

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

ANNUAL FINANCIAL REPORT

December 31, 2014

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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, 2014

Name	Position
Board of Managers:	
Kristin Tuenge	President
Steven Kronmiller	Secretary
Dave DeVault	Vice President
Victoria Dupre	
Eric Lindberg	
Thomas Polasik	
Andrew Weaver	Treasurer
 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, 2014, 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, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Carnelian-Marine-St. Croix Watershed District's 2013 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated March 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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 32 and 33, 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.

Other Information

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, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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.

H&B Taitze Redpath, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 25, 2015

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BASIC FINANCIAL STATEMENTS

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**STATEMENT OF NET POSITION****Statement 1**

December 31, 2014

With Comparative Totals For December 31, 2013

	Governmental Activities	
	2014	2013
Assets:		
Cash and investments	\$622,642	\$565,243
Grant receivable	20,971	2,105
Property taxes receivable:		
Due from county	1,998	5,590
Delinquent	11,096	12,387
Prepaid items	390	390
Capital assets - net:		
Nondepreciable	15,109	15,109
Depreciable	398	1,858
Total assets	<u>672,604</u>	<u>602,682</u>
Liabilities:		
Accounts payable	39,702	17,589
Due to other governments	20,018	24,825
Payroll liabilities	9,400	9,398
Compensated absences payable - due within one year	5,556	3,675
Surety deposits payable	74,897	72,197
Unearned revenue	67,280	31,129
Total liabilities	<u>216,853</u>	<u>158,813</u>
Net position:		
Invested in capital assets	15,507	16,967
Unrestricted	440,244	426,902
Total net position	<u>\$455,751</u>	<u>\$443,869</u>

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

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2014

With Comparative Totals For The Year Ended December 31, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2014	2013
Governmental activities:						
General government	\$178,935	\$2,500	\$ -	\$ -	(\$176,435)	(\$168,583)
Programs and projects	256,062	-	34,863	-	(221,199)	(267,765)
Total governmental activities	<u>\$434,997</u>	<u>\$2,500</u>	<u>\$34,863</u>	<u>\$0</u>	<u>(397,634)</u>	<u>(436,348)</u>
General revenues:						
Property taxes					407,846	407,275
Other					1,264	-
Unrestricted investment earnings					406	459
Total general revenues					<u>409,516</u>	<u>407,734</u>
Change in net position					11,882	(28,614)
Net position - January 1					<u>443,869</u>	<u>472,483</u>
Net position - December 31					<u>\$455,751</u>	<u>\$443,869</u>

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

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT

BALANCE SHEET

Statement 3

GOVERNMENTAL FUND

December 31, 2014

With Comparative Totals For December 31, 2013

Assets	General Fund	
	2014	2013
Cash and investments	\$622,642	\$565,243
Grants receivable	20,971	2,105
Taxes receivable:		
Due from county	1,998	5,590
Delinquent	11,096	12,387
Prepaid items	390	390
Total assets	<u>\$657,097</u>	<u>\$585,715</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$39,702	\$17,589
Due to other governments	20,018	24,825
Payroll liabilities	9,400	9,398
Surety deposits payable	74,897	72,197
Unearned revenue	67,280	31,129
Total liabilities	<u>211,297</u>	<u>155,138</u>
Deferred inflows of resources:		
Unavailable revenue	<u>11,096</u>	<u>12,387</u>
Fund balance:		
Nonspendable	390	390
Committed	353,626	335,636
Unassigned	80,688	82,164
Total fund balance	<u>434,704</u>	<u>418,190</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$657,097</u>	<u>\$585,715</u>
Fund balance reported above	\$434,704	\$418,190
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.	15,507	16,967
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	11,096	12,387
Long-term liabilities, including compensated absences, are not due and payable in the current period, and, therefore, are not reported in the funds.	<u>(5,556)</u>	<u>(3,675)</u>
Net position of governmental activities	<u>\$455,751</u>	<u>\$443,869</u>

