

**MIDDLE FORK CROW RIVER  
WATERSHED DISTRICT  
ANNUAL FINANCIAL REPORT**

**December 31, 2015**

WESTBERG EISCHENS, PLLP  
Certified Public Accountants  
Willmar, Minnesota 56201

**TABLE OF CONTENTS**

	<u>PAGE</u>
BOARD OF MANAGERS .....	1
INDEPENDENT AUDITOR'S REPORT .....	2-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis .....	4-10
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Balance Sheet –Governmental Funds and Governmental Activities – Statement of Net Position.....	11-12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	13
Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities – Statement of Activities .....	14-15
Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	16
Notes to Financial Statements .....	17-28
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund .....	29
Schedules of Proportionate Share of Net Pension Liability and Employer Contributions.....	30
Notes to the Required Supplementary Information.....	31
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	32-33
SCHEDULE OF FINDINGS AND RECOMMENDATIONS .....	34-36

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
BOARD OF MANAGERS  
December 31, 2015**

	<u>Position of the Manager</u>	<u>Term Expires</u>
Robert Hodapp	President and Chair	4/26/18
Bruce Wing	Vice-President	4/26/16
Ruth Schaefer	Secretary	4/26/16
Gordon Behm	Treasurer	4/26/17
Joseph Flanders	Co-Treasurer	4/26/18

## INDEPENDENT AUDITOR'S REPORT

Board of Managers  
Middle Fork Crow River  
Watershed District

We have audited the accompanying financial statements of the governmental activities and each major fund of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2015, as listed in the table of contents, and the related notes to the financial statements.

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

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 Middle Fork Crow River Watershed District as of December 31, 2015, 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.

## **Change in Accounting Principle**

As discussed in Note 8 to the financial statements, in 2015 the District adopted new accounting guidance, *GASB Statement 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other-Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 29 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 the 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.

The Board of Managers page and other supplementary information identified in the Table of Contents have 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 the information presented.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2016, on our consideration of Middle Fork Crow River Watershed District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance the *Government Auditing Standards* in considering Middle Fork Crow Rivers Watershed District's internal control over financial reporting and compliance.

*Westberg Eischens, PLLP*

WESTBERG EISCHENS, PLLP  
Willmar, Minnesota

May 3, 2016

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**INTRODUCTION**

A petition was filed with the Minnesota Board of Water and Soil Resources on November 16, 2004 to establish the Middle Fork Crow River Watershed District (District). The District was established on April 27, 2005 under Minnesota Statute § 103D.205.

The District is a local unit of government that works to solve and prevent water related problems. The District will conduct water quality surveys of lakes and streams within the district, conduct education and volunteer programs, implement best management practices, and manage other projects related to fulfilling the purpose of the District.

This section of Middle Fork Crow River Watershed District's annual financial report presents Management's Discussion and Analysis of the District's financial performance during the year ended December 31, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of three parts. They are:

- Independent Auditor's Report,
- Required supplementary information which includes the Management's Discussion and Analysis (this section) and General Fund budgetary comparison schedule, and
- Basic Financial Statements.

The basic financial statements include two kinds of statements that present different views of the District:

- The **District-wide financial statements**, including the statement of net position and statement of activities, provide **short-term** and **long-term** information about the District's **overall** financial status.
- The **fund financial statements** focus on individual parts of the District, reporting the District's operation in **more detail** than the District-wide statements.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Figure A-1, summarizes the major features of the District's financial statements, including portions of the District's activities covered and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

<b>Figure A-1 Major Features of the District-wide and Fund Financial Statements</b>		
	<b>District-wide Statements</b>	<b>Governmental Funds</b>
<b>Scope</b>	Entire District	The activities of the District that are not proprietary or fiduciary
<b>Required financial statements</b>	- Statement of net position - Statement of activities	- Balance sheet - Statement of revenue, expenditures and changes in fund balances
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
<b>Type of inflow/outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**District-wide Statements**

The District-wide statements (statement of net position and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional non-financial factors such as community support for District Programs and activities.

In the District-wide financial statement the District's activities are shown in one category titled "governmental activities".

- **Governmental activities** – The District's basic services are reported here, including District Programs and administration. Tax levies, state aid, and grants finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's major funds.

The District maintains the following fund:

- **Governmental funds statements** – The District's basic services are included in governmental funds that generally focus on:
  - 1) how cash and other financial assets that can readily be converted to cash flow in and out, and
  - 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**FINANCIAL HIGHLIGHTS**

Key financial highlights from the Statement of Net Position and the Statement of Activities for the 2015 fiscal year include the following:

- Net position totaled \$427,693 in the eleventh year of operations.
- Revenues totaled \$555,127 and were \$91,488 less than expenses of \$646,615.
- The District's \$646,615 of expenses were for administrating the District and the revenues were primarily from taxes from the various counties, which are part of the Watershed's District, grants and state aid.

