

**VALLEY BRANCH WATERSHED DISTRICT**

**ANNUAL FINANCIAL REPORT**

December 31, 2015

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**VALLEY BRANCH WATERSHED DISTRICT**  
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## **INTRODUCTORY SECTION**

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**VALLEY BRANCH WATERSHED DISTRICT**  
**ORGANIZATION**  
December 31, 2015

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	<u>Term Expires</u>
<b>Managers:</b>	
David Bucheck - President	November, 2017
Lincoln Fetcher - Vice President	November, 2016
Jill Lucas - Secretary	November, 2016
Ed Marchan - Treasurer	November, 2017
Vacant - Manager	November, 2018

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## **FINANCIAL SECTION**

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## 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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

We have previously audited the Valley Branch Watershed District's 2014 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 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 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 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.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

April 14, 2016

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## **BASIC FINANCIAL STATEMENTS**

**VALLEY BRANCH WATERSHED DISTRICT**

## STATEMENT OF NET POSITION

December 31, 2015

With Comparative Totals For December 31, 2014

**Statement 1**

	Primary Government	
	Governmental Activities	
	2015	2014
Assets:		
Cash and investments	\$540,186	\$925,304
Property taxes receivable:		
Delinquent	7,298	9,940
Due from county	6,198	4,158
Due from other governments	42,900	1,000
Capital assets - net:		
Nondepreciable	37,300	-
Depreciable	630,116	431,231
Total assets	<u>1,263,998</u>	<u>1,371,633</u>
Liabilities:		
Accounts payable	67,230	53,828
Due to other governments	70,596	33,819
Contracts payable	99,406	10,388
Unearned revenue	16,762	181,042
Total liabilities	<u>253,994</u>	<u>279,077</u>
Net position:		
Investment in capital assets, net of related debts	578,398	431,231
Unrestricted	431,606	661,325
Total net position	<u>\$1,010,004</u>	<u>\$1,092,556</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, 2015

With Comparative Totals For The Year Ended December 31, 2014

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position Primary Government Totals</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2015</u>	<u>2014</u>
Primary government:						
Governmental activities:						
General government	\$163,466	\$21,613	\$ -	\$ -	(\$141,853)	(\$80,238)
Programs	715,433	-	16,898	-	(698,535)	(596,111)
Projects	219,034	-	223,460	-	4,426	(11,122)
Total governmental activities	<u>\$1,097,933</u>	<u>\$21,613</u>	<u>\$240,358</u>	<u>\$0</u>	<u>(835,962)</u>	<u>(687,471)</u>
General revenues:						
Property taxes					747,706	740,497
Grants and contributions not restricted to specific programs					1,086	658
Unrestricted investment earnings					1,180	1,343
Miscellaneous other					3,438	2,256
Total general revenues					<u>753,410</u>	<u>744,754</u>
Change in net position					(82,552)	57,283
Net position - January 1					<u>1,092,556</u>	<u>1,035,273</u>
Net position - December 31					<u>\$1,010,004</u>	<u>\$1,092,556</u>

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

**VALLEY BRANCH WATERSHED DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2015  
With Comparative Totals For December 31, 2014

**Statement 3**

Assets	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2015	2014
Cash and investments	\$89,483	\$ -	\$56,083	\$30,646	\$436,964	\$613,176	\$1,034,459
Property taxes receivable:							
Delinquent	1,001	1,206	193	206	4,692	7,298	9,940
Due from county	757	881	135	170	4,255	6,198	4,158
Due from other governments	-	-	-	-	42,900	42,900	1,000
<b>Total assets</b>	<b>\$91,241</b>	<b>\$2,087</b>	<b>\$56,411</b>	<b>\$31,022</b>	<b>\$488,811</b>	<b>\$669,572</b>	<b>\$1,049,557</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>							
<b>Liabilities:</b>							
Accounts payable	\$21,987	\$27,129	\$2,970	\$32	\$15,112	\$67,230	\$53,828
Due to other governments	1,634	1,561	239	4,977	62,185	70,596	33,819
Contracts payable	-	-	-	-	99,406	99,406	10,388
Cash overdraft	-	72,990	-	-	-	72,990	109,155
Unearned revenue	-	-	-	-	16,762	16,762	181,042
<b>Total liabilities</b>	<b>23,621</b>	<b>101,680</b>	<b>3,209</b>	<b>5,009</b>	<b>193,465</b>	<b>326,984</b>	<b>388,232</b>
<b>Deferred inflows of resources:</b>							
Unavailable revenue	1,001	1,206	193	206	4,692	7,298	9,940
<b>Total deferred inflows of resources</b>	<b>1,001</b>	<b>1,206</b>	<b>193</b>	<b>206</b>	<b>4,692</b>	<b>7,298</b>	<b>9,940</b>
<b>Fund balance (deficit):</b>							
Committed	-	-	52,856	25,641	95,957	174,454	481,630
Assigned	-	-	153	166	194,697	195,016	194,171
Unassigned	66,619	(100,799)	-	-	-	(34,180)	(24,416)
<b>Total fund balance (deficit)</b>	<b>66,619</b>	<b>(100,799)</b>	<b>53,009</b>	<b>25,807</b>	<b>290,654</b>	<b>335,290</b>	<b>651,385</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$91,241</b>	<b>\$2,087</b>	<b>\$56,411</b>	<b>\$31,022</b>	<b>\$488,811</b>	<b>\$669,572</b>	<b>\$1,049,557</b>
Fund balance reported above						\$335,290	\$651,385
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.						667,416	431,231
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable in the funds.						7,298	9,940
<b>Net position of governmental activities</b>						<b>\$1,010,004</b>	<b>\$1,092,556</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, 2015  
With Comparative Totals For The Year Ended December 31, 2014

**Statement 4**

	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2015	2014
<b>Revenues:</b>							
General property taxes:							
Current and delinquent	\$91,692	\$106,628	\$16,374	\$20,631	\$515,023	\$750,348	\$742,241
Intergovernmental	133	154	24	30	241,103	241,444	37,477
Investment income	148	187	27	34	784	1,180	1,343
Permits	21,613	-	-	-	-	21,613	68,270
Miscellaneous	3,438	-	-	-	-	3,438	2,256
Total revenues	<u>117,024</u>	<u>106,969</u>	<u>16,425</u>	<u>20,695</u>	<u>756,910</u>	<u>1,018,023</u>	<u>851,587</u>
<b>Expenditures:</b>							
Current:							
Engineering	89,423	379,091	-	-	294,682	763,196	548,659
Accounting and audit	19,961	-	-	-	-	19,961	18,936
Legal	18,387	1,200	-	-	18,015	37,602	38,885
Manager's per diem and expenses	12,092	-	-	-	-	12,092	12,502
Secretarial services	5,791	-	-	-	-	5,791	4,929
Insurance	12,088	-	-	-	-	12,088	11,768
Inspector's services and mileage	954	-	-	-	-	954	692
Dues	3,500	-	-	-	-	3,500	10,640
Contingency projects	-	-	28,525	-	426,694	455,219	107,175
Public education	-	-	-	17,846	-	17,846	19,251
Miscellaneous	1,270	-	-	3,431	1,168	5,869	8,001
Total expenditures	<u>163,466</u>	<u>380,291</u>	<u>28,525</u>	<u>21,277</u>	<u>740,559</u>	<u>1,334,118</u>	<u>781,438</u>
Revenues over (under) expenditures	(46,442)	(273,322)	(12,100)	(582)	16,351	(316,095)	70,149
<b>Other financing sources (uses):</b>							
Transfers in	-	310,000	-	-	200,000	510,000	-
Transfers out	-	-	-	-	(510,000)	(510,000)	-
Total other financing sources (uses)	<u>0</u>	<u>310,000</u>	<u>0</u>	<u>0</u>	<u>(310,000)</u>	<u>0</u>	<u>0</u>
Net change in fund balance	(46,442)	36,678	(12,100)	(582)	(293,649)	(316,095)	70,149
Fund balance (deficit) - January 1	113,061	(137,477)	65,109	26,389	584,303	651,385	581,236
Fund balance (deficit) - December 31	<u>\$66,619</u>	<u>(\$100,799)</u>	<u>\$53,009</u>	<u>\$25,807</u>	<u>\$290,654</u>	<u>\$335,290</u>	<u>\$651,385</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, 2015  
With Comparative Totals For The Year Ended December 31, 2014

**Statement 5**

	<u>2015</u>	<u>2014</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)	(\$316,095)	\$70,149
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.	236,185	(11,122)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(2,642)</u>	<u>(1,744)</u>
Change in net position of governmental activities (Statement 2)	<u><u>(\$82,552)</u></u>	<u><u>\$57,283</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, 2015  
 With Comparative Totals For December 31, 2014

**Statement 6**

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and investments	\$83,251	\$131,625
Escrow deposits receivable	-	1,000
Total assets	<u>\$83,251</u>	<u>\$132,625</u>
Liabilities:		
Escrow deposits payable	<u>\$83,251</u>	<u>\$132,625</u>
Total liabilities	<u>\$83,251</u>	<u>\$132,625</u>

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

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

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

Separate financial statements are provided for governmental funds 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, 2015

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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.



**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

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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, 2015

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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, 2014, 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 (\$2,642) difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2014	(\$9,940)
At December 31, 2015	<u>7,298</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>(\$2,642)</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

Another element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this \$236,185 difference is as follows:

Capital outlay	\$247,306
Depreciation expense	<u>(11,121)</u>
Net adjustment to increase net changes in fund balance - total government funds to arrive at changes in net position of governmental activities	<u><u>\$236,185</u></u>

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

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

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

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

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- 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.

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

**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, 2015, the carrying amount of the District's deposits was \$623,437 and the bank balance was \$725,826. The entire bank balance was covered by federal depository insurance or perfected collateral held by the District’s agent in the District’s name.

Following is a reconciliation of the District’s deposit balances as of December 31, 2015:

	<u>Cash and Investments</u>
Government-wide statement of net position	\$540,186
Fiduciary fund statement of net position	<u>83,251</u>
Total	<u><u>\$623,437</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.

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2015

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The District did not invest in any of the above listed investments during 2015.

**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.

**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	\$1,001
Water Management and Maintenance Fund	193
Water Quantity Fund	1,206
Public Education Fund	206
Plan Implementation Fund	<u>4,692</u>
Total	<u><u>\$7,298</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

**Note 4 CAPITAL ASSETS**

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

	1/1/15 Beginning Balance	Increase	Decrease	12/31/15 Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Ravine easements	\$ -	\$37,300	\$ -	\$37,300
Total capital assets, being depreciated	<u>\$ -</u>	<u>\$37,300</u>	<u>\$ -</u>	<u>\$37,300</u>
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
CWF ravine stabilization	-	210,006	-	210,006
Total capital assets, being depreciated	<u>556,067</u>	<u>210,006</u>	<u>0</u>	<u>766,073</u>
Less accumulated depreciation for:				
Lift stations and pumps	77,580	2,282	-	79,862
Ravine stabilization	28,921	5,784	-	34,705
Oakgreen infiltration basin	18,335	3,055	-	21,390
CWF ravine stabilization	-	-	-	-
Total accumulated depreciation	<u>124,836</u>	<u>11,121</u>	<u>0</u>	<u>135,957</u>
Total capital assets being depreciated - net	<u>431,231</u>	<u>198,885</u>	<u>0</u>	<u>630,116</u>
Governmental activities capital assets - net	<u>\$431,231</u>	<u>\$236,185</u>	<u>\$0</u>	<u>\$667,416</u>

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

Governmental activities:	
Projects	<u>\$11,121</u>



**VALLEY BRANCH WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

**Note 5 CONTINGENCIES**

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

**Note 6 FUND BALANCE**

At December 31, 2015, 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	\$ -	\$ -	\$52,856	\$ -	\$ -	\$52,856
Implementation of watershed plan	-	-	-	-	95,957	95,957
Public education	-	-	-	25,641	-	25,641
Total committed	<u>0</u>	<u>0</u>	<u>52,856</u>	<u>25,641</u>	<u>95,957</u>	<u>174,454</u>
Assigned to:						
Emergency conditions	-	-	153	-	-	153
Implementation of watershed plan	-	-	-	-	194,697	194,697
Public education	-	-	-	166	-	166
Total assigned	<u>0</u>	<u>0</u>	<u>153</u>	<u>166</u>	<u>194,697</u>	<u>195,016</u>
Unassigned	<u>66,619</u>	<u>(100,799)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,180)</u>
Total	<u>\$66,619</u>	<u>(\$100,799)</u>	<u>\$53,009</u>	<u>\$25,807</u>	<u>\$290,654</u>	<u>\$335,290</u>

**Note 7 COMMITTED CONTRACTS**

At December 31, 2015, the District had committed contracts totaling \$453,810 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.

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**Note 9**    **RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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

**Statement No. 73** *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

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

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

**Statement No. 76** *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.

**Statement No. 77** *Tax Abatement Disclosures*. The provisions of this Statement are effective for reporting periods beginning after December 31, 2015.

**Statement No. 78** *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of this Statement are effective for reporting periods beginning after December 15, 2015.

**Statement No. 79** *Certain External Investment Pools and Pool Participants*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015.

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**Statement 7**

For The Year Ended December 31, 2015

With Comparative Actual Amounts For The Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes:					
Current and delinquent	\$91,781	\$91,781	\$91,692	(\$89)	\$104,015
Intergovernmental	133	133	133	-	92
Investment income	61	61	148	87	188
Permits	-	-	21,613	21,613	68,270
Miscellaneous	-	-	3,438	3,438	2,256
Total revenues	<u>91,975</u>	<u>91,975</u>	<u>117,024</u>	<u>25,049</u>	<u>174,821</u>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Engineering:</b>					
Administration	84,000	84,000	89,423	(5,423)	77,075
Accounting and audit	20,000	20,000	19,961	39	18,936
Legal	7,500	7,500	18,387	(10,887)	11,510
Manager's per diem and expenses	13,000	13,000	12,092	908	12,502
Secretarial services	2,300	2,300	5,791	(3,491)	4,929
Insurance	9,200	9,200	12,088	(2,888)	11,768
Inspector's services and mileage	-	-	954	(954)	692
Dues	4,000	4,000	3,500	500	10,640
Miscellaneous	-	-	1,270	(1,270)	456
Total expenditures	<u>140,000</u>	<u>140,000</u>	<u>163,466</u>	<u>(23,466)</u>	<u>148,508</u>
Revenues over (under) expenditures	<u>(\$48,025)</u>	<u>(\$48,025)</u>	(46,442)	<u>\$1,583</u>	26,313
Fund balance - January 1			<u>113,061</u>		<u>86,748</u>
Fund balance - December 31			<u>\$66,619</u>		<u>\$113,061</u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2015

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**Note A**    **BUDGETS**

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

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**VALLEY BRANCH WATERSHED DISTRICT**

GENERAL FUND

**Statement 8**

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

For The Year Ended December 31, 2015

With Comparative Amounts For The Year Ended December 31, 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
General property taxes:		
Current and delinquent	\$91,692	\$104,015
Intergovernmental	133	92
Investment income	148	188
Permits	21,613	68,270
Miscellaneous	3,438	2,256
Total revenues	<u>117,024</u>	<u>174,821</u>
Expenditures:		
Current:		
Engineering	89,423	77,075
Accounting and audit	19,961	18,936
Legal	18,387	11,510
Manager's per diem and expenses	12,092	12,502
Secretarial services	5,791	4,929
Insurance	12,088	11,768
Inspector's services and mileage	954	692
Dues	3,500	10,640
Miscellaneous	1,270	456
Total expenditures	<u>163,466</u>	<u>148,508</u>
Revenues over (under) expenditures	(46,442)	26,313
Fund balance - January 1	<u>113,061</u>	<u>86,748</u>
Fund balance - December 31	<u><u>\$66,619</u></u>	<u><u>\$113,061</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, 2015  
With Comparative Amounts For The Year Ended December 31, 2014

**Statement 9**

	<u>2015</u>	<u>2014</u>
Revenues:		
General property taxes	\$106,628	\$172,269
Intergovernmental	154	153
Investment income	187	312
Total revenues	<u>106,969</u>	<u>172,734</u>
Expenditures:		
Legal	1,200	809
Engineering	379,091	325,137
Total expenditures	<u>380,291</u>	<u>325,946</u>
Revenues over (under) expenditures	<u>(273,322)</u>	<u>(153,212)</u>
Other financing sources( uses):		
Transfers in	310,000	-
Total other financing sources (uses):	<u>310,000</u>	<u>0</u>
Net change in fund balance	36,678	(153,212)
Fund balance (deficit) - January 1	<u>(137,477)</u>	<u>15,735</u>
Fund balance (deficit) - December 31	<u><u>(\$100,799)</u></u>	<u><u>(\$137,477)</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, 2015  
With Comparative Amounts For The Year Ended December 31, 2014

**Statement 10**

	<u>2015</u>	<u>2014</u>
Revenues:		
General property taxes	\$16,374	\$20,003
Intergovernmental	24	18
Investment income	27	36
Total revenues	<u>16,425</u>	<u>20,057</u>
Expenditures:		
Contingency projects	<u>28,525</u>	<u>3,744</u>
Total expenditures	<u>28,525</u>	<u>3,744</u>
Revenues over expenditures	(12,100)	16,313
Fund balance - January 1	<u>65,109</u>	<u>48,796</u>
Fund balance - December 31	<u><u>\$53,009</u></u>	<u><u>\$65,109</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, 2015  
With Comparative Amounts For The Year Ended December 31, 2014

**Statement 11**

	<u>2015</u>	<u>2014</u>
Revenues:		
General property taxes	\$20,631	\$25,204
Intergovernmental	30	22
Investment income	34	46
Total revenues	<u>20,695</u>	<u>25,272</u>
Expenditures:		
Public education	17,846	19,251
Miscellaneous	<u>3,431</u>	<u>7,498</u>
Total expenditures	<u>21,277</u>	<u>26,749</u>
Revenues over (under) expenditures	(582)	(1,477)
Fund balance - January 1	<u>26,389</u>	<u>27,866</u>
Fund balance - December 31	<u><u>\$25,807</u></u>	<u><u>\$26,389</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, 2015  
With Comparative Amounts For The Year Ended December 31, 2014

**Statement 12**

	<u>2015</u>	<u>2014</u>
Revenues:		
General property taxes	\$515,023	\$420,750
Intergovernmental	241,103	37,192
Investment income	784	761
Total revenues	<u>756,910</u>	<u>458,703</u>
Expenditures:		
Engineering	294,682	146,447
Legal	18,015	26,566
Contingency projects	426,694	103,431
Miscellaneous	1,168	47
Total expenditures	<u>740,559</u>	<u>276,491</u>
Revenues over expenditures	<u>16,351</u>	<u>182,212</u>
Other financing sources( uses):		
Transfers in	200,000	-
Transfers out	(510,000)	-
Total other financing sources (uses):	<u>(310,000)</u>	<u>0</u>
Net change in fund balance	(293,649)	182,212
Fund balance - January 1	<u>584,303</u>	<u>402,091</u>
Fund balance - December 31	<u><u>\$290,654</u></u>	<u><u>\$584,303</u></u>

**VALLEY BRANCH WATERSHED DISTRICT**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FIDUCIARY FUND - ESCROW FUND**  
 December 31, 2015

**Statement 13**

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	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<u>Escrow Fund</u>				
Assets:				
Cash and investments	\$131,625	\$ -	\$48,374	\$83,251
Escrow deposits receivable	1,000	-	1,000	-
Total assets	<u>\$132,625</u>	<u>\$0</u>	<u>\$49,374</u>	<u>\$83,251</u>
Liabilities:				
Escrow deposits payable	\$132,625	\$ -	\$49,374	\$83,251
Total liabilities	<u>\$132,625</u>	<u>\$0</u>	<u>\$49,374</u>	<u>\$83,251</u>

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## **OTHER REPORTS**

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## 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 the Valley Branch Watershed District as of and for the year ended December 31, 2015, 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 the 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 a deficiency in internal control that we consider to be a significant deficiency.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 deficiency in Valley Branch Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as item 2015-001 to be a significant deficiency.

Valley Branch Watershed District  
Report on Internal Control

Valley Branch Watershed District's written response to the significant deficiency 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.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

April 14, 2016

Valley Branch Watershed District  
Schedule of Findings and Responses

**2015-001 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.

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## 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, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2016.

The *Minnesota Legal Compliance Audit Guide for Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except for tax increment financing as it is not applicable to the District.

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 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 Valley Branch Watershed District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of Valley Branch Watershed District and the State Auditor, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

April 14, 2016

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