

Annual Financial Report

Comfort Lake - Forest Lake Watershed District

Forest Lake, Minnesota

For the Year Ended
December 31, 2016

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COMFORT LAKE - FOREST LAKE
WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2016

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COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
 FOREST LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

FOR THE YEAR ENDED
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COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
BOARD OF MANAGERS AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016

BOARD OF MANAGERS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jackie A. Anderson	President	11/04/18
Jon W. Spence	Vice President	01/06/18
Stephen Schmaltz	Treasurer	09/22/17
Wayne S. Moe	Secretary	09/23/18
Jackie McNamara	Assistant Treasurer	09/23/18

APPOINTED OFFICIALS

Mike Kinney	District Administrator
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FINANCIAL SECTION

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Comfort Lake - Forest Lake Watershed District, Minnesota (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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 of 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 District'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 District'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 District as of December 31, 2016 and the respective changes in financial position and the budgetary comparison for the General fund and the Program and Project Implementation fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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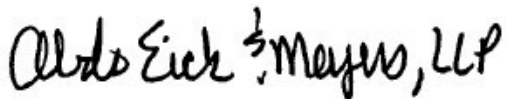
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 13 and the Schedule of Employer's Share of the Net Pension Liability and the Schedule of Employer's Contributions starting on page 47 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 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.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 7, 2017

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Management's Discussion and Analysis

As management of the Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,005,503 (net position). Of this amount, \$938,062 (unrestricted net position) may be used to meet the District's ongoing obligations.
- The District's total net position decreased by \$374,291, which was mostly due to increased general government expenses and project costs.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,089,734, a decrease of \$341,264 in comparison with the prior year. This decrease in fund balance is mainly due to increased program and project cost expenditures.
- The ending General fund balance is \$131,852, which is comprised of nonspendable (\$4,435) and unassigned (\$127,417). The total fund balance is 46.7 percent of the 2017 General fund budgeted expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

**Figure 1
Required Components of the
District’s Annual Financial Report**

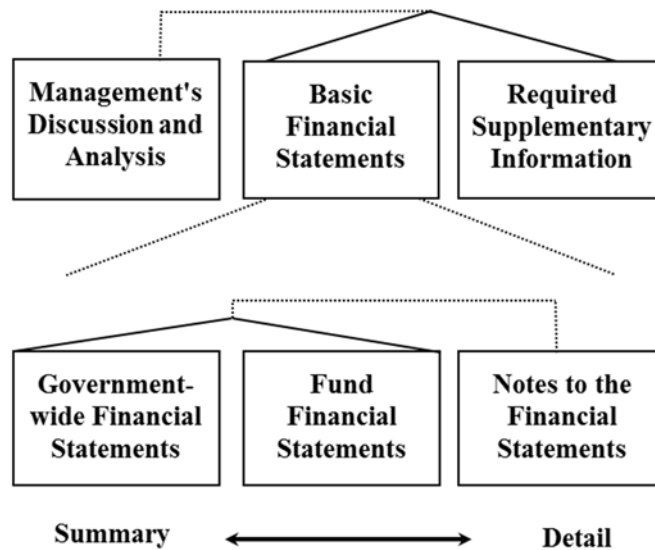


Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2
Major features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements	
	Government-wide Statements	Governmental Funds
Scope	Entire District	The activities of the District
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of in flow/out flow information	All revenues and expenses during 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 payment is due during the year or soon thereafter

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows or resources, liabilities and deferred inflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., grants and earned but unused vacation and sick leave).

The governmental activities of the District include general government, program costs, and project costs.

The government-wide financial statements start on page 22 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently maintains two governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its General fund and Program and Project Implementation fund. A budgetary comparison statement has been provided for the General fund and Program and Project Implementation fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 33 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,005,503 at the close of the most recent fiscal year.

