

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

**ANNUAL FINANCIAL REPORT**

December 31, 2016

**- This page intentionally left blank -**

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**TABLE OF CONTENTS**

---

	<u>Reference</u>	<u>Page No.</u>
<b>INTRODUCTORY SECTION</b>		
Organization		3
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	Statement 1	12
Statement of Activities	Statement 2	13
Fund Financial Statements:		
Balance Sheet - Governmental Fund	Statement 3	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	Statement 4	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	Statement 5	16
Notes to Financial Statements		17
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	Statement 6	36
Schedule of Proportionate Share of Net Pension Liability - General Employees Retirement Fund	Statement 7	37
Schedule of Pension Contributions - General Employees Retirement Fund	Statement 8	38
Notes to RSI		39
<b>OTHER REPORTS</b>		
Report on Internal Control		43
Minnesota Legal Compliance Report		45

**- This page intentionally left blank -**

## **INTRODUCTORY SECTION**

**- This page intentionally left blank -**

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

ORGANIZATION

December 31, 2016

---

Name	Position
<b>Board of Managers:</b>	
Dave DeVault	President
Kristin Tuenge	Secretary
Wade Johnson	Treasurer
Joel Stedmann	
Eric Lindberg	
Thomas Polasik	
Andrew Weaver	
 <b>District Administrator:</b>	
Jim Shaver	

**- This page intentionally left blank -**



## **FINANCIAL SECTION**

**- This page intentionally left blank -**



## 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 the Carnelian-Marine-St. Croix Watershed District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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 the Carnelian-Marine-St. Croix Watershed District, as of December 31, 2016, 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 2015 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 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 Schedule, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Pension Contributions on pages 36 through 39, 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 the Carnelian-Marine-St. Croix Watershed District's basic financial statements. The introductory section 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.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

March 16, 2017

**- This page intentionally left blank -**

## **BASIC FINANCIAL STATEMENTS**

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

December 31, 2016

With Comparative Totals For December 31, 2015

	Governmental Activities	
	2016	2015
<b>Assets:</b>		
Cash and investments	\$477,508	\$706,775
Grant receivable	1,990	500
Property taxes receivable:		
Due from county	5,314	5,415
Delinquent	9,352	9,179
Prepaid items	1,650	1,650
Capital assets - net:		
Nondepreciable	15,109	15,109
Depreciable	-	198
Total assets	<u>510,923</u>	<u>738,826</u>
<b>Deferred outflow of resources:</b>		
Related to pension	<u>40,374</u>	<u>9,233</u>
<b>Liabilities:</b>		
Accounts payable	35,805	38,184
Contracts payable	-	113,070
Due to other governments	33,926	27,945
Payroll liabilities	9,409	9,384
Compensated absences payable - due within one year	9,237	9,005
Surety deposits payable	77,247	73,247
Unearned revenue	45,943	103,854
Net pension liability - due in more than one year	97,434	67,373
Total liabilities	<u>309,001</u>	<u>442,062</u>
<b>Deferred inflow of resources:</b>		
Related to pensions	<u>13,980</u>	<u>6,920</u>
<b>Net position:</b>		
Invested in capital assets	15,109	15,307
Unrestricted	213,207	283,770
Total net position	<u>\$228,316</u>	<u>\$299,077</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, 2016

With Comparative Totals For The Year Ended December 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
					<u>2016</u>	<u>2015</u>
Governmental activities:						
General government	\$122,924	\$5,350	\$406	\$ -	(\$117,168)	(\$192,017)
Programs and projects	527,997	-	129,201	-	(398,796)	(346,927)
Total governmental activities	<u>\$650,921</u>	<u>\$5,350</u>	<u>\$129,607</u>	<u>\$0</u>	<u>(515,964)</u>	<u>(538,944)</u>
General revenues:						
Property taxes					442,229	442,175
Grants and contributions not restricted to specific programs					2,766	2,797
Unrestricted investment earnings					208	304
Total general revenues					<u>445,203</u>	<u>445,276</u>
Change in net position					<u>(70,761)</u>	<u>(93,668)</u>
Net position - January 1, as previously reported					299,077	455,751
Prior period adjustment					-	(63,006)
Net position - January 1, as restated					<u>299,077</u>	<u>392,745</u>
Net position - December 31					<u>\$228,316</u>	<u>\$299,077</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, 2016