The following Table I reflects the District's condensed summary of the Statements of Net Position as of December 31, 2015 and 2014:

**Table I  
Summary of Statements of Net Position  
As of December 31,**

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current assets	\$ 864,019	\$ 820,648	\$ 43,371
Capital assets,			
net of accumulated depreciation	<u>596,673</u>	<u>596,884</u>	<u>(211)</u>
Total assets	<u>1,460,692</u>	<u>1,417,532</u>	<u>43,160</u>
Deferred outflows of resources related to pensions	<u>13,725</u>	<u>-</u>	<u>13,725</u>
Total deferred outflows of resources	<u>13,725</u>	<u>-</u>	<u>13,725</u>
Current liabilities	357,236	166,964	190,272
Long term liabilities	<u>678,000</u>	<u>645,227</u>	<u>32,773</u>
Total liabilities	<u>1,035,236</u>	<u>812,191</u>	<u>223,045</u>
Deferred inflows of resources related to pensions	<u>11,488</u>	<u>-</u>	<u>11,488</u>
Total deferred inflows of resources	<u>11,488</u>	<u>-</u>	<u>11,488</u>
Net position:			
Net investment in capital assets	596,673	596,884	(211)
Unrestricted	<u>(168,980)</u>	<u>8,457</u>	<u>(177,437)</u>
Total net position	<u>\$ 427,693</u>	<u>\$ 605,341</u>	<u>\$ (177,648)</u>

Total assets increased from 2014 to 2015. The major changes to the assets was that the cash balance increased, liabilities also increased from 2014 to 2015. The primary reasons being increase in accounts payable and unearned revenue.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Statement of Operations**

The results of the District's operations are reported in the statement of activities. Table II presents a condensed summary of data from the District's statements of operations.

**Table II  
Summary of Changes in Net Position  
For the Year Ended December 31,**

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>REVENUES</b>			
Grants	\$ 166,028	\$ 401,722	\$ (235,694)
Tax levy	317,423	320,366	(2,943)
Special assessments	56,538	56,738	(200)
State aid	-	1,395	(1,395)
Interest income	1,831	1,530	301
Local contributions and miscellaneous	13,307	23,409	(10,102)
Total revenues	<u>555,127</u>	<u>805,160</u>	<u>(250,033)</u>
<b>EXPENDITURES</b>			
Meetings/seminars	22,265	27,334	(5,069)
Contract labor	93,675	200,844	(107,169)
Administrative	7,913	5,166	2,747
BMP implementation expense	191,655	178,323	13,332
Professional expenses	32,548	25,025	7,523
Employee benefits	18,510	8,584	9,926
Dues	2,234	3,025	(791)
Insurance	6,776	6,137	639
Payroll expenses	174,984	127,283	47,701
Payroll tax expense	16,250	9,407	6,843
Utilities	8,154	8,038	116
Monitoring	7,384	6,718	666
Public education	10,145	5,345	4,800
Rent	50	-	50
Office expense	2,394	2,765	(371)
Miscellaneous	7,300	4,443	2,857
Capital outlay	5,268	3,965	1,303
Depreciation	22,922	19,758	3,164
Interest	16,188	16,975	(787)
Total expenses	<u>646,615</u>	<u>659,135</u>	<u>(12,520)</u>
Change in net position	(91,488)	146,025	(237,513)
Net Position - January 1, previously stated	605,341	459,316	146,025
Prior period adjustment	(86,160)	-	(86,160)
Net position - January 1, restated	<u>519,181</u>	<u>459,316</u>	<u>59,865</u>
Net Position - December 31	<u>\$ 427,693</u>	<u>\$ 605,341</u>	<u>\$ (177,648)</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Capital Assets and Debt Administration**

As of December 31, 2015, the District had \$596,673 invested in net capital assets. (See Table III.) This amount represents a net decrease (including additions and deductions) of \$211, from last year.

**Table III  
Capital Assets at Year-End**

	<b>2015</b>	<b>2014</b>
Land	\$ 48,663	\$ 48,663
Property, furniture, and equipment	627,612	608,025
Less: accumulated depreciation	(79,602)	(59,804)
Net Capital Assets	<b>\$ 596,673</b>	<b>\$ 596,884</b>

The District's long-term debt as of December 31, 2015, consists of debt used to finance various watershed projects along with financing the construction of the main office. A breakdown of the debt obligations is shown in Table IV.