Comfort Lake - Forest Lake Watershed District's Summary of Net Position

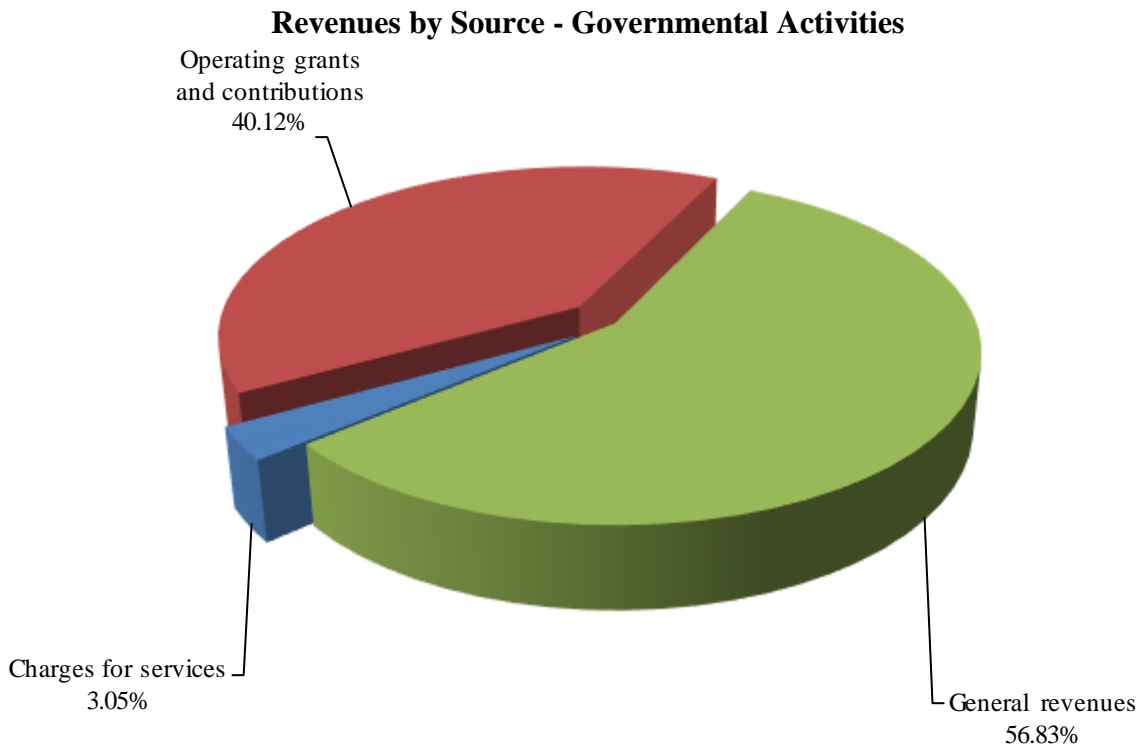
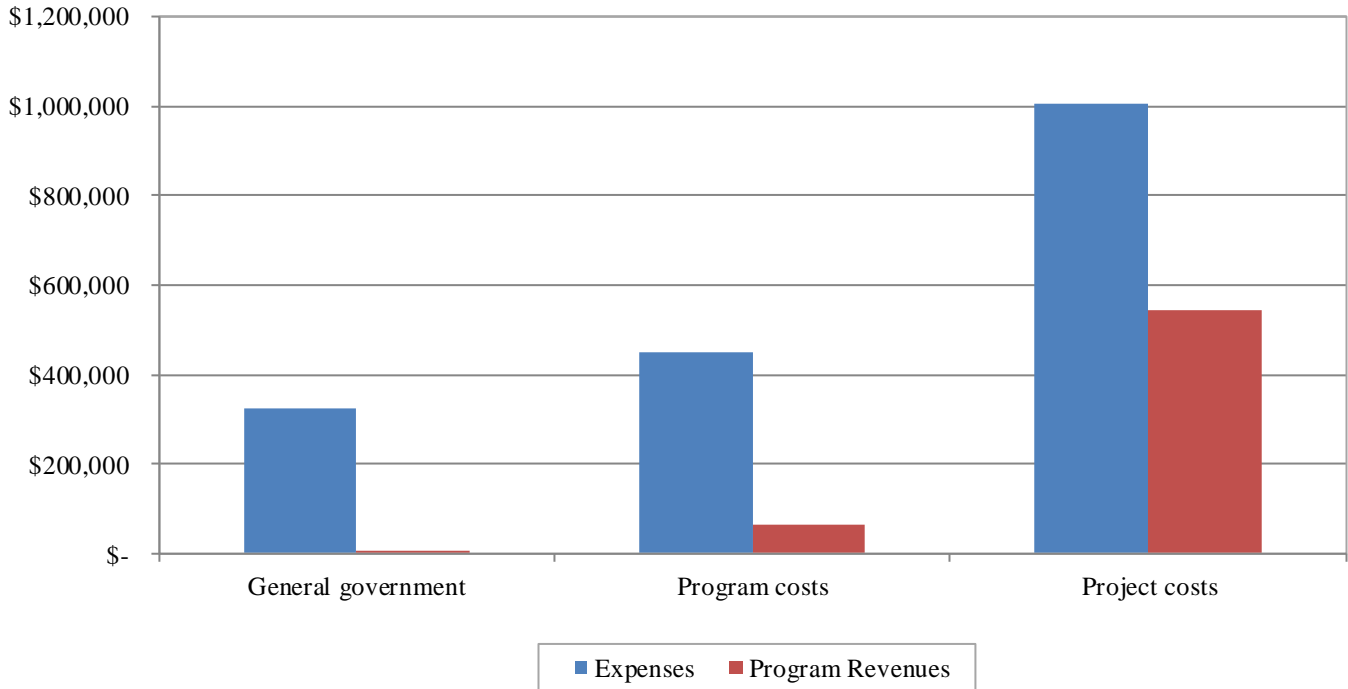
	December 31,		Increase (Decrease)
	2016	2015	
Assets			
Current	\$ 1,410,500	\$ 1,743,352	\$ (332,852)
Capital	9,437	9,437	-
Total assets	<u>1,419,937</u>	<u>1,752,789</u>	<u>(332,852)</u>
Deferred outflows of resources			
Deferred pension resources	<u>112,678</u>	<u>23,469</u>	<u>89,209</u>
Liabilities			
Current	305,196	291,537	13,659
Noncurrent	<u>202,863</u>	<u>92,643</u>	<u>110,220</u>
Total liabilities	<u>508,059</u>	<u>384,180</u>	<u>123,879</u>
Deferred inflows of resources			
Deferred pension resources	<u>19,053</u>	<u>12,284</u>	<u>6,769</u>
Net position			
Investment in capital assets	9,437	9,437	-
Restricted for water resource management plan	58,004	57,146	858
Unrestricted	<u>938,062</u>	<u>1,313,211</u>	<u>(375,149)</u>
Total net position	<u>\$ 1,005,503</u>	<u>\$ 1,379,794</u>	<u>\$ (374,291)</u>