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, 2014
With Comparative Totals For The Year Ended December 31, 2013

Statement 4

	General Fund	
	2014	2013
Revenues:		
General property taxes	\$409,137	\$404,829
Intergovernmental	34,863	9,676
Permits	2,500	10,250
Other	1,264	-
Investment income	406	459
Total revenues	<u>448,170</u>	<u>425,214</u>
Expenditures:		
Current:		
General government	175,594	173,698
Programs and projects	256,062	277,441
Total expenditures	<u>431,656</u>	<u>451,139</u>
Revenues over (under) expenditures	16,514	(25,925)
Fund balance - January 1	<u>418,190</u>	<u>444,115</u>
Fund balance - December 31	<u><u>\$434,704</u></u>	<u><u>\$418,190</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, 2014
With Comparative Totals For The Year Ended December 31, 2013

Statement 5

	<u>2014</u>	<u>2013</u>
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)	\$16,514	(\$25,925)
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)	(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 unavailable revenues	(1,291)	2,446
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	<u>(1,881)</u>	<u>(3,675)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$11,882</u></u>	<u><u>(\$28,614)</u></u>

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

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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, 2014

The District prepares a revenue and expenditure budget for the District's General Fund. 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 inflow of resources because they are not available to finance current expenditures.

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 has not acquired any infrastructure assets since implementing GASB Statement No. 34.

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.

M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from property taxes.

N. 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 (\$1,291) difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2013	(12,387)
At December 31, 2014	<u>11,096</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>(\$1,291)</u></u>

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>(\$1,460)</u></u>

Another element of that reconciliation states that “some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this (\$1,881) difference are as follows:

Compensated absences payable:	
At December 31, 2013	\$3,675
At December 31, 2014	<u>(5,556)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>(\$1,881)</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.

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;

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

- 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 \$622,642 and the bank balance was \$626,502. 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.
- 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.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

- 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 2014.

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2014 are as follows:

	<u>December 31,</u> <u>2014</u>
General Fund:	
Delinquent property taxes	<u><u>\$5,300</u></u>

Note 4 UNAVAILABLE REVENUES

Governmental funds report deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (General Fund)	<u><u>\$11,096</u></u>

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</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>19,898</u>
Less accumulated depreciation for:				
Furniture	1,803	129	-	1,932
Equipment	15,837	1,131	-	16,968
Computers	400	200	-	600
Total accumulated depreciation	<u>18,040</u>	<u>1,460</u>	<u>-</u>	<u>19,500</u>
Total capital assets being depreciated - net	<u>1,858</u>	<u>(1,460)</u>	<u>-</u>	<u>398</u>
Governmental activity capital assets - net	<u>\$16,967</u>	<u>(\$1,460)</u>	<u>\$0</u>	<u>\$15,507</u>

Depreciation expense was charged to the general government function.

Note 6 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.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 five 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. The District was required to contribute the following percentages of annual covered payroll in 2014: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The District's contribution to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013 and 2012 were \$5,623, \$5,329, and \$5,176, respectively, equal to the contractually required contributions for each year as set by State Statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers)

Note 7 CHANGE IN COMPENSATED ABSENCES

Changes in compensated absences for the year ended December 31, 2014 are as follows:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14	Due Within One Year
Governmental activities:					
Compensated payable	\$3,675	\$8,899	(\$7,018)	\$5,556	\$5,556

It is not practicable to determine specific year of payment of long-term accrued compensated absences. Compensated absences are liquated by the General Fund.

Note 8 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.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

A. CLASSIFICATIONS

At December 31, 2014, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Nonspendable:	
Prepaid item	\$390
Committed for:	
Water management	353,626
Unassigned	<u>80,688</u>
Total	<u><u>\$434,704</u></u>

B. MINIMUM UNASSIGNED FUND BALANCE POLICY

The Board has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year – June and December. As such, it is the District’s goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year end targeted unassigned fund balance amount for cash-flow timing needs and emergencies/contingencies of 40% of the subsequent year’s administrative budgeted expenditures. At December 31, 2014, the unassigned fund balance of the General Fund was 47% of the subsequent year’s budgeted administrative expenditures.

