

**VALLEY BRANCH WATERSHED DISTRICT**

**ANNUAL FINANCIAL REPORT**

December 31, 2013

**- This page intentionally left blank -**

**VALLEY BRANCH WATERSHED DISTRICT**  
**TABLE OF CONTENTS**

---

	<u>Page Number</u>
<b>INTRODUCTORY SECTION</b>	
Organization	3
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	Statement 1      12
Statement of Activities	Statement 2      13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	Statement 3      14
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4      15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	Statement 5      16
Statement of Net Position - Fiduciary Funds - Escrow Fund	Statement 6      17
Notes to Financial Statements	19
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	Statement 7      32
Budgetary Comparison Schedule - Note to RSI	33
Individual Fund Financial Statements:	
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance:	
General Fund	Statement 8      36
Water Management and Maintenance Fund	Statement 9      37
Water Quantity Fund	Statement 10     38
Public Education Fund	Statement 11     39
Plan Implementation Fund	Statement 12     40
Statement of Changes in Assets and Liabilities - Fiduciary Fund - Escrow Fund	Statement 13     41
<b>OTHER REPORTS</b>	
Report on Internal Control	45
Schedule of Findings and Responses	47
Minnesota Legal Compliance Report	49

**- This page intentionally left blank -**

## **INTRODUCTORY SECTION**

**- This page intentionally left blank -**

**VALLEY BRANCH WATERSHED DISTRICT**

**ORGANIZATION**

December 31, 2013

---

	<u>Term Expires</u>
<b>Managers:</b>	
David Bucheck - President	November, 2014
Lincoln Fetcher - Vice President	November, 2016
Jill Lucas - Secretary	November, 2016
Dale Borash - Treasurer	November, 2015
Ed Marchan - Manager	November, 2014

**- This page intentionally left blank -**

## **FINANCIAL SECTION**

**- This page intentionally left blank -**



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the  
Valley Branch Watershed District  
Lake Elmo, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Valley Branch Watershed District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Valley Branch Watershed District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Branch Watershed District, as of December 31, 2013, 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.

### **Emphasis of Matter – Implementation of GASB 65**

As described in Note 9 to the financial statements, in 2013, Valley Branch Watershed District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Report on Summarized Comparative Information**

We have previously audited the Valley Branch Watershed District's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated April 26, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### **Required Supplementary Information**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32 and 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

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

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

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

*HLB Tautges Redpath, Ltd*

HLB TAUTGES REDPATH, LTD.

April 25, 2014

**- This page intentionally left blank -**

## **BASIC FINANCIAL STATEMENTS**

**VALLEY BRANCH WATERSHED DISTRICT**

STATEMENT OF NET POSITION

**Statement 1**

December 31, 2013

With Comparative Totals For December 31, 2012

	Primary Government	
	Governmental Activities	
	2013	2012
<b>Assets:</b>		
Cash and investments	\$865,836	\$514,687
Accounts receivable	22,805	-
Property taxes receivable:		
Delinquent	11,684	10,992
Due from county	1,094	8,688
Due from other governments	5,500	3,752
Capital assets - net:		
Depreciable	442,353	453,475
Total assets	<u>1,349,272</u>	<u>991,594</u>
<b>Liabilities:</b>		
Accounts payable	52,367	53,842
Due to other governments	33,383	41,139
Contracts payable	10,388	11,965
Unearned revenue	217,861	-
Total liabilities	<u>313,999</u>	<u>106,946</u>
<b>Net position:</b>		
Net investment in capital assets	442,353	453,475
Unrestricted	592,920	431,173
Total net position	<u>\$1,035,273</u>	<u>\$884,648</u>

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

**VALLEY BRANCH WATERSHED DISTRICT**

STATEMENT OF ACTIVITIES

**Statement 2**

For The Year Ended December 31, 2013

With Comparative Totals For The Year Ended December 31, 2012

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2013	2012
Primary government:						
Governmental activities:						
General government	\$174,390	\$8,381	\$ -	\$ -	(\$166,009)	(\$175,974)
Programs	481,662	-	19,988	-	(461,674)	(411,352)
Projects	11,122	-	-	-	(11,122)	(11,122)
Total governmental activities	<u>\$667,174</u>	<u>\$8,381</u>	<u>\$19,988</u>	<u>\$0</u>	<u>(638,805)</u>	<u>(598,448)</u>
General revenues:						
Property taxes					787,606	712,190
Grants and contributions not restricted to specific programs					770	688
Unrestricted investment earnings					1,054	1,165
Miscellaneous other					-	-
Total general revenues					<u>789,430</u>	<u>714,043</u>
Change in net position					150,625	115,595
Net position - January 1					<u>884,648</u>	<u>769,053</u>
Net position - December 31					<u>\$1,035,273</u>	<u>\$884,648</u>