With Comparative Totals For December 31, 2015

Assets	General Fund	
	2016	2015
Cash and investments	\$477,508	\$706,775
Grants receivable	1,990	500
Property taxes receivable:		
Due from county	5,314	5,415
Delinquent	9,352	9,179
Prepaid items	1,650	1,650
Total assets	<u>\$495,814</u>	<u>\$723,519</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$35,805	\$38,184
Contracts payable	-	113,070
Due to other governments	33,926	27,945
Payroll liabilities	9,409	9,384
Surety deposits payable	77,247	73,247
Unearned revenue	45,943	103,854
Total liabilities	<u>202,330</u>	<u>365,684</u>
Deferred inflows of resources:		
Unavailable revenue	<u>9,352</u>	<u>9,179</u>
Fund balance:		
Nonspendable	1,650	1,650
Committed	224,329	283,597
Unassigned	58,153	63,409
Total fund balance	<u>284,132</u>	<u>348,656</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$495,814</u>	<u>\$723,519</u>
Fund balance reported above	\$284,132	\$348,656
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.	15,109	15,307
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	9,352	9,179
Deferred outflows of resources - pension related are not current financial resources and, therefore, are not reported in the funds.	40,374	9,233
Long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the funds:		
Compensated absences	(9,237)	(9,005)
Net pension liability	(97,434)	(67,373)
Deferred inflows of resources - pension related are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(13,980)</u>	<u>(6,920)</u>
Net position of governmental activities	<u>\$228,316</u>	<u>\$299,077</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, 2016  
With Comparative Totals For The Year Ended December 31, 2015

**Statement 4**

	General Fund	
	2016	2015
Revenues:		
General property taxes	\$442,056	\$444,092
Intergovernmental	131,967	95,568
Permits	4,250	5,050
Other	1,100	-
Investment income	208	304
Total revenues	<u>579,581</u>	<u>545,014</u>
Expenditures:		
Current:		
General government	120,259	191,364
Programs and projects	523,846	439,698
Total expenditures	<u>644,105</u>	<u>631,062</u>
Revenues over (under) expenditures	(64,524)	(86,048)
Fund balance - January 1	<u>348,656</u>	<u>434,704</u>
Fund balance - December 31	<u><u>\$284,132</u></u>	<u><u>\$348,656</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****Statement 5**

For The Year Ended December 31, 2016

With Comparative Totals For The Year Ended December 31, 2015

	<u>2016</u>	<u>2015</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)	(\$64,524)	(\$86,048)
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.	(198)	(200)
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	173	(1,917)
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	(232)	(3,449)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the Statement of Activities. This is the amount by which pension expense exceeded pension contributions:		
Pension contributions	\$5,851	
Pension expense	(11,831)	(2,054)
Change in net position of governmental activities (Statement 2)	<u>(\$70,761)</u>	<u>(\$93,668)</u>

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

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

---

**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 Activities) 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, 2016

---

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**

The District reports investments at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date. 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 acquisition 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.

Governmental Accounting Standards Board (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 GASB Statement 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 one item that qualifies for reporting in this category. It is the pension related deferred outflows of resources reported in the government-wide Statement of Net Position.

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 government has pension related deferred inflows of resources reported in the government-wide Statement of Net Position. The District also has a type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

---

Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from property taxes.

**N. DEFINED BENEFIT PENSION PLANS**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA’s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**O. 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 \$173 difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2015	(\$9,179)
At December 31, 2016	<u>9,352</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$173</u></u>

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

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 (\$198) difference are as follows:

Capital outlay	\$ -
Depreciation expense	<u>(198)</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>(\$198)</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 (\$232) difference are as follows:

Compensated absences payable:	
At December 31, 2015	\$9,005
At December 31, 2016	<u>(9,237)</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>(\$232)</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, 2016

---

- 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 \$477,508 and the bank balance was \$505,173. 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, 2016

---

- 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 2016.

**Note 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2016 are as follows:

Delinquent property taxes	\$4,800
---------------------------	---------

**Note 4 UNAVAILABLE REVENUES**

Governmental funds report deferred inflows 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	\$9,352

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 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	1,931	-	-	1,931
Equipment	16,969	-	-	16,969
Computers	800	198	-	998
Total accumulated depreciation	<u>19,700</u>	<u>198</u>	<u>-</u>	<u>19,898</u>
Total capital assets being depreciated - net	<u>198</u>	<u>(198)</u>	<u>-</u>	<u>-</u>
Governmental activity capital assets - net	<u>\$15,307</u>	<u>(\$198)</u>	<u>\$0</u>	<u>\$15,109</u>

Depreciation expense was charged to the general government function.