Note 9 CONTINGENCIES

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

Note 10 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.

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Note 11 OPERATING LEASE

BUILDING LEASE

The District leases building space under an operating lease that expires in 2015. The lease calls for monthly payments of \$420 for January through March 2014, and \$425 for April 2014 through March 2015. Total lease payments were \$5,085 in 2014.

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 \$748 in 2014 for operating costs.

Future minimum annual lease payments are as follows:

2015	<u><u>\$1,275</u></u>
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Note 12 RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Boards (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time.

Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

Statement No. 72 *Fair Value Measurement and Application.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

The effect these standards may have on future financial statements is not determinable at this time, but it is expected that Statements 68 and 71 will have a material impact.

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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, 2014
With Comparative Totals For The Year Ended December 31, 2013

Statement 6

	2014		Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenues:					
General property taxes	\$407,000	\$407,000	\$409,137	\$2,137	\$404,829
Intergovernmental	135,000	135,000	34,863	(100,137)	9,676
Permits	8,000	8,000	2,500	(5,500)	10,250
Other	-	-	1,264	1,264	-
Investment income	500	500	406	(94)	459
Total revenues	<u>550,500</u>	<u>550,500</u>	<u>448,170</u>	<u>(102,330)</u>	<u>425,214</u>
Expenditures:					
Current:					
General government:					
Administrator and benefits	99,100	99,100	100,876	(1,776)	97,794
Manager expenses	8,000	8,000	6,617	1,383	6,841
Office supplies	2,000	2,000	1,885	115	4,999
Rent	6,000	6,000	6,313	(313)	5,928
Clerical services	3,500	3,500	4,110	(610)	4,743
Telephone and internet	3,000	3,000	2,330	670	2,391
Dues and publications	4,000	4,000	3,667	333	3,555
Training	2,000	2,000	2,671	(671)	5,576
Insurance and bonds	5,000	5,000	3,927	1,073	4,869
Postage and delivery	500	500	331	169	350
Public notices	500	500	720	(220)	377
Utilities	960	960	607	353	460
Employee mileage reimbursement	2,500	2,500	2,449	51	2,980
Office equipment	2,000	2,000	54	1,946	1,098
Printing and reproduction	1,000	1,000	-	1,000	800
Professional fees	29,000	29,000	39,037	(10,037)	30,937
Programs and projects	456,000	456,000	256,062	199,938	277,441
Total expenditures	<u>625,060</u>	<u>625,060</u>	<u>431,656</u>	<u>193,404</u>	<u>451,139</u>
Revenue over (under) expenditures	<u>(\$74,560)</u>	<u>(\$74,560)</u>	16,514	<u>\$91,074</u>	(25,925)
Fund balance - January 1			418,190		444,115
Fund balance - December 31			<u>\$434,704</u>		<u>\$418,190</u>

CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2014

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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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, 2014, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

A handwritten signature in black ink that reads "H&B Tautz, Redpath, Ltd.".

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 25, 2015

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MINNESOTA LEGAL COMPLIANCE REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of Carnelian-Marine-St. Croix Watershed District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor Pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories except we did not test for compliance with the provisions for public indebtedness because it is not applicable to the Carnelian-Marine-St. Croix Watershed District.

In connection with our audit, nothing came to our attention that caused us to believe that Carnelian-Marine-St. Croix Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in findings 2014-001 and 2014-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Carnelian-Marine-St. Croix Watershed District's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads "H&B Tauter Redpath, Ltd." in a cursive script.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 25, 2015

2014-001 Out-of-State Travel Policy

Criteria: Minnesota Statute 471.661 reads as follows:

471.661 Out-of-State Travel

The governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must have on record a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government. The policy must be approved by a recorded vote and specify:

- (1) when travel outside the state is appropriate;
- (2) applicable expense limits; and
- (3) procedures for approval of the travel.