Governmental activities. Governmental activities decreased the District's net position by \$374,291, which was due mostly to general government expenditures and increased project costs from prior year.

Comfort Lake - Forest Lake Watershed District's Changes in Net Position

	December 31,		Increase (Decrease)
	2016	2015	
Revenues			
Program			
Charges for services	\$ 42,993	\$ 33,424	\$ 9,569
Operating grants and contributions	564,936	253,698	311,238
General			
Property taxes	792,923	752,076	40,847
Grants and contributions not restricted to specific programs	1,221	1,247	(26)
Unrestricted investment earnings	5,367	7,213	(1,846)
Miscellaneous	749	-	749
Total revenues	<u>1,408,189</u>	<u>1,047,658</u>	<u>360,531</u>
Expenses			
General government	326,160	246,424	79,736
Program costs	450,566	438,741	11,825
Project costs	<u>1,005,754</u>	<u>579,162</u>	<u>426,592</u>
Total expenses	<u>1,782,480</u>	<u>1,264,327</u>	<u>518,153</u>
Change in net position	(374,291)	(216,669)	(157,622)
Net position, January 1	<u>1,379,794</u>	<u>1,596,463</u>	<u>(216,669)</u>
Net position, December 31	<u>\$ 1,005,503</u>	<u>\$ 1,379,794</u>	<u>\$ (374,291)</u>

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,089,734, a decrease of \$341,264 in comparison with the prior year. Approximately 11.7 percent of this total amount, \$127,417 constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance, \$962,317, is either 1) nonspendable (\$4,435), 2) restricted (\$58,004), 3) committed (\$128,104) or 4) assigned (\$771,774) for the purpose described in the fund balance sheet section.

The General fund is the chief operating fund of the District. At the end of the current year, the fund balance of the General fund was \$131,852. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 44.0 percent of 2016 actual expenditures and 46.7 percent of 2017 budgeted fund expenditures. The General fund balance decreased by \$60,092 during the current fiscal year.

The fund balance of the Programs and Projects Implementation fund at year end was \$957,882 which is a decrease of \$281,172 from the prior year. This was due to increased program and projects costs incurred during the year.