**Table IV  
Change in Debt Obligations**

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
MN Clean Water Partnership Project	\$220,063	\$ -	\$ 24,837	\$ 195,226	\$ 25,328
Limited Tax Bonds, Series 2012A	475,000	-	25,000	450,000	30,000
Total Debt Obligations	<b>\$695,063</b>	<b>\$ -</b>	<b>\$ 49,837</b>	<b>\$645,226</b>	<b>\$ 55,328</b>

**General Fund**

The General Fund includes the primary operations of the District in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues:

**Table V  
General Fund Revenues**

Function	Year Ended December 31,		Change	
	2015	2014	Increase (Decrease)	Percent (%)
Tax levy	\$ 273,923	\$ 276,866	\$ (2,943)	-1.07%
Special assessments	15,147	13,589	1,558	10.29%
Grants	166,028	401,722	(235,694)	-141.96%
State aid	-	1,395	(1,395)	-100.00%
Interest income	1,831	1,530	301	16.44%
Local contributions and miscellaneous	14,492	23,409	(8,917)	-61.53%
Total General Fund Revenues	<b>\$ 471,421</b>	<b>\$ 718,511</b>	<b>\$ (247,090)</b>	<b>-52.41%</b>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**General Fund (continued)**

Total General Fund revenue decreased by \$247,090 from the previous year. The mix of property tax, state-aid and grants can change significantly from year to year. The driving factor relating to decreased revenues was specific to less grant revenue for watershed projects.

The following schedule presents a summary of General Fund expenditures:

**Table VI  
General Fund Expenditures**

Function	Year Ended December 31,		Change	
	2015	2014	Increase (Decrease)	Percent (%)
Conservation of natural resources	\$ 594,163	\$ 607,596	\$ (13,433)	-2.26%
Total General Fund Expenditures	<u>\$ 594,163</u>	<u>\$ 607,596</u>	<u>\$ (13,433)</u>	-2.26%

Total General Fund expenditures decreased by \$13,433, or 2.26%, from the previous year. The expenditures decreased in relation to a combination of changes resulting from contract labor, grant expenses and General Fund capital expenses.

**Special Revenue Fund**

The District's Special Revenue Fund was established to manage aquatic watershed projects which receive payments from special assessments from aquatic land owners located within the District.

**General Fund Budgetary Highlights**

- Actual revenues were \$13,791 more than expected.
- Actual expenditures were \$190,840 over the budgeted amount.
- No revisions were made to the original adopted budget.

**Factors Bearing On The Future And Next Year's Budgets And Rates**

The District relies on property tax levies, authorized by underlying state statutes, for a significant portion of its revenue. Continuing surges in land development projects will likely cause the District's activities and expenditures to increase during the next two to five years.

**Contacting District Management**

This financial report is designed to provide the citizens of Kandiyohi, Meeker, Pope, and Stearns County taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Administrator, Middle Fork Crow River Watershed District, PO Box 8, Spicer, MN 56288.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
December 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Fund Balance</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 594,577	\$ 6,272	\$ 81,074	\$ 681,923	\$ -	\$ 681,923
Receivables						
Grants	65,987	-	-	65,987	-	65,987
Property taxes	5,902	-	-	5,902	-	5,902
Assessments	-	598	-	598	109,609	110,207
Advance to	57,186	-	-	57,186	(57,186)	-
Capital assets						
Non-depreciable	-	-	-	-	48,663	48,663
Depreciable - net	-	-	-	-	548,010	548,010
Total Assets	<u>723,652</u>	<u>6,870</u>	<u>81,074</u>	<u>811,596</u>	<u>649,096</u>	<u>1,460,692</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Related to pensions	-	-	-	-	13,725	13,725
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,725</u>	<u>13,725</u>
<b>LIABILITIES AND FUND BALANCES/NET POSITION</b>						
<b>Liabilities</b>						
Accounts payable	149,284	-	-	149,284	-	149,284
Accrued vacation	7,263	-	-	7,263	-	7,263
Payroll liabilities	12,455	-	-	12,455	-	12,455
Unearned revenue	132,906	-	-	132,906	-	132,906
Advance from	-	57,186	-	57,186	(57,186)	-
Long-term liabilities						
Due within one year	-	-	-	-	55,328	55,328
Due in more than one year	-	-	-	-	589,898	589,898
Net pension liability	-	-	-	-	88,102	88,102
Total Liabilities	<u>301,908</u>	<u>57,186</u>	<u>-</u>	<u>359,094</u>	<u>676,142</u>	<u>1,035,236</u>

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

**DEFERRED INFLOWS OF RESOURCES**

Related to pensions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,488</u>	<u>11,488</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,488</u>	<u>11,488</u>

**Fund Balances**

Fund balance						
Nonspendable	57,186	-	-	57,186	(57,186)	
Restricted	-	-	81,074	81,074	(81,074)	
Assigned	-	-	-	-	-	
Unassigned	<u>364,558</u>	<u>(50,316)</u>	<u>-</u>	<u>314,242</u>	<u>(314,242)</u>	
Total Fund Balances	<u>421,744</u>	<u>(50,316)</u>	<u>81,074</u>	<u>452,502</u>	<u>(452,502)</u>	
Total Liabilities and Fund Balances	<u>\$ 723,652</u>	<u>\$ 6,870</u>	<u>\$ 81,074</u>	<u>\$ 811,596</u>		