The policy must be made available for public inspection upon request and reviewed annually. Subsequent changes to the policy must be approved by a recorded vote.

Condition: The Watershed has not adopted an out-of-state travel policy.

Cause: Unknown.

Effect: An implied or verbal policy is subject to greater variation of its meaning and the likelihood of misinterpretation increases when a policy is not in writing.

Recommendation: We recommend the Watershed adopt an out-of-state travel policy in accordance with Minnesota Statute 471.661.

Views of Responsible Officials and Planned Corrective Action: The Watershed will adopt an Out of State Travel Policy in 2015.

2014-002 Retainage of Unclaimed Checks

Criteria: Minnesota Statute 345.41 provides certain specific requirements in regards to unclaimed property:

345.41 REPORT OF ABANDONED PROPERTY.

(a) Every person holding funds or other property, tangible or intangible, presumed abandoned under sections 345.31 to 345.60 shall report annually to the commissioner with respect to the property as hereinafter provided.

(b) The report shall be verified and shall include:

(1) except with respect to traveler's checks and money orders, the name, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of any property of the value of \$100 or more presumed abandoned under sections 345.31 to 345.60;

(2) in case of unclaimed funds of life insurance corporations, the full name of the policyholder, insured or annuitant and that person's last known address according to the life insurance corporation's records;

(3) the nature and identifying number, if any, or description of the property and the amount appearing from the records to be due, except that items of value under \$100 each may be reported in aggregate;

(4) the date when the property became payable, demandable or returnable, and the date of the last transaction with the owner with respect to the property; and

(5) other information which the commissioner prescribes by rule as necessary for the administration of sections 345.31 to 345.60.

(c) If the person holding property presumed abandoned is a successor to other persons who previously held the property for the owner, or if the holder has changed a name while holding the property, the holder shall file with the report all prior known names and addresses of each holder of the property.

(d) The report shall be filed before November 1 of each year as of June 30 next preceding, but the report of life insurance corporations shall be filed before October 1 of each year as of December 31 next preceding. The commissioner may postpone the reporting date upon written request by any person required to file a report.

(e) Not more than 120 days before filing the report required by this section, the holder in possession of property abandoned and subject to custody as unclaimed property under this chapter shall send written notice to the presumed owner at that owner's last known address informing the owner that the holder is in possession of property subject to this chapter and advising the owner of the steps necessary to prevent abandonment if:

(1) the holder has in its records an address for the presumed owner that the holder's records do not disclose to be inaccurate;

(2) the claim of the apparent owner is not barred by the statute of limitations; and

(3) the property has a value of \$100 or more.

(f) Verification, if made by a partnership, shall be executed by a partner; if made by an unincorporated association or private corporation, by an officer, and if made by a public corporation, by its chief fiscal officer.

(g) Holders of property described in section 345.32 shall not impose any charges against property which is described in section 345.32, clause (a), (b) or (c).

(h) Any person who has possession of property which the person has reason to believe will be reportable in the future as unclaimed property may, with the permission of the commissioner,

Minnesota Legal Compliance Report

Page 4

report and deliver such property prior to the date required for reporting in accordance with this section.

(i) Before the last day of each calendar year, the commissioner of revenue shall report to the commissioner as unclaimed property under this section any uncashed checks or warrants for overpayments of taxes that were issued more than two years preceding the date of the report.

Condition: At December 31, 2014, the District held one check, dated August 2, 2010 in the amount of \$400.00, that had been outstanding for more than three years as of the June 30, 2014 cutoff date for reporting. State statute requires all uncashed checks be turned over to the state after three years.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the District implement controls to monitor compliance with Minnesota Statute 345.41 on a regular basis.

Management Response: The District agrees with the above recommendation and will implement new controls.