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

**VALLEY BRANCH WATERSHED DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2013  
With Comparative Totals For December 31, 2012

**Statement 3**

Assets	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2013	2012
Cash and investments	\$89,398	\$29,192	\$48,775	\$34,245	\$664,226	\$865,836	\$514,687
Accounts receivable	22,805	-	-	-	-	22,805	\$ -
Property taxes receivable:							
Delinquent	2,318	1,844	250	386	6,886	11,684	10,992
Due from county	209	166	21	32	666	1,094	8,688
Due from other governments	-	-	-	-	5,500	5,500	3,752
<b>Total assets</b>	<b>\$114,730</b>	<b>\$31,202</b>	<b>\$49,046</b>	<b>\$34,663</b>	<b>\$677,278</b>	<b>\$906,919</b>	<b>\$538,119</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>							
<b>Liabilities:</b>							
Accounts payable	\$25,564	\$13,623	\$ -	\$ -	\$13,180	\$52,367	\$53,842
Due to other governments	100	-	-	6,411	26,872	33,383	41,139
Contracts payable	-	-	-	-	10,388	10,388	11,965
Unearned revenue	-	-	-	-	217,861	217,861	-
<b>Total liabilities</b>	<b>25,664</b>	<b>13,623</b>	<b>0</b>	<b>6,411</b>	<b>268,301</b>	<b>313,999</b>	<b>106,946</b>
<b>Deferred inflows of resources:</b>							
Unavailable revenue	2,318	1,844	250	386	6,886	11,684	10,992
<b>Total deferred inflows of resources</b>	<b>2,318</b>	<b>1,844</b>	<b>250</b>	<b>386</b>	<b>6,886</b>	<b>11,684</b>	<b>10,992</b>
<b>Fund balance (deficit):</b>							
Committed	-	15,344	48,706	27,780	208,939	300,769	125,200
Assigned	-	391	90	86	193,152	193,719	192,905
Unassigned	86,748	0	-	0	-	86,748	102,076
<b>Total fund balance (deficit)</b>	<b>86,748</b>	<b>15,735</b>	<b>48,796</b>	<b>27,866</b>	<b>402,091</b>	<b>581,236</b>	<b>420,181</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$114,730</b>	<b>\$31,202</b>	<b>\$49,046</b>	<b>\$34,663</b>	<b>\$677,278</b>	<b>\$906,919</b>	<b>\$538,119</b>
Fund balance reported above						\$581,236	\$420,181
Amounts reported for governmental activities in the statement of net position are different because:							
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.						442,353	453,475
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable in the funds.						11,684	10,992
<b>Net position of governmental activities</b>						<b>\$1,035,273</b>	<b>\$884,648</b>

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

**VALLEY BRANCH WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2013  
With Comparative Totals For The Year Ended December 31, 2012