**Net Position**

Net investment in capital assets					596,673	596,673
Unrestricted					<u>(168,980)</u>	<u>(168,980)</u>
Total Net Position					<u>\$ 427,693</u>	<u>\$ 427,693</u>

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
December 31, 2015**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 452,502</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are reported in the statement of net position but not in the fund balance sheet.	
Governmental Capital Assets	676,275
Less: Accumulated Depreciation	(79,602)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflows of Resources Related to Pensions	13,725
Deferred Inflows of Resources Related to Pensions	(11,488)
Long-term liabilities are reported on the statement of net position but not in the fund balance sheet.	
Note Payable	(195,226)
Bond Payable	(450,000)
Pension Benefits Payable	(88,102)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.	
Assessments Receivable	<u>109,609</u>
<b>Net Position - Governmental Activities</b>	<b><u>\$ 427,693</u></b>

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
For the Year Ended December 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>			
General property tax	\$ 273,923	\$ -	\$ 43,500
Special assessments	15,147	56,538	-
Grants	166,028	-	-
Interest income	1,831	-	-
Local contributions and miscellaneous	14,492	-	-
<b>TOTAL REVENUES</b>	<u>471,421</u>	<u>56,538</u>	<u>43,500</u>
<b>EXPENDITURES</b>			
Meetings/Seminars	22,265	-	-
Contract labor	35,648	58,027	-
Administrative	7,435	478	-
BMP implementation expense	216,492	-	-
Professional expenses	28,824	3,724	-
Employee benefits	18,805	-	-
Dues	2,234	-	-
Insurance	6,776	-	-
Payroll expenses	174,984	-	-
Payroll tax expense	16,250	-	-
Utilities	8,154	-	-
Monitoring	7,384	-	-
Public education	10,054	91	-
Rent	-	50	-
Office expense	2,394	-	-
Miscellaneous	7,300	-	-
Capital outlay	29,164	-	-
Depreciation	-	-	-
Debt Service			
Principal	-	-	25,000
Interest	-	-	16,188
<b>TOTAL EXPENDITURES</b>	<u>594,163</u>	<u>62,370</u>	<u>41,188</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(122,742)	(5,832)	2,312
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	11,189	-	-
Transfer to other funds	-	(11,189)	-
	<u>11,189</u>	<u>(11,189)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE/NET POSITION</b>	(111,553)	(17,021)	2,312
<b>FUND BALANCE/NET POSITION, Beginning of year</b>	<u>533,297</u>	<u>(33,295)</u>	<u>78,762</u>
<b>FUND BALANCE/NET POSITION, End of year</b>	<u>\$ 421,744</u>	<u>\$ (50,316)</u>	<u>\$ 81,074</u>

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

<b>Total Fund Activities</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
\$ 317,423	\$ -	\$ 317,423
71,685	(15,147)	56,538
166,028		166,028
1,831	-	1,831
<u>14,492</u>	<u>(1,185)</u>	<u>13,307</u>
<u>571,459</u>	<u>(16,332)</u>	<u>555,127</u>
22,265	-	22,265
93,675	-	93,675
7,913	-	7,913
216,492	(24,837)	191,655
32,548	-	32,548
18,805	(295)	18,510
2,234	-	2,234
6,776	-	6,776
174,984	-	174,984
16,250	-	16,250
8,154	-	8,154
7,384	-	7,384
10,145	-	10,145
50	-	50
2,394	-	2,394
7,300	-	7,300
29,164	(23,896)	5,268
-	22,922	22,922
25,000	(25,000)	-
<u>16,188</u>	<u>-</u>	<u>16,188</u>
<u>697,721</u>	<u>(51,106)</u>	<u>646,615</u>
(126,262)	34,774	(91,488)
11,189	-	11,189
<u>(11,189)</u>	<u>-</u>	<u>(11,189)</u>
<u>-</u>	<u>-</u>	<u>-</u>
(126,262)	34,774	(91,488)
<u>578,764</u>	<u>(59,583)</u>	<u>519,181</u>
<u>\$ 452,502</u>	<u>\$ (24,809)</u>	<u>\$ 427,693</u>

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2015**

**Net Change in Fund Balance - Governmental Funds** \$ (126,262)

Amounts reported for governmental activities in the statement of activities are different because:

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.

Cost of capital assets purchased	23,896
Depreciation expense	(22,922)
Loss on disposed asset	(1,185)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduced long-term liabilities in the statement of net position.