General Fund Budgetary Highlights

The District's General fund budget was not amended during the year. Revenues were over budget by \$295, which can be attributed to unbudgeted revenue sources. Expenditures were over budget by \$34,987. The largest variances were due to accounting fees, legal fees, and engineering fees which were over budget by \$13,244, \$14,734, and \$9,511 respectively.

Program and Project Implementation Fund Budgetary Highlights

The District's Program and Project Implementation fund budget was not amended during the year. Revenues were over budget by \$605,830, which can be attributed to grant revenues and permit fee revenue of \$564,936 and \$39,320, respectively which were not budgeted. Expenditures were lower than budgeted by \$524,068, which is due to program costs being under budget by \$187,744 and project cost being under budget by \$336,324.

Economic Factors and Next Year's Budgets

The District goes through a multi-stage process to develop its annual budget. This first step includes an annual review of the Watershed Management Plan (WMP) and associated Implementation Schedule and Cost Table along with input from various partners and quotes from anticipated contracted professionals. After this part of the budget is complete, the Watershed District Board meets several times to consider current and projected projects, programs, staff adjustments, etc. to develop the rest of the budget. For the 2016 fiscal year, the District completed the construction of the Bixby Park project as well as the design and bidding of the Forest Lake Wetland Treatment Basin Implementation Project and phase 1 of the Moody Lake Wetland Rehabilitation Project. Additionally, the District completed the bidding and construction of the first half of the Hilo Lane Stormwater Project. Of additional interest for 2016 was the hiring of a full time Program Assistant and Watershed Assistant within the first six months. These additional full time employees helped facilitate a much expanded program in aquatic invasive species, another year of increased erosion and sediment control permitting and inspections, an expansion in grant writing, and an increase in projects in various stages of design and construction. The grants and contributions have come from BWSR, MPCA, EPA, DNR, Washington County, City of Forest Lake, and the Forest Lake Association.

For 2017, the District is scheduled to complete the construction of the Hilo Lane, the Forest Lake Wetland Treatment Implementation and phase 1 of the Moody Lake Wetland Rehabilitation projects. Phase 2 of the Moody Lake Wetland Rehabilitation project will be designed and put out for bid in 2017 as well. The District was also awarded three new BWSR grants for 2017. One of them will help plan for additional projects that have a high return on investment for local water resources. The other two are construction related projects that will be designed and put out for bid in 2017. Depending on weather and permitting, the construction for the one may begin in 2017. The rest will be completed in 2018. A detailed work plan of District activities within the WMP showed that additional staff could substantially reduce contracted work and thus save District funds while increasing hours of service to citizens within the District. District staff have developed metrics to show this to be the case. For 2017, a number of smaller projects and lake management programs are planned for implementation by staff as well.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mike Kinney, Administrator, Comfort Lake - Forest Lake Watershed District, 44 Lake Street South Suite A, Forest Lake, MN 55025.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and temporary investments	\$ 1,192,774
Taxes receivable	32,916
Due from other governments	180,375
Prepaid items	4,435
Capital assets	
Land	<u>9,437</u>
TOTAL ASSETS	<u>1,419,937</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension resources	<u>112,678</u>
LIABILITIES	
Accounts payable	130,339
Deposits payable	22,966
Unearned revenue	144,458
Noncurrent liabilities	
Compensated absences payable - due within one year	7,433
Compensated absences payable - due in more than one year	7,994
Pension liability - due in more than one year	<u>194,869</u>
TOTAL LIABILITIES	<u>508,059</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension resources	<u>19,053</u>
NET POSITION	
Investment in capital assets	9,437
Restricted for water resource management plan	58,004
Unrestricted	<u>938,062</u>
TOTAL NET POSITION	<u>\$ 1,005,503</u>

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
General government	\$ 326,160	\$ 818	\$ -	\$ -	\$ (325,342)
Program costs	450,566	42,175	23,000	-	(385,391)
Project costs	<u>1,005,754</u>	<u>-</u>	<u>541,936</u>	<u>-</u>	<u>(463,818)</u>
 Total	 <u>\$ 1,782,480</u>	 <u>\$ 42,993</u>	 <u>\$ 564,936</u>	 <u>\$ -</u>	 <u>(1,174,551)</u>
General revenues					
Property taxes					792,923
Grants and contributions not restricted to specific programs					1,221
Unrestricted investment earnings					5,367
Miscellaneous					<u>749</u>
Total general revenues					<u>800,260</u>
Change in net position					(374,291)
Net position, January 1					<u>1,379,794</u>
Net position, December 31					<u>\$ 1,005,503</u>

