

**CARNELIAN-MARINE-ST. CROIX
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2012

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CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
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INTRODUCTORY SECTION

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CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT

ORGANIZATION

December 31, 2012

Name	Position
Board of Managers:	
Steven Kronmiller	President
Kristin Tuenge	Secretary/Treasurer
Richard Caldecott	
Victoria Dupre	
John Lennes	
Thomas Polasik	
Andrew Weaver	
Jason Husveth (term expired June 21, 2012)	
District Administrator:	
Jim Shaver	

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Carnelian-Marine-St. Croix Watershed District
Scandia, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Carnelian-Marine-St. Croix Watershed District, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Carnelian-Marine-St. Croix Watershed District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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. 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 each major fund of Carnelian-Marine-St. Croix Watershed District, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, Carnelian-Marine-St. Croix Watershed District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2012. Adoption of the provisions of this statement results in changes to classifications of the components of fund balance.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 30 and 31, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carnelian-Marine-St. Croix Watershed District's basic financial statements. The introductory section and individual fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2013

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BASIC FINANCIAL STATEMENTS

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT

STATEMENT OF NET POSITION

December 31, 2012

Statement 1

	Governmental Activities
	<u>2012</u>
Assets:	
Cash and investments	\$560,915
Grant receivable	9,700
Property taxes receivable:	
Due from county	5,833
Delinquent	9,941
Prepaid items	390
Capital assets - net:	
Nondepreciable	15,109
Depreciable	<u>3,318</u>
Total assets	<u>605,206</u>
Liabilities:	
Accounts payable	30,257
Due to other governments	28,574
Payroll liabilities	9,245
Surety deposits payable	<u>64,647</u>
Total liabilities	<u>132,723</u>
Net position:	
Invested in capital assets	18,427
Unrestricted	<u>454,056</u>
Total net position	<u><u>\$472,483</u></u>

The accompanying notes are an integral part of these financial statements.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2012

Statement 2

Functions/Programs	Expenses	Program Revenues		Net (Expense)	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities	
				2012	
Governmental activities:					
General government	\$151,634	\$1,415	\$ -	\$ -	(\$150,219)
Programs and projects	343,333	-	52,040	-	(291,293)
Total governmental activities	<u>\$494,967</u>	<u>\$1,415</u>	<u>\$52,040</u>	<u>\$0</u>	<u>(441,512)</u>
General revenues:					
Property taxes					406,044
Other					3
Unrestricted investment earnings					667
Total general revenues					<u>406,714</u>
Change in net position					(34,798)
Net position - January 1, as previously reported					557,957
Prior Period adjustment					(50,676)
Net position - January 1, as restated					<u>507,281</u>
Net position - December 31					<u>\$472,483</u>

The accompanying notes are an integral part of these financial statements.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2012

Statement 3

	Total
	Governmental Fund
	2012
Assets	
Cash and investments	\$560,915
Grants receivable	9,700
Taxes receivable:	
Due from county	5,833
Delinquent	9,941
Prepaid items	390
Total assets	\$586,779
 Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$30,257
Due to other governments	28,574
Payroll liabilities	9,245
Surety deposits payable	64,647
Deferred revenue	9,941
Total liabilities	142,664
 Fund balance:	
Nonspendable	390
Committed	357,321
Unassigned	86,404
Total fund balance	444,115
 Total liabilities and fund balance	 \$586,779
 Fund balance reported above	 \$444,115
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,427
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	9,941
Net position of governmental activities	\$472,483

The accompanying notes are an integral part of these financial statements.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For The Year Ended December 31, 2012

Statement 4

	Total Governmental Fund 2012
Revenues:	
General property taxes	\$408,600
Intergovernmental	52,040
Permits	1,415
Other	3
Investment income	667
Total revenues	<u>462,725</u>
Expenditures:	
Current:	
General government	150,174
Programs and projects	343,333
Total expenditures	<u>493,507</u>
Revenues over (under) expenditures	(30,782)
Fund balance - January 1	<u>474,897</u>
Fund balance - December 31	<u><u>\$444,115</u></u>

The accompanying notes are an integral part of these financial statements.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2012

Statement 5

	2012
Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:	
Net changes in fund balances - total governmental funds (Statement 4)	(\$30,782)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(1,460)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
General property taxes deferred revenues	(2,556)
Change in net position of governmental activities (Statement 2)	(\$34,798)

The accompanying notes are an integral part of these financial statements.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Carnelian-Marine-St. Croix Watershed District conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

The Carnelian-Marine-St. Croix Watershed District (the District) was established on June 22, 1981 in accordance with Minnesota Statutes, Chapter 112. The affairs of the District are governed by a Board of Managers (the Board) composed of seven members appointed by the Washington County Board of Commissioners to three-year terms of office.