**Note 6 DEFINED BENEFIT PENSION PLANS**

**A. PLAN DESCRIPTION**

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time (with the exception of employees covered by PEPFF) and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**B. BENEFITS PROVIDED**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**C. CONTRIBUTIONS**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The District's contributions to the GERF for the year ended December 31, 2016, were \$5,851. The District's contributions were equal to the required contributions as set by state statute.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

**D. PENSION COSTS**

GERF Pension Costs

At December 31, 2016, the District reported a liability of \$97,434 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$1,361. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was .0012% which was a decrease of .0001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$11,831 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$406 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$7,915
Changes in actuarial assumptions	19,078	-
Difference between projected and actual investment earnings	18,370	-
Changes in proportion	-	6,065
Contributions paid to PERA subsequent to the measurement date	2,926	-
Total	<u>\$40,374</u>	<u>\$13,980</u>



**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

\$2,926 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$5,910
2018	5,909
2019	8,131
2020	3,518
2021	-
Thereafter	-

**E. ACTUARIAL ASSUMPTIONS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERS was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

**General Employees Fund**

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

**F. DISCOUNT RATE**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employees will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. PENSION LIABILITY SENSITIVITY**

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability	\$138,385	\$97,434	\$63,701

**H. PENSION PLAN FIDUCIARY NET POSITION**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

**Note 7 CHANGE IN COMPENSATED ABSENCES**

Changes in compensated absences for the year ended December 31, 2016 are as follows:

	Balance 12/31/15	Additions	Deletions	Balance 12/31/16	Due Within One Year
Governmental activities:					
Compensated payable	\$9,005	\$9,451	(\$9,219)	\$9,237	\$9,237

It is not practicable to determine specific year of payment of long-term accrued compensated absences.

**Note 8 FUND BALANCE**

The District adopted the provisions of GASB 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.

**A. CLASSIFICATIONS**

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Nonspendable:	
Prepaid item	\$1,650
Committed for:	
Water management	224,329
Unassigned	<u>58,153</u>
Total	<u><u>\$284,132</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, 2016, the unassigned fund balance of the General Fund was 53% of the subsequent year’s budgeted administrative expenditures. Total unassigned fund balance was about \$14,000 or 13% above the District’s targeted unassigned fund balance of 40%.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

---

**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.

**Note 11 OPERATING LEASE**

**BUILDING LEASE**

The District leases building space under an operating lease that expires in 2017. The lease calls for monthly payments of \$630 for January 2016 through April 2017. Total lease payments were \$7,560 in 2016.

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 11.00% on the effective date of this lease. The District paid \$1,681 in 2016 for operating costs.

Future minimum annual lease payments are as follows:

2017	<u><u>\$2,520</u></u>
------	-----------------------

**Note 12 COMMITTED CONTRACTS**

At December 31, 2016, the District had commitments of \$0 for uncompleted construction contracts.

**Note 13 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. 73** *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

**Statement No. 74** *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

---

**Statement No. 75** *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

**Statement No. 80** *Blending Requirements for Certain Component Units.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2016.

**Statement No. 81** *Irrevocable Split-Interest Agreements.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2016.

**Statement No. 83** *Certain Asset Retirement Obligations.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

**Statement No. 84** *Fiduciary Activities.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.

The effect these standards may have on future financial statements is not determinable at this time.

**Note 14 CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2015, the District implemented GASB Statement No. 69, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. GASB Statement No. 68 addresses accounting and financial reporting for pension plans that are provided to employees of state and local governments. The standard requires the District to record its share of the net pension liability of defined benefit plans, as well as any corresponding deferred inflows and outflows of resources. See Note 6 for further information.