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

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FUND FINANCIAL STATEMENTS

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Program and Project Implementation	Total Governmental Funds
ASSETS			
Cash and temporary investments	\$ 139,533	\$ 1,053,241	\$ 1,192,774
Receivables			
Taxes	9,789	23,127	32,916
Due from other governments	-	180,375	180,375
Prepaid items	4,435	-	4,435
TOTAL ASSETS	\$ 153,757	\$ 1,256,743	\$ 1,410,500
LIABILITIES			
Accounts payable	\$ 15,064	\$ 115,275	\$ 130,339
Deposits payable	-	22,966	22,966
Unearned revenue	-	144,458	144,458
TOTAL LIABILITIES	15,064	282,699	297,763
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - taxes	6,841	16,162	23,003
FUND BALANCES			
Nonspendable for			
Prepaid items	4,435	-	4,435
Restricted for			
Water resource management plan	-	58,004	58,004
Committed for			
Water resource management plan	-	128,104	128,104
Assigned to			
Water resource management plan	-	771,774	771,774
Unassigned	127,417	-	127,417
TOTAL FUND BALANCES	131,852	957,882	1,089,734
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 153,757	\$ 1,256,743	\$ 1,410,500

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

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

Total fund balances - governmental	\$ 1,089,734
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	9,437
Noncurrent liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Compensated absences payable	(15,427)
Pension liability	(194,869)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	23,003
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	112,678
Deferred inflows of pension resources	(19,053)
Total net position - governmental activities	<u>\$ 1,005,503</u>

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Program and Project Implementation	Total Governmental Funds
REVENUES			
Property taxes	\$ 236,504	\$ 558,754	\$ 795,258
Intergovernmental			
Market value agricultural credit	363	858	1,221
Reimbursements/grants	-	564,936	564,936
Interest on investments	1,610	3,757	5,367
Permit fees	-	39,320	39,320
Miscellaneous	818	2,855	3,673
	<u>239,295</u>	<u>1,170,480</u>	<u>1,409,775</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	299,387	-	299,387
Program costs	-	448,036	448,036
Project costs	-	1,003,616	1,003,616
	<u>299,387</u>	<u>1,451,652</u>	<u>1,751,039</u>
TOTAL EXPENDITURES			
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(60,092)	(281,172)	(341,264)
FUND BALANCES, JANUARY 1	<u>191,944</u>	<u>1,239,054</u>	<u>1,430,998</u>
FUND BALANCES, DECEMBER 31	<u>\$ 131,852</u>	<u>\$ 957,882</u>	<u>\$ 1,089,734</u>

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Total net change in fund balances - governmental funds	\$ (341,264)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(2,335)
<p>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.</p>	
Compensated absences payable	(6,367)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension revenue	749
Pension expense	<u>(25,074)</u>
Change in net position - governmental activities	<u><u>\$ (374,291)</u></u>

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 238,637	\$ 238,637	\$ 236,504	\$ (2,133)
Intergovernmental				
Market value agricultural credit	363	363	363	-
Interest on investments	-	-	1,610	1,610
Miscellaneous	-	-	818	818
	<u>239,000</u>	<u>239,000</u>	<u>239,295</u>	<u>295</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
General government				
Manager per diems and administrative	112,800	112,800	111,165	1,635
Engineering	36,000	36,000	45,511	(9,511)
Legal fees	21,000	21,000	35,734	(14,734)
Legal notices	700	700	654	46
Accounting	17,200	17,200	30,444	(13,244)
Dues and subscriptions	4,300	4,300	4,512	(212)
Insurance	4,000	4,000	5,538	(1,538)
Postage	700	700	433	267
Rent	27,000	27,000	30,175	(3,175)
Telephone	3,300	3,300	6,038	(2,738)
Printing	1,500	1,500	54	1,446
Training and seminars	2,300	2,300	5,156	(2,856)
Equipment	5,000	5,000	4,077	923
Other office expenses	28,100	28,100	19,680	8,420
Miscellaneous	500	500	216	284
	<u>264,400</u>	<u>264,400</u>	<u>299,387</u>	<u>(34,987)</u>
TOTAL EXPENDITURES				
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(25,400)	(25,400)	(60,092)	(34,692)
FUND BALANCES, JANUARY 1	<u>191,944</u>	<u>191,944</u>	<u>191,944</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 166,544</u></u>	<u><u>\$ 166,544</u></u>	<u><u>\$ 131,852</u></u>	<u><u>\$ (34,692)</u></u>