The purpose of the District is to cooperate with and assist governmental agencies, municipalities, and citizens within the District to conserve the District's natural resources through water management.

The District's policy is to include in the financial statements all funds, account groups, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*. There are no business-type activities, which rely to a significant extent on fees and charges for support.

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. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

C. 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 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. For this purpose, the government considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund - is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenditures and for the construction and maintenance of projects of common benefit to the District.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Board of Managers adopts a budget for the general government operations of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

The Board of Managers annually adopts a tax levy for collection during the calendar year. The District's records are maintained on a calendar year ending December 31.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The District prepares a revenue and expenditure budget for the District's General Fund only. Encumbrance accounting, under which purchase orders, contracts and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

E. CASH AND INVESTMENTS

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

In accordance with the provisions of GASB No. 31, the District reports investments at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date. Also in accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

F. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the County in October (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) and taxes and credits not received by year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January are fully offset by deferred revenue because they are not available to finance current expenditures.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

G. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. None of the District's funds maintain significant amounts of inventories of materials and supplies.

H. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets and intangible assets such as easements and computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District implemented the general provisions of GASB Statement No. 34 in 2008 and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets during the year.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District had recorded material easements in prior years so retroactive reporting was not necessary. The District did not acquire any material intangible assets since implementing GASB Statement No. 51.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	
Furniture	15 years
Equipment	15 years
Computers	5 years

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay benefits that are vested as severance pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. FUND BALANCE CLASSIFICATIONS

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:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the Board's intended use. These constraints are established by the Board.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the Board's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the Board's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

L. PREPAID ITEMS

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

M. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation states that “revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this (\$2,556) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2011	(\$48,053)
At December 31, 2011, as restated for prior period adjustment	35,556
At December 31, 2012	<u>9,941</u>
 Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	 <u><u>(\$2,556)</u></u>

Another element of that reconciliation includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this (\$1,460) difference are as follows:

Capital outlay	\$ -
Depreciation expense	<u>(1,460)</u>
 Net adjustments to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	 <u><u>(\$1,460)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all District 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 bonds.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At year end the carrying amount of the District's deposits was \$560,915 and the bank balance was \$562,811. The entire bank balance was covered by federal depository insurance or covered by perfected collateral pledged and held in the District's name.

B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements 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; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2012.

Note 3 RECEIVABLES AND DEFERRED REVENUE

Significant receivable balances not expected to be collected within one year of December 31, 2012 are as follows:

	<u>Delinquent Property Taxes</u>
General Fund	<u>\$3,410</u>
Total	<u><u>\$3,410</u></u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	<u>\$9,941</u>	<u>\$ -</u>
Total	<u><u>\$9,941</u></u>	<u><u>\$ -</u></u>

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Permanent easement	\$15,109	\$ -	\$ -	\$ -	\$15,109
Capital assets, being depreciated:					
Furniture	1,931	-	-	-	1,931
Equipment	16,969	-	-	-	16,969
Computers	998	-	-	-	998
Total capital assets, being depreciated	<u>19,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,898</u>
Less accumulated depreciation for:					
Furniture	-	1,545	129	-	1,674
Equipment	-	13,575	1,131	-	14,706
Computers	-	-	200	-	200
Total accumulated depreciation	<u>-</u>	<u>15,120</u>	<u>1,460</u>	<u>-</u>	<u>16,580</u>
Total capital assets being depreciated - net	<u>19,898</u>	<u>(15,120)</u>	<u>(1,460)</u>	<u>-</u>	<u>3,318</u>
Governmental activity capital assets - net	<u>\$35,007</u>	<u>(\$15,120)</u>	<u>(\$1,460)</u>	<u>\$ -</u>	<u>\$18,427</u>

Depreciation expense was charged to the general government function.

Note 5 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the 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) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

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.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

The benefit provisions stated in the previous 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. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. The District was required to contribute the following percentages of annual covered payroll in 2012: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members. The District's contribution to the General Employees Retirement Fund for the years ended December 31, 2012, 2011 and 2010 were \$5,176, \$5,184 and \$4,894 respectively, equal to the contractually required contributions for each year as set by State Statute.

Note 6 FUND BALANCE

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2012. This standard changed fund balance classifications for governmental fund statements. Definitions for the new classifications are included in Note 1K.