The standard required retroactive implementation which resulted in a restatement of net position as of December 31, 2015. Certain amounts necessary to fully restate 2015 financial information are not determinable, therefore, prior year comparative amounts have not been restated. Details of the prior period adjustment are as follows:

	Governmental Activities
	<hr/>
Net position - January 1, 2015, as previously reported	\$455,751
Prior period adjustment:	
Deferred outflows of resources - pension related	2,759
Net pension liability	(65,765)
	<hr/>
Net position - January 1, 2015, as restated	<u>\$392,745</u>

**- This page intentionally left blank -**

**REQUIRED SUPPLEMENTARY INFORMATION**

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

REQUIRED SUPPLEMENTARY INFORMATION

**Statement 6**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2016

With Comparative Actual Amounts For The Year Ended December 31, 2015

	2016		Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenues:					
General property taxes	\$444,600	\$444,600	\$442,056	(\$2,544)	\$444,092
Intergovernmental	84,000	84,000	131,967	47,967	95,568
Permits	8,000	8,000	4,250	(3,750)	5,050
Other	-	-	1,100	1,100	-
Investment income	350	350	208	(142)	304
Total revenues	<u>536,950</u>	<u>536,950</u>	<u>579,581</u>	<u>42,631</u>	<u>545,014</u>
Expenditures:					
Current:					
General government:					
Administrator and benefits	100,929	35,325	42,075	(6,750)	102,081
Manager expenses	11,500	11,500	9,976	1,524	11,017
Office supplies	2,000	2,000	2,775	(775)	2,768
Rent	9,200	9,200	9,721	(521)	8,893
Clerical services	4,000	4,000	3,172	828	4,477
Telephone and internet	3,000	3,000	2,286	714	3,183
Dues and publications	4,000	4,000	3,804	196	3,733
Training	3,000	3,000	943	2,057	3,226
Insurance and bonds	5,000	5,000	2,399	2,601	3,206
Postage and delivery	500	500	189	311	359
Public notices	500	500	-	500	309
Utilities	1,500	1,500	1,391	109	792
Employee mileage reimbursement	2,500	-	3,307	(3,307)	3,268
Office equipment	1,000	1,000	1,578	(578)	3,756
Printing and reproduction	850	850	633	217	253
Professional fees	28,700	28,700	36,010	(7,310)	40,043
Programs and projects	<u>482,900</u>	<u>551,004</u>	<u>523,846</u>	<u>27,158</u>	<u>439,698</u>
Total expenditures	<u>661,079</u>	<u>661,079</u>	<u>644,105</u>	<u>16,974</u>	<u>631,062</u>
Revenues over (under) expenditures	<u>(\$124,129)</u>	<u>(\$124,129)</u>	(64,524)	<u>\$59,605</u>	(86,048)
Fund balance - January 1			<u>348,656</u>		<u>434,704</u>
Fund balance - December 31			<u>\$284,132</u>		<u>\$348,656</u>



**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY \* -  
 GENERAL EMPLOYEES RETIREMENT FUND  
 For The Year Ended December 31, 2016

**Statement 7**

<u>Measurement Date</u>	<u>Fiscal Year Ending</u>	<u>District's Proportionate (Percentage) of the Net Pension Liability</u>	<u>District's Proportionate Share (Amount) of the Net Pension Liability (a)</u>	<u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)</u>	<u>District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)</u>	<u>Covered Payroll (c)</u>	<u>District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	12/31/2015	0.0013%	\$67,373	\$ -	\$67,373	\$76,125	88.5%	78.2%
June 30, 2016	12/31/2016	0.0012%	97,434	1,361	98,795	77,067	128.2%	68.9%

\* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS\* - GENERAL EMPLOYEES RETIREMENT FUND**  
For The Year Ended December 31, 2016

**Statement 8**

---

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$5,710	\$5,710	\$0	\$76,125	7.5%
December 31, 2016	5,851	5,851	0	78,013	7.5%

\* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CARNELIAN-MARINE-ST. CROIX WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO RSI**  
December 31, 2016

---

**Note A    LEGAL COMPLIANCE – 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.

**Note B    PENSION INFORMATION**

**PERA – General Employees Retirement Fund**

*2016 Changes*

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
  
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
  
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**- This page intentionally left blank -**

## **OTHER REPORTS**

**- This page intentionally left blank -**



## 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 the Carnelian-Marine-St. Croix Watershed District as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 a 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.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

March 16, 2017

**- This page intentionally left blank -**





## 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 the governmental activities and each major fund of the Carnelian-Marine-St. Croix Watershed District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Carnelian-Marine-St. Croix Watershed District's basic financial statements, and have issued our report thereon dated March 16, 2017.

The *Minnesota Legal Compliance Audit Guide for Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing 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 the Carnelian-Marine-St. Croix Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 those charged with governance and management of Carnelian-Marine-St. Croix Watershed District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

March 16, 2017

**- This page intentionally left blank -**