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
PROGRAM AND PROJECT IMPLEMENTATION FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 563,792	\$ 563,792	\$ 558,754	\$ (5,038)
Intergovernmental				
Market value agricultural credit	858	858	858	-
Reimbursements/grants	-	-	564,936	564,936
Interest on investments	-	-	3,757	3,757
Permit fees	-	-	39,320	39,320
Miscellaneous	-	-	2,855	2,855
	<u>564,650</u>	<u>564,650</u>	<u>1,170,480</u>	<u>605,830</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Program costs				
District technical support	-	-	1,214	(1,214)
District rules and rule making	19,312	19,312	17,762	1,550
Permitting	64,080	64,080	87,079	(22,999)
Monitoring and assessment	119,113	119,113	107,567	11,546
Non-point source pollution abatement	177,867	177,867	51,325	126,542
Education & outreach	99,500	99,500	87,173	12,327
Tech resource sharing and communication	56,140	56,140	19,932	36,208
Research	18,200	18,200	6,718	11,482
Watershed management plan	7,248	7,248	3,664	3,584
Grant research	18,160	18,160	36,934	(18,774)
Operations and maintenance	56,160	56,160	28,668	27,492
Project costs				
District technical support	-	-	21,326	(21,326)
Lakes - district wide	37,115	37,115	64,594	(27,479)
Individual lake projects	923,841	923,841	764,782	159,059
Streams	18,012	18,012	4,124	13,888
Wetlands	183,547	183,547	116,956	66,591
Upland resources	870	870	1,169	(299)
Interagency communication	19,862	19,862	9,892	9,970
Land acquisition and management	156,693	156,693	20,773	135,920
	<u>1,975,720</u>	<u>1,975,720</u>	<u>1,451,652</u>	<u>524,068</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	(1,411,070)	(1,411,070)	(281,172)	1,129,898
FUND BALANCES, JANUARY 1				
	<u>1,239,054</u>	<u>1,239,054</u>	<u>1,239,054</u>	<u>-</u>
FUND BALANCES, DECEMBER 31				
	<u>\$ (172,016)</u>	<u>\$ (172,016)</u>	<u>\$ 957,882</u>	<u>\$ 1,129,898</u>

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

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COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota was originally created in 1999 by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota statutes Chapter 103D and began operations in 2000. The District was established to promote the public welfare and public interest and will advance the purpose of Minnesota statutes, chapters 103B and 103D. The District is operated by a five member Board of Managers appointed by the Washington and Chisago Boards of Commissioners for three-year terms.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly 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.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement focus, basis of accounting and basis of 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. 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlement and donations. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The District reports the following major governmental funds:

The *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.

The *Program and Project Implementation fund* is established to account for programs and projects to manage the District's resources. Property taxes are committed for the Program and Project Implementation Fund.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The District's cash and temporary investments are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

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. Collections for November and December are received the following January. The District has no ability to enforce payments of property taxes by property owners. The County possesses this authority.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the fund financial statements.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Capital assets

Capital assets, which include land, land improvements and easements, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. 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 the 2004 calendar year and has elected not to report infrastructure assets acquired in years prior to 2004.

Deferred outflows of resources

In addition to assets, the statement of net 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 only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

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.

Compensated absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick benefits, which will be paid to the employee upon separation without the considerations of number of years of service. 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. The General fund is typically used to liquidate governmental compensated absences.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred inflows of resources

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, *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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

The District has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Fund balance

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 the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

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

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board, which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. Pursuant to board resolution, the District's Administrator is authorized to establish assignments of fund balance.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers 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 balance when expenditures are made.

Net position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets, net of accumulated depreciation
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "investment in capital assets".

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

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
 FOREST LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The Board of Managers adopts an annual budget for the General and Program and Project Implementation fund of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. There were no amendments to the budget during 2016. The modified accrual basis of accounting is used by the District for budgeting data. All unused project related appropriations carry over to the following fiscal year until the related project is completed.

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

The District does not use encumbrance accounting.