CLASSIFICATIONS

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Nonspendable:	
Prepaid item	\$390
Committed for:	
Water management	357,321
Unassigned	<u>86,404</u>
Total	<u><u>\$444,115</u></u>

Note 7 CONTINGENCIES

Management has indicated that there are no pending lawsuits or other actions in which the District is a defendant.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 8 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. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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.

Note 9 OPERATING LEASE

BUILDING LEASE

The District leases building space under an operating lease that expires in 2013. The lease calls for monthly payments of \$420 until March of 2013. Total lease payments were \$5,040 in 2012. The lease was extended to March 31, 2014 on January 14, 2013.

In addition to the above base rent, the District is responsible for their percentage share of operating costs and taxes. The District's percentage share of operating costs and taxes is 5.00% on the effective date of this lease. The District paid \$1,584 in 2012 for operating costs.

Future minimum annual lease payments are as follows:

2013	\$5,040
2014	<u>5,040</u>
Total	<u><u>\$10,080</u></u>

Note 10 PRIOR PERIOD ADJUSTMENT

During 2012, corrections to the prior year financial statements were made to adjust delinquent taxes receivable to the county balance and to record prior year depreciation.

A summary of these changes is as follows:

	Governmental Activities <u>December 31, 2011</u>
Net position - as previously reported	<u>\$557,957</u>
Prior period adjustment:	
Adjust delinquent taxes receivable to the County	(35,556)
Record accumulated depreciation	<u>(15,120)</u>
Total prior period adjustment	<u><u>(50,676)</u></u>
Net position - as restated	<u><u>\$507,281</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended December 31, 2012

Statement 6

	2012			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues:				
General property taxes	\$407,000	\$407,000	\$408,600	\$1,600
Intergovernmental	14,000	14,000	52,040	38,040
Permits	-	-	1,415	1,415
Other	-	-	3	3
Investment income	-	-	667	667
Total revenues	421,000	421,000	462,725	41,725
Expenditures:				
Current:				
General government:				
Administrator and benefits	95,000	95,000	95,318	(318)
Manager expenses	8,000	8,000	2,736	5,264
Office supplies	1,000	1,000	2,001	(1,001)
Rent	6,000	6,000	6,140	(140)
Clerical services	3,500	3,500	3,427	73
Telephone and internet	3,000	3,000	2,716	284
Dues and publications	3,500	3,500	3,450	50
Training	1,000	1,000	1,794	(794)
Insurance and bonds	5,000	5,000	3,031	1,969
Postage and delivery	500	500	254	246
Public notices	200	200	617	(417)
Utilities	-	-	225	(225)
Employee mileage reimbursement	3,000	3,000	2,397	603
Office equipment	2,000	2,000	1,211	789
Printing and reproduction	1,000	1,000	109	891
Conference and seminars	1,500	1,500	-	1,500
Website	2,000	2,000	-	2,000
Professional fees	24,100	24,100	24,748	(648)
Programs and projects	407,300	407,300	343,333	63,967
Total expenditures	567,600	567,600	493,507	74,093
Revenue over (under) expenditures	<u>(\$146,600)</u>	<u>(\$146,600)</u>	(30,782)	<u>\$115,818</u>
Fund balance - January 1			<u>474,897</u>	
Fund balance - December 31			<u>\$444,115</u>	

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2012

Note A BUDGETS

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General Fund.

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INDIVIDUAL FUND FINANCIAL STATEMENTS

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
 BALANCE SHEET
 GENERAL FUND
 December 31, 2012

Statement 7

	<u>2012</u>
Assets	
Cash and investments	\$560,915
Grants receivable	9,700
Taxes receivable:	
Delinquent	5,833
Due from county	9,941
Prepaid items	<u>390</u>
Total assets	<u><u>\$586,779</u></u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$30,257
Due to other governments	28,574
Payroll liabilities	9,245
Surety deposits payable	64,647
Deferred revenue	<u>9,941</u>
Total liabilities	<u><u>142,664</u></u>
Fund balance:	
Nonspendable	390
Committed	357,321
Unassigned	<u>86,404</u>
Total fund balance	<u><u>444,115</u></u>
Total liabilities and fund balance	<u><u>\$586,779</u></u>