Principal repayments	49,837
----------------------	--------

Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Special assessments	(15,147)
---------------------	----------

In the Statement of Activities, pension expense is measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

295
-----

**Change in Net Position - Governmental Activities** \$ (91,488)

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The Watershed District was established on April 27, 2005, because the establishment would benefit the public welfare and public interest, and would advance the purpose of Minnesota Statutes Chapter 103D. The Middle Fork Crow River Watershed District includes approximately 271 square miles in Kandiyohi, Meeker, Pope, and Stearns Counties.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the District's more significant accounting policies:

**A. Financial Reporting Entity**

The District was established in 2005 pursuant to applicable Minnesota laws and statutes. The District consists of five managers with three managers from Kandiyohi County, one manager from Meeker County and one manager from Stearns County. Board elections are held annually on the second regular meeting of the fiscal year.

**B. Basic Financial Statements**

The financial statements combine fund level (General, Special Revenue and Debt Service) financial statements and government-wide financial statements (the government activities column). These statements include the financial activities of the overall District.

The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The Special Revenue Fund is used to account for the proceeds of the specific revenue sources that are restricted to expenditures for specified purposes or designated to finance particular projects or activities of the District.

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the District's general obligation debt and capital leases. The District annually levies ad valorem taxes restricted for the retirement of general obligation bonds.

The governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

**C. Measurement Focus and Basis of Accounting**

The governmental activities columns 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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement Focus and Basis of Accounting (continued)**

Governmental fund columns (General, Special Revenue and Debt Service) 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. The Board considers all revenues to be available if collected within 60 days after the end of the current period. Charges for services, grants and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted resources as needed.

**D. Cash and Cash Equivalents**

The District considers all investment instruments purchased with maturity of three months or less to be cash equivalents. At December 31, 2015, there were no cash equivalents.

**E. Estimates**

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

**F. Budgets**

The Board has adopted grant budgets for the various grant periods. These budgets may be amended or modified as additional grants are received.

**G. Compensated Absences**

Under the District's policies, employees are granted paid time off (combined vacation and sick leave) based on their length of services. Unused accumulated vacation time is paid to employees upon termination. Compensated absences are accrued when incurred in the governmental activities column of the financial statements. A liability for this amount is reported in the General Fund.

**H. Unearned Revenue**

All District funds and the governmental activities defer revenue for resources that have been received, but not yet earned. Governmental funds also report unearned revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**I. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 that time. Middle Fork Crow River Watershed District has one item that qualifies for reporting in this category – a deferred outflow relating to pension activity, reported in government-wide statement of net position. A deferred outflow relating to pension activity results from the net effect of the change in proportionate share and employer contributions.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Deferred Outflows/Inflows of Resources (continued)**

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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. Middle Fork Crow River Watershed District has one item that qualifies for reporting in this category under full accrual basis of accounting. Accordingly, the item, deferred inflow is reported in the government-wide statement of financial position. A deferred inflow relating to pension activity is a result of the net difference between projected and actual earning on plan investments.

**J. Long-Term Obligations**

In the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

**K. 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.

**L. Net Position/Fund Balance**

The government-wide fund financial statements use a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

*Net investment in capital assets* - This category includes all capital assets, net of accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets.

*Restricted net position* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* - This category represents net position of the District, not restricted for any project or other purpose.

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

*Non-spendable* – consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**L. Net Position/Fund Balance (continued)**

*Committed* – consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Managers. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Managers.

*Assigned* – consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to District Policy, the Board of Managers is authorized to establish assignments of fund balance.

*Unassigned* – is the residual classification for the General Fund.

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The Administrator submits an annual budget to the Board of Managers for the General Fund. Once approved, the Board of Managers may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

**Disbursements in Excess of Appropriations**

The General Fund disbursements exceeded the amounts budgeted for the year ended December 31, 2015.

	Disbursements	Appropriations	Excess
General Fund	\$ 594,163	\$ 403,323	\$ 190,840

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

In accordance with Minnesota statutes, the District is authorized to designate a depository for public funds and to invest in certificates of deposit. The Minnesota statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bond issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 3      DETAILED NOTES ON ALL FUNDS (continued)**

**B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. It is the District's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. At December 31, 2015, the District deposits were entirely covered by federal depository insurance or collateral held by the District or its agent in the District's name.

**C. Interfund Transfers**

	Transfer From Special Revenue Fund
Transfer To General Fund	\$      11,189

The Special Revenue Fund transferred \$11,189 to the General Fund to accrue prior expenses paid by the General Fund that are to be assessed to property owners associated with the area projects.

**NOTE 4      INTERFUND ADVANCES**

Interfund advances between individual funds of the District, as reported in the fund financial statements, as of December 31, 2015, are detailed below:

	Advance From	Advance To
Advance to Finance DLARA and NLA		
General Fund	\$      57,186	\$           -
Special Revenue Fund - DLARA	-	28,803
Special Revenue Fund - NLA	-	28,383
	\$      57,186	\$      57,186

The General Fund is covering any shortfalls financially of the Special Revenue Fund until the revenue can be collected. The expenses are to be assessed during 2016 and 2017.

