as follows:

	Year Ended December 31			
	2012		2011 (for comparison)	
	Amount	Percentage	Amount	Percentage
Greenfield	\$ 26,181	29.33 %	\$ 25,416	28.47 %
Independence	32,927	36.89	34,678	38.85
Loretto	3,685	4.13	3,350	3.75
Maple Plain	7,465	8.36	7,218	8.09
Medina	9,805	10.98	9,763	10.94
Minnetrista	9,197	10.31	8,835	9.90
	<u>\$ 89,260</u>	<u>100.00 %</u>	<u>\$ 89,260</u>	<u>100.00 %</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, MN 55447

We have audited, in accordance with the auditing standards generally accepted in the United States of America and 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 and the major fund of the Pioneer-Sarah Creek Watershed Management Commission (the Commission) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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 material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified. We did identify the following deficiencies in internal control that we consider to be significant deficiencies:

Because of the limited size of your office staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of the condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson & Company, Ltd

March 15, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH MINNESOTA STATE LAWS AND REGULATIONS

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, Minnesota

We have audited the financial statements of the governmental activities and major fund of the Pioneer-Sarah Creek Watershed Management Commission (the Commission) as of and for the year ended December 31, 2012, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 15, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statute 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* covers six main 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 applicable categories.

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

This report is intended solely for the information and use of the Commission, its member cities, the state of Minnesota, and management of the Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Johnson & Company, Ltd.

March 15, 2013