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2012

Statement 8

	<u>2012</u>
Revenues:	
General property taxes	\$408,600
Intergovernmental	52,040
Permits	1,415
Other	3
Investment income	667
Total revenues	<u>462,725</u>
Expenditures:	
Current:	
General government:	
Administrator and benefits	95,318
Manager expenses	2,736
Office supplies	2,001
Rent	6,140
Clerical services	3,427
Telephone and internet	2,716
Dues and publications	3,450
Training	1,794
Insurance and bonds	3,031
Postage and delivery	254
Public notices	617
Utilities	225
Employee mileage reimbursement	2,397
Office equipment	1,211
Printing and reproduction	109
Professional fees	24,748
Programs and projects	343,333
Total expenditures	<u>493,507</u>
Revenue over (under) expenditures	(30,782)
Fund balance - January 1	<u>474,897</u>
Fund balance - December 31	<u><u>\$444,115</u></u>

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OTHER REPORTS

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REPORT ON INTERNAL CONTROL

To the Board of Managers and Management
Carnelian-Marine-St. Croix Watershed District
Scandia, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Carnelian-Marine-St. Croix Watershed District as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Carnelian-Marine-St. Croix Watershed District's internal control over financial reporting (internal control) as a basis for designing 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 Carnelian-Marine-St. Croix Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Carnelian-Marine-St. Croix Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 item 2012-1 in the attached Schedule of Findings and Responses to be a material weakness.

Carnelian-Marine-St. Croix Watershed District's written response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Carnelian-Marine-St. Croix Watershed District's response and, accordingly, we express no opinion on it.

In addition, we noted other matters involving internal control and its operation that we have reported to management in a separate letter dated April 25, 2013.

Carnelian-Marine-St. Croix Watershed District
Report On Internal Control

This communication is intended solely for the information and use of management, Carnelian-Marine-St. Croix Watershed District's Board of Managers and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2013

Carnelian-Marine-St. Croix Watershed District
Report on Internal Control
Schedule of Findings and Responses

2012-1 Audit Adjustments

Criteria: Audit standards specify that a correction of the financial statements that could occur and not be detected by the District's controls be considered a deficiency in internal control.

Condition: During the course of our audit, we identified capital assets that had not been depreciated. A prior period adjustment of \$15,120 was made to correct this misstatement. We also identified that delinquent taxes receivable was overstated. A prior period adjustment of \$35,556 was made to correct this misstatement.

Cause: The District's review procedures were not effective in identifying and correcting these misstatements.

Effect: By not having effective review controls, there is an increased risk that financial statement misstatements could occur.

Recommendation: We recommend the District staff continue efforts to assure that all adjustments are identified at year end.

Management's Response: It is the intent of the District's staff to minimize the number of audit adjustments needed each year.

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TAUTGES REDPATH, LTD.
Certified Public Accountants

REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE
AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

To the Board of Managers
Carnelian-Marine-St. Croix Watershed District
Scandia, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Carnelian-Marine-St. Croix Watershed District, as of and for the year ended December 31, 2012 and have issued our report thereon dated April 25, 2013.

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 Minnesota Statutes Section 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 categories of compliance to be tested: deposits and investments, conflicts of interest, public indebtedness, contracting and bidding, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories except public indebtedness because Carnelian-Marine-St. Croix Watershed District has no debt.

The results of our tests indicate that for the items tested, Carnelian-Marine-St. Croix Watershed District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, Carnelian-Marine-St. Croix Watershed District's Board of Managers and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2013

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Managers
Carnelian-Marine-St. Croix Watershed District
Scandia, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Carnelian-Marine-St. Croix Watershed District as of and for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 22, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Carnelian-Marine-St. Croix Watershed District are described in Note 1 to the financial statements. As described in the Note 6 to the financial statements, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 changed the names and definitions of fund balance classifications. We noted no transactions entered into by Carnelian-Marine-St. Croix Watershed District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. Carnelian-Marine-St. Croix Watershed District does not have any particularly sensitive estimates affecting the financial statements.

Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. Carnelian-Marine-St. Croix Watershed District does not have any particularly sensitive disclosures in its financial statements. The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. Our audit procedures identified no uncorrected misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Prior period adjustment to record depreciation - \$15,120
- Prior period adjustment to adjust delinquent taxes receivable to county balances - \$35,556

Disagreements with Management

For purposes of this letter, professional standards 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 auditor's 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 April 25, 2013.

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 governmental unit's financial statements or a determination of the type of auditor's 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The District does not currently have a capital asset policy which defines minimum asset values required for capitalization. In addition, the estimated useful lives of the various asset classes is not documented. We recommend that the District adopt a capital asset policy to document these items. We also recommend that the District inventory its land and easements to determine if the capital asset listing is complete.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Reports

Various reports on compliance and internal controls are contained in the Other Reports section of the audited financial statement document.

Closing

This information is intended solely for the use of management and Carnelian-Marine-St. Croix Watershed District's Board of Managers, and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 25, 2013