**NOTE 5      CAPITAL ASSETS**

Capital assets are reported in the governmental activities column of the financial statements. Capital assets are defined by the entity as purchases made for items with an individual cost of \$2,500 or more. Such assets are recorded at historical cost or estimated cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 CAPITAL ASSETS (continued)**

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Category	Useful Life
Computer equipment	5 years
Furniture	7 years
Monitoring equipment	10 years
Educational tools (exhibits)	15 years
Property	40 years

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, non-depreciated				
Land	\$ 48,663	\$ -	\$ -	\$ 48,663
Capital assets, depreciated				
Property, furniture, and equipment	608,025	23,896	(4,309)	627,612
Less: accumulated depreciation for				
Property, furniture, and equipment	<u>(59,804)</u>	(22,922)	3,124	<u>(79,602)</u>
Governmental Activities Capital Assets, Net	<u>\$ 596,884</u>			<u>\$ 596,673</u>

**NOTE 6 LONG-TERM DEBT**

Note Payable to the State of Minnesota through its Minnesota Pollution Control Agency (MPCA) dated June 19, 2008 for the maximum amount of \$200,000. The MPCA will disburse funds to the District on an incurred cost reimbursement basis, after the MPCA has approved the specific Project Work Plans. The interest rate of 2% will begin to accrue on each disbursement on the day the MPCA delivers the funds to the District. The loan is secured by a general obligation promissory note and the date to begin repaying the note is deferred until the note has been fully disbursed, the Project has been fully completed or the Project Implementation Period has expired, whichever comes first. The note is due in semi-annual installments of \$7,228 beginning December 2011 through June 2021, interest at 2%.

Following is the Final Repayment Schedule outlined in the agreement:

Calendar Year	Principal	Interest	Total
2016	\$ 13,022	\$ 1,435	\$ 14,457
2017	13,284	1,173	14,457
2018	13,551	906	14,457
2019	13,824	633	14,457
2020	14,101	356	14,457
2021	<u>7,282</u>	<u>70</u>	<u>7,352</u>
Total	<u>\$ 75,064</u>	<u>\$ 4,573</u>	<u>\$ 79,637</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 6 LONG-TERM DEBT (continued)**

Note Payable to the State of Minnesota through its Minnesota Pollution Control Agency (MPCA) dated June 30, 2011 for the maximum amount of \$200,000. The MPCA will disburse funds to the District on an incurred cost reimbursement basis, after the MPCA has approved the specific Project Work Plans. The interest rate of 2% will begin to accrue on each disbursement on the day the MPCA delivers the funds to the District. The loan is secured by a general obligation promissory note and the date to begin repaying the note is deferred until the note has been fully disbursed, the Project has been fully completed or the Project Implementation Period has expired, whichever comes first. The note is due in semi-annual installments of \$7,328 beginning June 2015 through December 2024, interest at 2%.

Following is the Estimated Repayment Schedule outlined in the agreement:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 12,306	\$ 2,585	\$ 14,891
2017	12,554	2,342	14,896
2018	12,808	2,094	14,902
2019	13,066	1,841	14,907
2020	13,330	1,584	14,914
2021-2025	<u>56,098</u>	<u>2,632</u>	<u>58,730</u>
Total	<u>\$ 120,162</u>	<u>\$ 13,078</u>	<u>\$ 133,240</u>

The Limited Tax Bond in the amount of \$495,000 was used to finance construction of a building for the District's offices. The District will have a levy of ad valorem taxes on all taxable property within the district. The Bond will mature on February 1, 2028 and requires semi-annual payments bearing an interest rate of 3.5%.

Following is the Final Repayment Schedule outlined in the agreement:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,000	\$ 15,225	\$ 45,225
2017	30,000	14,175	44,175
2018	30,000	13,125	43,125
2019	30,000	12,075	42,075
2020	30,000	11,025	41,025
2021-2025	180,000	37,102	217,102
2026-2028	<u>120,000</u>	<u>6,300</u>	<u>126,300</u>
Total	<u>\$ 450,000</u>	<u>\$ 109,027</u>	<u>\$ 559,027</u>

Long-term liability activity for the year ended December 31, 2015, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
MN Clean Water Partnership Project	\$ 87,830	\$ -	\$ 12,766	\$ 75,064	\$ 13,022
MN Clean Water Partnership Project	132,233	-	12,071	120,162	12,306
Limited Tax Bonds	<u>475,000</u>	-	<u>25,000</u>	<u>450,000</u>	<u>30,000</u>
	<u>\$695,063</u>	<u>\$ -</u>	<u>\$ 49,837</u>	<u>\$645,226</u>	<u>\$ 55,328</u>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 7      PROPERTY TAXES AND SPECIAL ASSESSMENTS**

An ad valorem property tax may be levied against all properties in the District with levy limits prescribed by state statute. Property tax levies must be approved by the District Board and certified by the Kandiyohi, Meeker, Pope and Stearns County Auditors in October of each year for collection in the following year. Taxes are payable to the Counties in two installments by May 15 and October 15.