**Statement 4**

	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2013	2012
<b>Revenues:</b>							
General property taxes:							
Current and delinquent	\$150,294	\$119,634	\$15,029	\$23,295	\$478,662	\$786,914	\$716,402
Intergovernmental:							
Market value homestead credit	147	117	15	23	468	770	688
Grants	-	-	-	-	19,988	19,988	16,693
Investment income	240	191	24	37	562	1,054	1,165
Permits	8,381	-	-	-	-	8,381	2,583
<b>Total revenues</b>	<b>159,062</b>	<b>119,942</b>	<b>15,068</b>	<b>23,355</b>	<b>499,680</b>	<b>817,107</b>	<b>737,531</b>
<b>Expenditures:</b>							
Current:							
Engineering	110,183	163,168	-	-	132,607	405,958	314,345
Accounting and audit	19,060	-	-	-	-	19,060	19,006
Legal	12,109	1,660	-	-	13,683	27,452	34,090
Manager's per diem and expenses	12,393	-	-	-	-	12,393	12,290
Secretarial services	4,735	-	-	-	-	4,735	4,655
Insurance	10,953	-	-	-	-	10,953	9,960
Inspector's services and mileage	809	-	-	-	-	809	786
Dues	3,500	-	-	-	-	3,500	3,630
Contingency projects	-	-	-	-	143,889	143,889	181,329
Public education	-	-	-	19,824	-	19,824	18,779
Miscellaneous	648	-	-	6,831	-	7,479	7,732
<b>Total expenditures</b>	<b>174,390</b>	<b>164,828</b>	<b>0</b>	<b>26,655</b>	<b>290,179</b>	<b>656,052</b>	<b>606,602</b>
Revenues over (under) expenditures	(15,328)	(44,886)	15,068	(3,300)	209,501	161,055	130,929
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	1,126,000
Transfers out	-	-	-	-	-	-	(1,126,000)
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net change in fund balance	(15,328)	(44,886)	15,068	(3,300)	209,501	161,055	130,929
Fund balance (deficit) - January 1	102,076	60,621	33,728	31,166	192,590	420,181	289,252
Fund balance (deficit) - December 31	<u>\$86,748</u>	<u>\$15,735</u>	<u>\$48,796</u>	<u>\$27,866</u>	<u>\$402,091</u>	<u>\$581,236</u>	<u>\$420,181</u>

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

**VALLEY BRANCH WATERSHED DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2013  
With Comparative Totals For The Year Ended December 31, 2012

**Statement 5**

	<u>2013</u>	<u>2012</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$161,055	\$130,929
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Depreciation	(11,122)	(11,122)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	692	(4,212)
	<u>          </u>	<u>          </u>
Change in net position of governmental activities (Statement 2)	<u><u>\$150,625</u></u>	<u><u>\$115,595</u></u>

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

**VALLEY BRANCH WATERSHED DISTRICT**  
 STATEMENT OF NET POSITION  
 FIDUCIARY FUNDS  
 ESCROW FUND  
 December 31, 2013  
 With Comparative Totals For December 31, 2012

**Statement 6**

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and investments	<u>\$162,336</u>	<u>\$133,899</u>
Total assets	<u><u>\$162,336</u></u>	<u><u>\$133,899</u></u>
Liabilities:		
Escrow deposits payable	<u>\$162,336</u>	<u>\$133,899</u>
Total liabilities	<u><u>\$162,336</u></u>	<u><u>\$133,899</u></u>

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

**- This page intentionally left blank -**

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Valley Branch Watershed District conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies:

**A. FINANCIAL REPORTING ENTITY**

Valley Branch Watershed District (the District) was established on November 14, 1968 by an order of the Minnesota Water Resources Board as provided in Minnesota Statutes, Chapter 112. The affairs of the District are governed by a Board of Managers of five residents of the District, four of whom are appointed by Washington County Commissioners and one appointed by Ramsey County Commissioners. In accordance with GASB pronouncements and Generally Accepted Accounting Principles (GAAP), the financial statements of the reporting entity should include the primary government and its component units. The District (primary government) does not have any component units.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

---

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

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

The District reports the following major governmental funds:

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

Water Management and Maintenance Fund (special revenue fund) - financed by ad valorem tax levies which are committed to pay costs associated with developing a plan for surface water management.

Water Quantity Fund (formerly known as the Emergency Fund) (special revenue fund) - accounts for the proceeds and disbursement of funds associated with emergency conditions that have been declared by the Managers. Property taxes are committed for water quantity projects and programs.

Public Education Fund (special revenue fund) - accounts for the education of the public in water management and various watershed district projects and programs. Property taxes are committed for public education projects and programs.

Plan Implementation Fund (special revenue fund) - accounts for projects identified in an approved and adopted watershed plan. Property taxes are committed for plan implementation projects and programs.

Additionally, the District reports the following fund type:

Escrow Fund (agency fund) - accounts for the assets of petitioners of projects or other governments held by the District in a trustee capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**D. BUDGET**

The Board of Managers adopts an annual budget for the General Fund of the District. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The District budget is prepared on a modified accrual basis of accounting. The District uses project based budgeting to assist in planning and monitoring its Special Revenue Funds, however, these are not legally adopted annual budgets. All appropriations end with the fiscal year for which they were made.