B. Excess of expenditures over appropriations

For the year ended December 31, 2016 expenditures exceeded appropriations as noted below:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General fund	\$ 264,400	\$ 299,387	\$ 34,987

The excess of expenditures over appropriations was funded by revenues in excess of budget and available fund balance.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
 FOREST LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ACCOUNTS

A. Deposits and investments

Deposits

In accordance with Minnesota statutes and as authorized by the Board, the District maintains deposits at those depository banks, 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 percent of the deposits not covered by insurance or bonds or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- 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;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- 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
- Time deposits that are fully insured by any Federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

At year end, the District's carrying amount of deposits was \$1,192,774 and the bank balance was \$1,236,604. Of the bank balance, \$498,776 was covered by federal depository insurance and the remaining balance was covered by collateral held by the District's agent in the District's name.

B. Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 9,437	\$ -	\$ -	\$ 9,437

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

C. Long-term liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Governmental activities					
Compensated absences payable	\$ 9,060	\$ 13,800	\$ (7,433)	\$ 15,427	\$ 7,433
Pension liability	<u>88,104</u>	<u>206,053</u>	<u>(11,184)</u>	<u>194,869</u>	<u>-</u>
Total governmental activities	<u>\$ 97,164</u>	<u>\$ 219,853</u>	<u>\$ (18,617)</u>	<u>\$ 210,296</u>	<u>\$ 7,433</u>

D. Operating leases

The District entered into a lease agreement with 494 Properties, LLC for office space. The lease agreement has an effective period of December 1, 2014 and will terminate on November 30, 2019. The lessee has the option to renew the lease for an additional five-year term by providing notice at least 90 days before the lease ends. The rent payments for each month consist of base rent plus a CAM charge. CAM charges include real estate taxes, property insurance premiums, snowplowing, and parking lot upkeep. In addition, the District is responsible for interior and exterior repair and maintenance costs as well as all utility costs. The District paid \$30,175 for rent in 2016.

The following is a summary of future minimum lease payments:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 27,452
2018	27,873
2019	<u>25,913</u>
Total	<u>\$ 81,238</u>

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

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 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 Minnesota 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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The District's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$13,992, \$9,003 and \$5,552, respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2016, the District reported a liability of \$194,869 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 \$2,512. 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 proportionate share was 0.0024 percent which was an increase of 0.0007 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$24,325 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$749 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 561	\$ 19,053
Changes in actuarial assumptions	42,478	-
Net difference between projected and actual earnings on plan investments	24,826	-
Changes in proportion	37,171	-
Contributions to GERF subsequent to the measurement date	7,642	-
Total	\$ 112,678	\$ 19,053

Deferred outflows of resources totaling \$7,642 related to pensions resulting from the District's contributions to GERF 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 GERF pensions will be recognized in pension expense as follows:

2017	\$ 27,024
2018	23,873
2019	28,047
2020	7,039

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NOTES TO THE FINANCIAL STATEMENTS
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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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 percent 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:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	<u>2.00</u>	0.50
Total	<u><u>100.00 %</u></u>	

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FOREST LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

F. Discount rate

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers 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:

	District Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	<u>\$ 276,770</u>	<u>\$ 194,869</u>	<u>\$ 127,403</u>

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.

Note 5: OTHER INFORMATION

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; injuries to employees; and natural disasters for which the District carries insurance. The District pays annual premiums for its workers compensation and property and casualty insurance. Settled claims have not exceeded the District’s coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District’s management is not aware of any incurred but not reported claims.

REQUIRED SUPPLEMENTARY INFORMATION

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0024 %	\$ 194,869	\$ 2,512	\$ 197,381	\$ 186,560	104.5 %	68.9 %
06/30/15	0.0017	88,104	-	88,104	95,493	92.3	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of employer's PERA contributions - General Employees Retirement Fund

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 13,992	\$ 13,992	\$ -	\$ 186,560	7.5 %
12/31/15	9,003	9,003	-	120,040	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

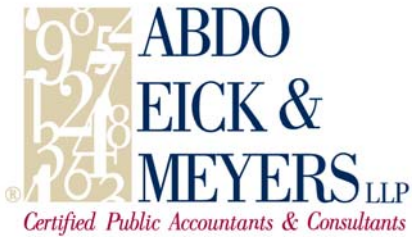
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OTHER REQUIRED REPORT

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Comfort Lake - Forest Lake Watershed District
Forest Lake, 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 Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 7, 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 tax increment financing as the District does not have any established tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the 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 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 the District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 7, 2017