Special assessment levies may be approved by the District Board for maintenance and construction purposes in accordance with state statutes. These assessments are charged against those properties benefiting from the maintenance and construction. Special assessments must be certified to the County Auditors in a manner similar to property taxes.

Property taxes and special assessments receivable consist of amounts certified to Kandiyohi, Meeker, Pope, and Stearns Counties but not yet collected. Special assessments receivable are recorded when the full levy amount is submitted to the County, though actual assessment against property owners may occur over several years.

**NOTE 8      DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The Middle Fork Crow River Watershed 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.

**1. General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the Middle Fork Crow River Watershed 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.

**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% 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.

**1. 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

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 8      DEFINED BENEFIT PENSION PLANS (continued)**

**A. Plan Description**

**1. GERF Benefits (continued)**

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 equals 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.

**B. Contributions**

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

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 2015. The Middle Fork Crow River Watershed was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Middle Fork Crow River Watershed's contributions to the GERF for the year ended December 31, 2015, was \$9,855. The Middle Fork Crow River Watershed's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

**1. GERF Pension Cost**

At December 31, 2015, the Middle Fork Crow River Watershed reported a liability of \$88,102 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Middle Fork Crow River Watershed's proportion of the net pension liability was based on the Middle Fork Crow River Watershed's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Middle Fork Crow River Watershed's proportion was .0017%.

For the year ended December 31, 2015, the Middle Fork Crow River Watershed recognized pension expense of \$9,560 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Middle Fork Crow River Watershed 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>
Difference between projected and actual investment earnings	\$ 8,340	\$ -
Differences between expected and actual economic experience	-	4,442
Changes in proportion and differences between contributions made and Entity's proportionate share of contributions	-	7,046
Entity's contributions to GERF subsequent to the measurement date	<u>5,385</u>	<u>-</u>
<b>Totals</b>	<b><u>\$ 13,725</u></b>	<b><u>\$ 11,488</u></b>

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 8      DEFINED BENEFIT PENSION PLANS (continued)**

**C. Pension Costs (continued)**

**1. GERF Pension Cost (continued)**

\$8,797 reported as deferred outflows of resources related to pensions resulting from Middle Fork Crow River Watershed contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. 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
2016	\$ (1,745)
2017	\$ (1,745)
2018	\$ (1,743)
2019	\$ 2,085

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034 and 2.5% for GERF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 by the target asset allocation percentages. The target allocation and best estimates of arithmetic 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%

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 8      DEFINED BENEFIT PENSION PLANS (continued)**

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**F. Pension Liability Sensitivity**

The following presents the Middle Fork Crow River Watershed'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 Middle Fork Crow River Watershed'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 (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Entity's proportionate share of the GERP net pension liability	\$ 138,529	\$ 88,103	\$ 46,459

**G. 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).

**NOTE 9      OTHER POST EMPLOYMENT BENEFITS**

The District does not accrue a liability for other post-employment benefits because they do not have an employer sponsored health plan.

**NOTE 10    PRIOR PERIOD ADJUSTMENT**

At December 31, 2015, the Entity adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This implementation allows the Entity to report its proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the pension plan's fiduciary net position on the financial statements.

The beginning net position of the governmental has been adjusted to reflect a change in accounting principle.

	Government-Wide Statement
Net position at December 31, 2014, as previously reported	\$ 605,341
Change in accounting principle	(86,160)
Net position at December 31, 2014, as restated	\$ 519,181

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 11    SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 3, 2016, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGET AND ACTUAL  
For the Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Tax levy	\$ 319,841	\$ 319,841	\$ 273,923	\$ (45,918)
Special assessments	45,000	45,000	15,147	(29,853)
Grants	88,689	88,689	166,028	77,339
Interest income	3,000	3,000	1,831	(1,169)
Local contributions and miscellaneous	<u>1,100</u>	<u>1,100</u>	<u>14,492</u>	<u>13,392</u>
 Total Revenues	 <u>457,630</u>	 <u>457,630</u>	 <u>471,421</u>	 <u>13,791</u>
<b>EXPENDITURES</b>				
Meetings/seminars	19,700	19,700	22,265	2,565
Contract labor	31,700	31,700	35,648	3,948
Administrative	20,123	20,123	7,435	(12,688)
BMP implementation expense	96,500	96,500	216,492	119,992
Professional expenses	41,800	41,800	28,824	(12,976)
Employee benefits	-	-	18,805	18,805
Dues	4,500	4,500	2,234	(2,266)
Insurance	4,300	4,300	6,776	2,476
Payroll expenses	179,000	179,000	174,984	(4,016)
Payroll tax expense	-	-	16,250	16,250
Utilities	-	-	8,154	8,154
Monitoring	-	-	7,384	7,384
Office expense	-	-	9,694	9,694
Public education	4,700	4,700	10,054	5,354
Capital outlay	<u>1,000</u>	<u>1,000</u>	<u>29,164</u>	<u>28,164</u>
 Total Expenditures	 <u>403,323</u>	 <u>403,323</u>	 <u>594,163</u>	 <u>190,840</u>
 Net Change in Fund Balance	 54,307	 54,307	 (122,742)	 <u>\$ 204,631</u>
 <b>Fund Balance, Beginning</b>	 <u>533,297</u>	 <u>533,297</u>	 <u>533,297</u>	
 <b>Fund Balance, Ending</b>	 <u>\$ 587,604</u>	 <u>\$ 587,604</u>	 <u>\$ 421,744</u>	