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

**E. CASH AND INVESTMENTS**

Cash balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to the individual funds on the basis of applicable cash balances available by each of the funds and in accordance with State Statute. In accordance with the provisions of GASB No. 31, the District reports investments at fair value, based upon quoted market prices, in the financial statements. In accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue to the operating statements.

**F. PROPERTY TAX REVENUE RECOGNITION**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

---

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

**G. INVENTORIES**

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

**H. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, infrastructure assets and intangible assets such as easements and computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the 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 during 2004 and has elected not to report infrastructure assets acquired in years prior to 2004.

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

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

Lift stations and pumps	50 years
Infrastructure	50 years

**I. FUND BALANCE CLASSIFICATION**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

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

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

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

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

*Unassigned* - is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

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

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

**J. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**K. USE OF ESTIMATES**

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

**L. RECLASSIFICATION**

Certain prior year amounts have been reclassified to conform with current year presentation.

**M. COMPARABLE TOTALS**

The basic financial statements and individual fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

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

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

**O. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$692 difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2012	(\$10,992)
At December 31, 2013	<u>11,684</u>
Net position to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$692</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

---

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

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

Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

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

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

**Custodial Credit Risk – Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At December 31, 2013, the carrying amount of the District's deposits was \$1,028,172 and the bank balance was \$1,058,453. The entire bank balance was covered by federal depository insurance or perfected collateral held by the District's agent in the District's name, except for \$253,670, which was uncollateralized.

Following is a reconciliation of the District's deposit balances as of December 31, 2013:

	<u>Cash and Investments</u>
Government-wide statement of net position	\$865,836
Fiduciary fund statement of net position	<u>162,336</u>
Total	<u><u>\$1,028,172</u></u>

## B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2013.

## C. INVESTMENT RISKS

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. State law limits investments to those listed in Note 2B. The District does not have an investment policy which further limits its investment choices.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates of debt investments could adversely affect the fair value of an investment. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

---

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a District's investment in a single issuer. The District does not have an investment policy which addresses the concentration of credit risk.

**Custodial Credit Risk - Investments.** For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investment securities that are in the possession of an outside party. The District does not have an investment policy which limits custodial credit risk.

**Note 3 UNAVAILABLE REVENUES**

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

	<u>Property Taxes</u>
General Fund	\$2,318
Water Management and Maintenance Fund	1,844
Water Quantity Fund	250
Public Education Fund	386
Plan Implementation Fund	<u>6,886</u>
Total	<u><u>\$11,684</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

	1/1/13 Beginning Balance	Increase	Decrease	12/31/13 Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Lift stations and pumps	\$114,083	\$ -	\$ -	\$114,083
Ravine stabilization	289,207	-	-	289,207
Oakgreen infiltration basin	152,777	-	-	152,777
Total capital assets, being depreciated	<u>556,067</u>	<u>0</u>	<u>0</u>	<u>556,067</u>
Less accumulated depreciation for:				
Lift stations and pumps	73,016	2,282	-	75,298
Ravine stabilization	17,352	3,056	-	20,408
Oakgreen infiltration basin	12,224	5,784	-	18,008
Total accumulated depreciation	<u>102,592</u>	<u>11,122</u>	<u>0</u>	<u>113,714</u>
Total capital assets being depreciated - net	<u>453,475</u>	<u>(11,122)</u>	<u>0</u>	<u>442,353</u>
Governmental activities capital assets - net	<u>\$453,475</u>	<u>(\$11,122)</u>	<u>\$0</u>	<u>\$442,353</u>

Depreciation expense was charged to function/programs of the District as follows:

Governmental activities:	
Projects	<u>\$11,122</u>

**Note 5 CONTINGENCIES**

The District's management has indicated that there are no existing or pending lawsuits, claims or other actions in which the District is a defendant.

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

**Note 6 FUND BALANCE**

At December 31, 2013, a summary of the governmental fund balance classifications are as follows:

	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total
Committed to:						
Emergency conditions	\$ -	\$ -	\$48,706	\$ -	\$ -	\$48,706
Implementation of watershed plan	-	15,344	-	-	208,939	224,283
Public education	-	-	-	27,780	-	27,780
Total committed	<u>0</u>	<u>15,344</u>	<u>48,706</u>	<u>27,780</u>	<u>208,939</u>	<u>300,769</u>
Assigned to:						
Implementation of watershed plan	-	391	90	86	193,152	193,719
Total assigned	<u>0</u>	<u>391</u>	<u>90</u>	<u>86</u>	<u>193,152</u>	<u>193,719</u>
Unassigned	<u>86,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,748</u>
Total	<u>\$86,748</u>	<u>\$15,735</u>	<u>\$48,796</u>	<u>\$27,866</u>	<u>\$402,091</u>	<u>\$581,236</u>

**Note 7 COMMITTED CONTRACTS**

At December 31, 2013, the District had committed contracts totaling \$44,893 for construction/repair projects.

**Note 8 RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**Note 9 CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2013, the District implemented GASB Statements No. 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB No. 14 and No.34* modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (i.e. blending). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in accounts previously presented as liabilities being reclassified as deferred inflows of resources.

**- This page intentionally left blank -**

**REQUIRED SUPPLEMENTARY INFORMATION**

**VALLEY BRANCH WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**Statement 7**

For The Year Ended December 31, 2013

With Comparative Actual Amounts For The Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes:					
Current and delinquent	\$202,843	\$202,843	\$150,294	(\$52,549)	\$183,386
Intergovernmental:					
Market value homestead credit	147	147	147	-	176
Investment income	128	128	240	112	298
Permits	-	-	8,381	8,381	2,583
Total revenues	<u>203,118</u>	<u>203,118</u>	<u>159,062</u>	<u>(44,056)</u>	<u>186,443</u>
<b>Expenditures:</b>					
Current:					
Engineering:					
Administration	120,000	120,000	110,183	9,817	113,299
Accounting and audit	20,000	20,000	19,060	940	19,006
Legal	24,000	24,000	12,109	11,891	14,362
Manager's per diem and expenses	14,000	14,000	12,393	1,607	12,290
Secretarial services	3,450	3,450	4,735	(1,285)	4,655
Insurance	10,000	10,000	10,953	(953)	9,960
Inspector's services and mileage	3,500	3,500	809	2,691	786
Dues	4,000	4,000	3,500	500	3,630
Office supplies	550	550	-	550	-
Contingency projects	-	-	-	-	344
Miscellaneous	500	500	648	(148)	225
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>174,390</u>	<u>25,610</u>	<u>178,557</u>
Revenues over (under) expenditures	3,118	3,118	(15,328)	(18,446)	7,886
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	941,000
Net change in fund balance	<u>\$3,118</u>	<u>\$3,118</u>	<u>(15,328)</u>	<u>(\$18,446)</u>	948,886
Fund balance (deficit) - January 1			<u>102,076</u>		<u>(846,810)</u>
Fund balance (deficit) - December 31			<u>\$86,748</u>		<u>\$102,076</u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2013

---

**Note A**    **BUDGETS**

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

**- This page intentionally left blank -**

## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**VALLEY BRANCH WATERSHED DISTRICT**  
**GENERAL FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2013  
With Comparative Amounts For The Year Ended December 31, 2012

**Statement 8**

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes:		
Current and delinquent	\$150,294	\$183,386
Intergovernmental:		
Market value homestead credit	147	176
Investment income	240	298
Permits	8,381	2,583
Total revenues	<u>159,062</u>	<u>186,443</u>
Expenditures:		
Current:		
Engineering	110,183	113,299
Accounting and audit	19,060	19,006
Legal	12,109	14,362
Manager's per diem and expenses	12,393	12,290
Secretarial services	4,735	4,655
Insurance	10,953	9,960
Inspector's services and mileage	809	786
Dues	3,500	3,630
Contingency projects	-	344
Miscellaneous	648	225
Total expenditures	<u>174,390</u>	<u>178,557</u>
Revenues over (under) expenditures	(15,328)	7,886
Other financing sources (uses):		
Transfers in	<u>-</u>	<u>941,000</u>
Net change in fund balance	(15,328)	948,886
Fund balance (deficit) - January 1	<u>102,076</u>	<u>(846,810)</u>
Fund balance (deficit) - December 31	<u><u>\$86,748</u></u>	<u><u>\$102,076</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - WATER MANAGEMENT AND MAINTENANCE FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2013  
With Comparative Amounts For The Year Ended December 31, 2012

**Statement 9**

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$119,634	\$122,623
Intergovernmental - MVHC	117	118
Investment income	191	200
Total revenues	<u>119,942</u>	<u>122,941</u>
Expenditures:		
Legal	1,660	1,607
Engineering	<u>163,168</u>	<u>111,116</u>
Total expenditures	<u>164,828</u>	<u>112,723</u>
Revenues over (under) expenditures	(44,886)	10,218
Other financing sources (uses):		
Transfers in	<u>-</u>	<u>153,000</u>
Net change in fund balance	(44,886)	163,218
Fund balance (deficit) - January 1	<u>60,621</u>	<u>(102,597)</u>
Fund balance (deficit) - December 31	<u><u>\$15,735</u></u>	<u><u>\$60,621</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - WATER QUANTITY FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2013  
With Comparative Amounts For The Year Ended December 31, 2012

**Statement 10**

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$15,029	\$18,302
Intergovernmental - MVHC	15	18
Investment income	24	30
Total revenues	<u>15,068</u>	<u>18,350</u>
Expenditures	<u>-</u>	<u>-</u>
Revenues over expenditures	15,068	18,350
Other financing sources (uses):		
Transfers out	<u>-</u>	<u>(305,000)</u>
Net change in fund balance	15,068	(286,650)
Fund balance - January 1	<u>33,728</u>	<u>320,378</u>
Fund balance - December 31	<u><u>\$48,796</u></u>	<u><u>\$33,728</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - PUBLIC EDUCATION FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2013  
With Comparative Amounts For The Year Ended December 31, 2012

**Statement 11**

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$23,295	\$30,198
Intergovernmental - MVHC	23	29
Investment income	37	49
Total revenues	<u>23,355</u>	<u>30,276</u>
Expenditures:		
Public education	19,824	18,779
Miscellaneous	<u>6,831</u>	<u>7,507</u>
Total expenditures	<u>26,655</u>	<u>26,286</u>
Revenues over (under) expenditures	(3,300)	3,990
Other financing sources (uses):		
Transfers in	<u>-</u>	<u>32,000</u>
Net change in fund balance	(3,300)	35,990
Fund balance (deficit) - January 1	<u>31,166</u>	<u>(4,824)</u>
Fund balance (deficit) - December 31	<u><u>\$27,866</u></u>	<u><u>\$31,166</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - PLAN IMPLEMENTATION FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2013  
With Comparative Amounts For The Year Ended December 31, 2012

**Statement 12**

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$478,662	\$361,893
Intergovernmental - MVHC	468	347
Intergovernmental - Grants	19,988	16,693
Investment income	562	588
Total revenues	<u>499,680</u>	<u>379,521</u>
Expenditures:		
Engineering	132,607	89,930
Legal	13,683	18,121
Contingency projects	143,889	180,985
Total expenditures	<u>290,179</u>	<u>289,036</u>
Revenues over expenditures	209,501	90,485
Other financing sources (uses):		
Transfers out	<u>-</u>	<u>(821,000)</u>
Net change in fund balance	209,501	(730,515)
Fund balance - January 1	<u>192,590</u>	<u>923,105</u>
Fund balance - December 31	<u><u>\$402,091</u></u>	<u><u>\$192,590</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FIDUCIARY FUND - ESCROW FUND**  
 December 31, 2013

**Statement 13**

---

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
<u>Escrow Fund</u>				
Assets:				
Cash and investments	\$133,899	\$54,822	\$26,385	\$162,336
Total assets	<u>\$133,899</u>	<u>\$54,822</u>	<u>\$26,385</u>	<u>\$162,336</u>
Liabilities:				
Escrow deposits payable	\$133,899	\$54,822	\$26,385	\$162,336
Total liabilities	<u>\$133,899</u>	<u>\$54,822</u>	<u>\$26,385</u>	<u>\$162,336</u>

**- This page intentionally left blank -**

## **OTHER REPORTS**

**- This page intentionally left blank -**

## REPORT ON INTERNAL CONTROL

To the Honorable Managers of the  
Valley Branch Watershed District  
Lake Elmo, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Branch Watershed District as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Valley Branch Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Branch Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Branch Watershed District's internal control.

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in Valley Branch Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as items 2013-1 and 2013-2 to be significant deficiencies.

Valley Branch Watershed District  
Report on Internal Control

Valley Branch Watershed District's written response to the significant deficiencies identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Valley Branch Watershed District's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, members of the Board, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

April 25, 2014

### **2013-1 Segregation of Duties**

*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 a transaction.

*Condition:* Certain accounting processes are performed by a single employee.

*Cause:* This condition is common to entities of this size due to the limited number of staff.

*Effect:* The lack of ideal segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner.

*Recommendation:* We recommend the District continue to consider the cost-benefit relationship of a lack of segregation of duties.

*Management Response:* The District has adequate policies and procedures in place to compensate for the lack of segregation of duties. All disbursements are approved by the Board of Managers and all checks require two signatures.

Valley Branch Watershed District  
Schedule of Findings and Responses

**2013-2 Timely Deposit of Checks**

*Criteria:* Internal control over deposits should be designed to include the requirement that all receipts of funds be deposited into the banking institution in a timely manner. Any issues regarding receipts should be followed up with as soon as possible.

*Condition:* The District received a \$2,000 check dated 8/20/13, a \$3,805 check dated 12/23/13, and a \$17,000 check dated 10/17/13, all of which were not deposited into the District's bank account until February of 2014.

*Cause:* Unknown.

*Effect:* By not depositing funds in a timely basis, it creates a risk that the funds could be lost or misplaced. It also creates the risk that the check could expire and become worthless.

*Recommendation:* We recommend the District deposit checks on a timely basis.

*Management Response:* Past policy has been to deposit checks related to permit revenue after the permit has been approved. Lengthy delays in permit approval seldom happen. The District will change its policy to prevent this in the future.



## MINNESOTA LEGAL COMPLIANCE REPORT

To the Honorable Managers of the  
Valley Branch Watershed District  
Lake Elmo, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Valley Branch Watershed District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except for public indebtedness as the Valley Branch Watershed District does not have debt.

In connection with our audit, nothing came to our attention that caused us to believe that Valley Branch Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as noted in findings 2013-3 and 2013-4. 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 Valley Branch Watershed District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of management, members of the Board and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

April 25, 2014

Valley Branch Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

### 2013-3 Deficiencies in Collateral for Deposits

*Criteria:* Minnesota Statute 118A provides certain specific collateral requirements for deposits as follows:

M.S. 118A.03 **When and What Collateral Required.** Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government treasury bills, treasury notes, treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) 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;
- (4) 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
- (5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subd. 4. **Assignment.** Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subd. 5. **Withdrawal of excess collateral.** A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Valley Branch Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

Subd. 7. **Safekeeping.** 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 shall be approved by the government entity.

HIST: 1996 c 399 art 1 s 4

*Condition:* At December 31, 2013, the District held deposits in interest bearing savings accounts with Lake Elmo State Bank of \$1,025,388. Deposits up to \$250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral required was \$852,927 (\$775,388 x 110%). Collateral in the amount of \$599,257 was provided, resulting in a collateral deficiency of \$253,670.

*Cause:* Unknown.

*Effect:* The effect of noncompliance is not determinable.

*Recommendation:* We recommend the District implement controls to monitor compliance with Minnesota Statute 118A.03 on a regular basis.

*Management Response:* The District will work with the Bank to ensure that collateral is sufficient in the future.

Valley Branch Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

## 2013-4 Retainage of Unclaimed Checks

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

### **345.41 REPORT OF ABANDONED PROPERTY.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valley Branch Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

(h) Any person who has possession of property which the person has reason to believe will be reportable in the future as unclaimed property may, with the permission of the commissioner, report and deliver such property prior to the date required for reporting in accordance with this section.

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

*Condition:* At December 31, 2013, the District held one check, dated March 25, 2010 in the amount of \$267.50, that had been outstanding for more than three years as of the June 30, 2013 cutoff date for reporting. State statute requires all uncashed checks be turned over to the state after three years.

*Cause:* Unknown.

*Effect:* The effect of noncompliance is not determinable.

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

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

**- This page intentionally left blank -**