

VALLEY BRANCH WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2016

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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, 2016

	<u>Term Expires</u>
Managers:	
David Bucheck - President	November, 2017
Lincoln Fetcher - Vice President	November, 2019
Jill Lucas - Secretary	November, 2019
Ed Marchan - Treasurer	November, 2017
Anthony Haider - 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, 2016, 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Valley Branch Watershed District's 2015 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 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 and 35, 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

May 11, 2017

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BASIC FINANCIAL STATEMENTS

VALLEY BRANCH WATERSHED DISTRICT

STATEMENT OF NET POSITION

December 31, 2016

Statement 1

	<u>Primary Government</u> <u>Governmental Activities</u> <u>2016</u>
Assets:	
Cash and investments	\$451,594
Accounts receivable	7,320
Property taxes receivable:	
Delinquent	6,382
Due from county	7,614
Due from other governments	21,421
Capital assets - net:	
Nondepreciable	182,950
Depreciable	765,193
Total assets	<u>1,442,474</u>
Liabilities:	
Accounts payable	64,552
Due to other governments	33,891
Contracts payable	10,388
Unearned revenue	88,681
Total liabilities	<u>197,512</u>
Net position:	
Investment in capital assets, net of related debts	948,143
Unrestricted	296,819
Total net position	<u>\$1,244,962</u>

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

VALLEY BRANCH WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2016

Statement 2

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Primary Government Totals 2016	
		Charges For Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	\$173,767	\$44,763	\$ -	\$ -	(\$129,004)
Programs	536,513	-	47,692	-	(488,821)
Projects	165,639	-	-	144,230	(21,409)
Total governmental activities	<u>\$875,919</u>	<u>\$44,763</u>	<u>\$47,692</u>	<u>\$144,230</u>	<u>(639,234)</u>
General revenues:					
Property taxes					746,169
Grants and contributions not restricted to specific programs					1,063
Unrestricted investment earnings					540
Gain on sale of capital assets					3,130
Miscellaneous other					105
Total general revenues					<u>751,007</u>
Change in net position					111,773
Net position - January 1, as previously reported					1,010,004
Prior period adjustment					123,185
Net position - January 1, as restated					<u>1,133,189</u>
Net position - December 31					<u>\$1,244,962</u>

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

VALLEY BRANCH WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016
With Comparative Totals For December 31, 2015

Statement 3

Assets	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2016	2015
Cash and investments	\$79,665	\$ -	\$53,628	\$31,396	\$466,922	\$631,611	\$613,176
Accounts receivable	7,320	-	-	-	-	7,320	-
Property taxes receivable:							
Delinquent	933	1,995	157	502	2,795	6,382	7,298
Due from county	1,209	2,114	189	237	3,865	7,614	6,198
Due from other governments	-	-	-	-	21,421	21,421	42,900
Total assets	\$89,127	\$4,109	\$53,974	\$32,135	\$495,003	\$674,348	\$669,572
Liabilities, Deferred Inflows of Resources and Fund Balance							
Liabilities:							
Accounts payable	\$24,278	\$22,756	\$1,765	\$64	\$15,689	\$64,552	\$67,230
Due to other governments	100	-	-	364	33,427	33,891	70,596
Contracts payable	-	-	-	-	10,388	10,388	99,406
Cash overdraft	-	180,017	-	-	-	180,017	72,990
Unearned revenue	-	-	-	-	88,681	88,681	16,762
Total liabilities	24,378	202,773	1,765	428	148,185	377,529	326,984
Deferred inflows of resources:							
Unavailable revenue	933	1,995	157	502	2,795	6,382	7,298
Total deferred inflows of resources	933	1,995	157	502	2,795	6,382	7,298
Fund balance (deficit):							
Committed	-	-	51,886	31,022	149,052	231,960	174,454
Assigned	-	-	166	183	194,971	195,320	195,016
Unassigned	63,816	(200,659)	-	-	-	(136,843)	(34,180)
Total fund balance (deficit)	63,816	(200,659)	52,052	31,205	344,023	290,437	335,290
Total liabilities, deferred inflows of resources and fund balance	\$89,127	\$4,109	\$53,974	\$32,135	\$495,003	\$674,348	\$669,572
Fund balance reported above						\$290,437	
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.						948,143	
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable in the funds.						6,382	
Net position of governmental activities						\$1,244,962	

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, 2016
With Comparative Totals For The Year Ended December 31, 2015

Statement 4

	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2016	2015
Revenues:							
General property taxes:							
Current and delinquent	\$118,526	\$238,755	\$18,520	\$23,261	\$348,023	\$747,085	\$750,348
Intergovernmental	169	295	26	33	192,462	192,985	241,444
Investment income	86	150	13	17	274	540	1,180
Permits	44,763	-	-	-	-	44,763	21,613
Miscellaneous	7,420	-	-	-	-	7,420	3,438
Total revenues	<u>170,964</u>	<u>239,200</u>	<u>18,559</u>	<u>23,311</u>	<u>540,759</u>	<u>992,793</u>	<u>1,018,023</u>
Expenditures:							
Current:							
Engineering	92,552	326,301	-	-	196,597	615,450	763,196
Accounting and audit	21,425	-	-	-	-	21,425	19,961
Legal	19,592	1,776	-	816	1,926	24,110	37,602
Manager's per diem and expenses	13,826	-	-	-	-	13,826	12,092
Secretarial services	5,051	-	-	-	-	5,051	5,791
Insurance	14,025	-	-	-	-	14,025	12,088
Inspector's services and mileage	754	-	-	-	-	754	954
Dues	5,000	-	-	-	-	5,000	3,500
Contingency projects	-	10,983	19,516	-	288,867	319,366	455,219
Public education	-	-	-	11,316	-	11,316	17,846
Miscellaneous	1,542	-	-	5,781	-	7,323	5,869
Total expenditures	<u>173,767</u>	<u>339,060</u>	<u>19,516</u>	<u>17,913</u>	<u>487,390</u>	<u>1,037,646</u>	<u>1,334,118</u>
Revenues over (under) expenditures	(2,803)	(99,860)	(957)	5,398	53,369	(44,853)	(316,095)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	510,000
Transfers out	-	-	-	-	-	-	(510,000)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	(2,803)	(99,860)	(957)	5,398	53,369	(44,853)	(316,095)
Fund balance (deficit) - January 1	66,619	(100,799)	53,009	25,807	290,654	335,290	651,385
Fund balance (deficit) - December 31	<u>\$63,816</u>	<u>(\$200,659)</u>	<u>\$52,052</u>	<u>\$31,205</u>	<u>\$344,023</u>	<u>\$290,437</u>	<u>\$335,290</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, 2016
With Comparative Totals For The Year Ended December 31, 2015

Statement 5

	<u>2016</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)	(\$44,853)
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.	161,727
In the statement of activities only the gain/loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold.	(4,185)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(916)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$111,773</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, 2016
 With Comparative Totals For December 31, 2015

Statement 6

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and investments	<u>\$121,404</u>	<u>\$83,251</u>
Total assets	<u><u>\$121,404</u></u>	<u><u>\$83,251</u></u>
Liabilities:		
Escrow deposits payable	<u>\$121,404</u>	<u>\$83,251</u>
Total liabilities	<u><u>\$121,404</u></u>	<u><u>\$83,251</u></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, 2016

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, 2016

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. The District reports investments at fair value, based upon quoted market prices, in the financial statements. 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, 2016

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 acquisition value at the date of donation.

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

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, 2015, 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 detail of this (\$916) difference is as follows:

Unavailable revenue - general property taxes:	
At December 31, 2015	(\$7,298)
At December 31, 2016	<u>6,382</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>(\$916)</u></u>

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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 \$161,727 difference is as follows:

Capital outlay	\$178,554
Depreciation expense	<u>(16,827)</u>
Net adjustment to increase net changes in fund balance - total government funds to arrive at changes in net position of governmental activities	<u>\$161,727</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, 2016

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, 2016, the carrying amount of the District's deposits was \$572,998 and the bank balance was \$589,581. 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, 2016:

	<u>Cash and Investments</u>
Government-wide statement of net position	\$451,594
Fiduciary fund statement of net position	<u>121,404</u>
Total	<u><u>\$572,998</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, 2016

The District did not invest in any of the above listed investments during 2016.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy has three levels. Level 1 investments are valued using inputs that are based on quoted prices in active markets for identical assets. Level 2 investments are valued using inputs that are based on quoted prices for similar assets or inputs that are observable, either directly or indirectly. Level 3 investments are valued using inputs that are unobservable.

The District did not have any recurring fair value measurements as of December 31, 2016

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.

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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	\$933
Water Management and Maintenance Fund	1,995
Water Quantity Fund	157
Public Education Fund	502
Plan Implementation Fund	<u>2,795</u>
Total	<u><u>\$6,382</u></u>

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 4 CAPITAL ASSETS

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

	1/1/16 Beginning Balance	Prior Period Adjustment	Increase	Decrease	12/31/16 Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Permanent easements	\$37,300	\$ -	\$14,850	\$ -	\$52,150
Construction in progress	-	123,185	11,800	4,185	130,800
Total capital assets, being depreciated	<u>\$37,300</u>	<u>\$123,185</u>	<u>\$26,650</u>	<u>\$4,185</u>	<u>\$182,950</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	-	59,953	-	269,959
Moynagh ravine stabilization project	-	-	91,951	-	91,951
Total capital assets, being depreciated	<u>766,073</u>	<u>0</u>	<u>151,904</u>	<u>0</u>	<u>917,977</u>
Less accumulated depreciation for:					
Lift stations and pumps	79,862	-	2,282	-	82,144
Ravine stabilization	34,705	-	5,784	-	40,489
Oakgreen infiltration basin	21,390	-	3,055	-	24,445
CWF ravine stabilization	-	-	5,399	-	5,399
Moynagh ravine stabilization project	-	-	307	-	307
Total accumulated depreciation	<u>135,957</u>	<u>0</u>	<u>16,827</u>	<u>0</u>	<u>152,784</u>
Total capital assets being depreciated - net	<u>630,116</u>	<u>0</u>	<u>135,077</u>	<u>0</u>	<u>765,193</u>
Governmental activities capital assets - net	<u>\$667,416</u>	<u>\$123,185</u>	<u>\$161,727</u>	<u>\$4,185</u>	<u>\$948,143</u>

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

Governmental activities:	
Projects	<u>\$16,827</u>

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.

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 6 FUND BALANCE

At December 31, 2016, 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	\$ -	\$ -	\$51,886	\$ -	\$ -	\$51,886
Implementation of watershed plan	-	-	-	-	149,052	149,052
Public education	-	-	-	31,022	-	31,022
Total committed	<u>0</u>	<u>0</u>	<u>51,886</u>	<u>31,022</u>	<u>149,052</u>	<u>231,960</u>
Assigned to:						
Emergency conditions	-	-	166	-	-	166
Implementation of watershed plan	-	-	-	-	194,971	194,971
Public education	-	-	-	183	-	183
Total assigned	<u>0</u>	<u>0</u>	<u>166</u>	<u>183</u>	<u>194,971</u>	<u>195,320</u>
Unassigned	<u>63,816</u>	<u>(200,659)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(136,843)</u>
Total	<u>\$63,816</u>	<u>(\$200,659)</u>	<u>\$52,052</u>	<u>\$31,205</u>	<u>\$344,023</u>	<u>\$290,437</u>

Note 7 COMMITTED CONTRACTS

At December 31, 2016, the District had committed contracts totaling \$479,969 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 PRIOR PERIOD ADJUSTMENT

An adjustment was made to construction in progress for wetland credits (intangible asset) the District owns relating to a project started back in 2010. Amounts were expensed in previous year's statements as the amount associated with awarded wetland credits was not known to be material, however, in 2016, the District was awarded wetland credits. The cost associated with the awarded wetland credits was material to the financial statements.

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Details of the prior period adjustment are as follows:

	<u>Governmental Activities</u>
Net position - January 1, 2016, as previously reported	\$1,010,004
Prior period adjustment:	
Change in estimate:	
Construction in progress	<u>123,185</u>
Net position - January 1, 2016, as restated	<u><u>\$1,133,189</u></u>

Note 10 RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

Statement No. 82 *Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No. 73.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

Statement No. 85 *Omnibus 2017*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

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, 2016

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

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
Revenues:					
General property taxes:					
Current and delinquent	\$125,335	\$125,335	\$118,526	(\$6,809)	\$91,692
Intergovernmental	-	-	169	169	133
Investment income	79	79	86	7	148
Permits	-	-	44,763	44,763	21,613
Miscellaneous	-	-	7,420	7,420	3,438
Total revenues	<u>125,414</u>	<u>125,414</u>	<u>170,964</u>	<u>45,550</u>	<u>117,024</u>
Expenditures:					
Current:					
Engineering:					
Administration	85,000	85,000	92,552	(7,552)	89,423
Accounting and audit	22,000	22,000	21,425	575	19,961
Legal	15,000	15,000	19,592	(4,592)	18,387
Manager's per diem and expenses	13,000	13,000	13,826	(826)	12,092
Secretarial services	2,500	2,500	5,051	(2,551)	5,791
Insurance	12,000	12,000	14,025	(2,025)	12,088
Inspector's services and mileage	4,700	4,700	754	3,946	954
Dues	4,000	4,000	5,000	(1,000)	3,500
Miscellaneous	1,800	1,800	1,542	258	1,270
Total expenditures	<u>160,000</u>	<u>160,000</u>	<u>173,767</u>	<u>(13,767)</u>	<u>163,466</u>
Revenues over (under) expenditures	<u>(\$34,586)</u>	<u>(\$34,586)</u>	(2,803)	<u>\$31,783</u>	(46,442)
Fund balance - January 1			<u>66,619</u>		<u>113,061</u>
Fund balance - December 31			<u>\$63,816</u>		<u>\$66,619</u>

VALLEY BRANCH WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2016

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
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2016
With Comparative Amounts For The Year Ended December 31, 2015

Statement 8

	<u>2016</u>	<u>2015</u>
Revenues:		
General property taxes:		
Current and delinquent	\$118,526	\$91,692
Intergovernmental	169	133
Investment income	86	148
Permits	44,763	21,613
Miscellaneous	7,420	3,438
Total revenues	<u>170,964</u>	<u>117,024</u>
Expenditures:		
Current:		
Engineering	92,552	89,423
Accounting and audit	21,425	19,961
Legal	19,592	18,387
Manager's per diem and expenses	13,826	12,092
Secretarial services	5,051	5,791
Insurance	14,025	12,088
Inspector's services and mileage	754	954
Dues	5,000	3,500
Miscellaneous	1,542	1,270
Total expenditures	<u>173,767</u>	<u>163,466</u>
Revenues over (under) expenditures	(2,803)	(46,442)
Fund balance - January 1	<u>66,619</u>	<u>113,061</u>
Fund balance - December 31	<u><u>\$63,816</u></u>	<u><u>\$66,619</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, 2016
With Comparative Amounts For The Year Ended December 31, 2015

Statement 9

	<u>2016</u>	<u>2015</u>
Revenues:		
General property taxes	\$238,755	\$106,628
Intergovernmental	295	154
Investment income	150	187
Total revenues	<u>239,200</u>	<u>106,969</u>
Expenditures:		
Legal	1,776	1,200
Engineering	326,301	379,091
Contingency projects	10,983	-
Total expenditures	<u>339,060</u>	<u>380,291</u>
Revenues over (under) expenditures	<u>(99,860)</u>	<u>(273,322)</u>
Other financing sources (uses):		
Transfers in	-	310,000
Total other financing sources (uses):	<u>-</u>	<u>310,000</u>
Net change in fund balance	(99,860)	36,678
Fund balance (deficit) - January 1	<u>(100,799)</u>	<u>(137,477)</u>
Fund balance (deficit) - December 31	<u><u>(\$200,659)</u></u>	<u><u>(\$100,799)</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, 2016
With Comparative Amounts For The Year Ended December 31, 2015

Statement 10

	<u>2016</u>	<u>2015</u>
Revenues:		
General property taxes	\$18,520	\$16,374
Intergovernmental	26	24
Investment income	13	27
Total revenues	<u>18,559</u>	<u>16,425</u>
Expenditures:		
Contingency projects	19,516	28,525
Total expenditures	<u>19,516</u>	<u>28,525</u>
Revenues over (under) expenditures	(957)	(12,100)
Fund balance - January 1	<u>53,009</u>	<u>65,109</u>
Fund balance - December 31	<u><u>\$52,052</u></u>	<u><u>\$53,009</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, 2016
With Comparative Amounts For The Year Ended December 31, 2015

Statement 11

	<u>2016</u>	<u>2015</u>
Revenues:		
General property taxes	\$23,261	\$20,631
Intergovernmental	33	30
Investment income	17	34
Total revenues	<u>23,311</u>	<u>20,695</u>
Expenditures:		
Legal	816	-
Public education	11,316	17,846
Miscellaneous	<u>5,781</u>	<u>3,431</u>
Total expenditures	<u>17,913</u>	<u>21,277</u>
Revenues over (under) expenditures	5,398	(582)
Fund balance - January 1	<u>25,807</u>	<u>26,389</u>
Fund balance - December 31	<u><u>\$31,205</u></u>	<u><u>\$25,807</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, 2016
With Comparative Amounts For The Year Ended December 31, 2015

Statement 12

	<u>2016</u>	<u>2015</u>
Revenues:		
General property taxes	\$348,023	\$515,023
Intergovernmental	192,462	241,103
Investment income	274	784
Total revenues	<u>540,759</u>	<u>756,910</u>
Expenditures:		
Engineering	196,597	294,682
Legal	1,926	18,015
Contingency projects	288,867	426,694
Miscellaneous	-	1,168
Total expenditures	<u>487,390</u>	<u>740,559</u>
Revenues over expenditures	<u>53,369</u>	<u>16,351</u>
Other financing sources (uses):		
Transfers in	-	200,000
Transfers out	-	(510,000)
Total other financing sources (uses):	<u>-</u>	<u>(310,000)</u>
Net change in fund balance	53,369	(293,649)
Fund balance - January 1	<u>290,654</u>	<u>584,303</u>
Fund balance - December 31	<u><u>\$344,023</u></u>	<u><u>\$290,654</u></u>

VALLEY BRANCH WATERSHED DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND - ESCROW FUND
 December 31, 2016

Statement 13

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
<u>Escrow Fund</u>				
Assets:				
Cash and investments	\$83,251	\$38,153	\$ -	\$121,404
Total assets	<u>\$83,251</u>	<u>\$38,153</u>	<u>\$0</u>	<u>\$121,404</u>
Liabilities:				
Escrow deposits payable	\$83,251	\$38,153	\$ -	\$121,404
Total liabilities	<u>\$83,251</u>	<u>\$38,153</u>	<u>\$0</u>	<u>\$121,404</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, 2016, 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 certain deficiencies 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 internal control presented in the Schedule of Findings and Responses as 2016-001 to be a significant deficiency.

Valley Branch Watershed District
Report on Internal Control

Valley Branch Watershed Districts' 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, the Valley Branch Watershed District's 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

May 11, 2017



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, 2016, and the related notes to the financial statements which collectively comprise Valley Branch Watershed District's basic financial statements, and have issued our report thereon dated May 11, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because it is not applicable to the Valley Branch Watershed 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*, except as described in the Schedule of Findings and Responses as items 2016-002 through 2016-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the 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, 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

May 11, 2017

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Valley Branch Watershed District
Schedule of Findings and Responses

2016-001 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.

Valley Branch Watershed District
Schedule of Findings and Responses

2016-002 Unclaimed Property not Submitted to State Commissioner of Commerce

Criteria: Minnesota Statutes require that public authorities maintain a listing of uncashed checks, unclaimed or other intangible property that has remained unclaimed for over three years and report to the State Commissioner of Commerce annually. MS. 345.38 and MS 345.41 read in part as follows:

345.38 Property held by state courts and public officers and agencies.

Subd. 3. Personal property held by government or political subdivision or agency.

All intangible personal property held for the owner by any government or political subdivision or agency, that has remained unclaimed by the owner for more than three years is presumed abandoned and is reportable pursuant to section 345.41, if:

- (a) the last known address as shown on the records of the holder of the apparent owner is in this state; or
- (b) no address of the apparent owner appears on the records of the holder; and
- (1) the last known address of the apparent owner is in this state; or
- (2) the holder is domiciled in this state and has not previously transferred the property to the state of the last known address of the apparent owner.

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;

Valley Branch Watershed District
Schedule of Findings and Responses

(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).

(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: As of December 31, 2016, the District had not reported unclaimed property over three years old totaling \$10,388 to the State.

Cause: Unknown.

Effect: Not determinable.

Recommendation: We recommend District initiate procedures to report unclaimed property to the State Commissioner of Commerce within the applicable time frame.

Management Response: The District will monitor unclaimed property to ensure proper reporting to the State Commissioner of Commerce.

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Schedule of Findings and Responses

2016-003 Contracting and Bidding

Criteria: Minnesota Statute 471.425 requires each contract between the government entity and a prime contractor to contain a clause requiring the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1 ½ percent per month or any part of a month. MS 471.425 reads in part as follows:

471.425 Prompt payment of local government bills.

Subd. 4a. Prompt payment to subcontractors. Each contract of a municipality must require the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the municipality for undisputed services provided by the subcontractor. The contract must require the prime contractor to pay interest of 1-1/2 percent per month or any part of a month to the subcontractor on any undisputed amount not paid on time to the subcontractor. The minimum monthly interest penalty payment for an unpaid balance of \$100 or more is \$10. For an unpaid balance of less than \$100, the prime contractor shall pay the actual penalty due to the subcontractor. A subcontractor who prevails in a civil action to collect interest penalties from a prime contractor must be awarded its costs and disbursements, including attorney's fees, incurred in bringing the action.

Condition: Required contract language relating to prompt payment to subcontractors was not included in the contract for the District's CWF Ravines project.

Cause: Unknown.

Effect: Not determinable

Recommendation: We recommend the District include the specified language in future contracts.

Management Response: The appropriate contract language will be included in future contracts.

Valley Branch Watershed District
Schedule of Findings and Responses

2016-004 Declaration for Payment

Criteria: MS 471.391 reads in part as follows:

471.391 DECLARATION FORM.

Subdivision 1. Sufficiency.

The declaration provided for in section 471.38 is sufficient if in the following form: "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid.

.....

Signature of Claimant"

Subd. 2. Above check endorsement. The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof by the payee, the following statement: "The undersigned payee, in endorsing this check (or order-check) declares that the same is received in payment of a just and correct claim against the county (county board of education for unorganized territory, school district, town or city), and that no part of it has heretofore been paid." When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim.

Condition: The required declaration for payment was not included on the check stock tested.

Cause: Unknown.

Effect: The District is not in compliance with Minnesota Statute 471.391.

Recommendation: We recommend the District implement procedures to ensure that a declaration for payment is obtained for all disbursements.

Management Response: The District will have a stamp manufactured, to be used on the backs of disbursement checks, with the declaration for payment required by state statutes.

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