The notes to the required supplementary information are an integral part of this statement.

**MIDDLE FORK CROW RIVER WATERSHED , MINNESOTA**  
**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS**  
**GENERAL EMPLOYEES RETIREMENT FUND**

**Schedule of Proportionate Share of Net Pension Liability**

<u>Fiscal Year Ending</u>	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	Employer's Covered- Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0017%	\$ 88,103	\$ 102,262	86.2%	78.2%

**Schedule of Employer Contributions**

<u>Fiscal Year Ending</u>	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
December 31, 2015	\$ 9,855	\$ 9,855	\$ -	\$ 131,398	7.50%

Note: Schedules are intended to show a 10 year trend. Additional years will be reported as they become available.

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2015**

**NOTE 1 BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, the District Manager prepares a draft budget for the upcoming fiscal year. Before September 15, the proposed budget is presented to the District Board for review. The Board holds public hearings and a final budget must be prepared and adopted no later than September 15.

The appropriated budget is prepared by fund and function. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the function level.

**NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The General Fund disbursements exceeded the amounts budgeted for the year ended December 31, 2015.

	<u>Disbursements</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 594,163	\$ 403,323	\$ 190,840

**OTHER REQUIRED REPORTS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Managers  
Middle Fork Crow River Watershed District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Middle Fork Crow River Watershed District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Middle Fork Crow River Watershed District's basic financial statements, and have issued our report thereon dated May 3, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Middle Fork Crow River Watershed District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A deficiency in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as items 2007-002 and 2008-001 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as item 2007-001 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Middle Fork Crow River Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

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.

In connection with our audit, nothing came to our attention that caused us to believe that Middle Fork Crow River Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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 District's noncompliance with the above referenced provisions.

Middle Fork Crow River Watershed District's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Westberg Eischens, PLLP*

Westberg Eischens, PLLP  
May 3, 2016

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended December 31, 2015**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

**Finding 2007-001**

**Criteria:**

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

**Condition:**

Due to the limited size of the District's business staff, the District has limited segregation of duties.

**Questioned Costs:**

None

**Context:**

The District has informed us that the small size of its business office staff precludes proper separation of duties at this time.

**Effect:**

The District is unable to maintain separation of incompatible duties.

**Cause:**

Limited number of staff in the business office

**Recommendation:**

We recommend that the District continue to separate incompatible duties as best it can within the limits of what the District considers to be cost beneficial.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2007-001**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

**Officer Responsible for Ensuring CAP:**

Not Applicable

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (Continued)  
Year Ended December 31, 2015**

**Finding 2007-002**

**Criteria:**

Generally, a system of internal control includes the ability to understand and prepare the District's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Condition:**

Due to the limited size of the District's business staff and related resources available, the District has relied upon the auditor to prepare the financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America.

**Questioned Costs:**

None

**Context:**

The District has informed us that the small size and qualifications of its business office staff precludes the District from preparing its own financial statements.

**Effect:**

The District is unable to prepare GAAP based financial statements.

**Cause:**

Limited number and qualifications of staff in the business office

**Recommendation:**

We recommend that the District continue to review the auditor-prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under generally accepted accounting principles.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2007-002**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District reviews draft financial statements with the auditor in an effort to increase management's understanding and to provide input into the required disclosures.

**Officer Responsible for Ensuring CAP:**

Not Applicable

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable

**MIDDLE FORK CROW RIVER WATERSHED DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (Continued)  
Year Ended December 31, 2015**

**Finding 2008-001**

**Criteria:**

A control deficiency 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 misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control.

**Condition:**

During our audit, we proposed numerous adjustments that resulted in significant changes to the District's financial statements.

**Questioned Costs:**

None

**Context:**

The District's limited size, training and qualifications of business office personnel have precluded the District from the ability to properly identify and correct financial misstatements.

**Effect:**

The District's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

**Cause:**

Inadequate internal controls and monitoring of internal controls by qualified District personnel.

**Recommendation:**

We recommend that the District review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2008-001**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will continue to review internal controls and work to design modifications that will increase internal control and the ability to detect material misstatements.

**Officer Responsible for Ensuring CAP:**

Not Applicable

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable