

VALLEY BRANCH WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2017

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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, 2017

	<u>Term Expires</u>
Managers:	
Jill Lucas - President	November, 2019
Lincoln Fetcher - Vice President	November, 2019
Anthony Haider - Secretary	November, 2018
Ed Marchan - Treasurer	November, 2020
Dave Sewell - Manager	November, 2020

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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, 2017, 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, 2017, 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 2016 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 May 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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

June 11, 2018

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BASIC FINANCIAL STATEMENTS

VALLEY BRANCH WATERSHED DISTRICT

STATEMENT OF NET POSITION

December 31, 2017

With Comparative Totals for December 31, 2016

Statement 1

	Primary Government	
	Governmental Activities	
	2017	2016
Assets:		
Cash and investments	\$497,255	\$451,594
Accounts receivable	-	7,320
Property taxes receivable:		
Delinquent	6,382	6,382
Due from county	7,582	7,614
Due from other governments	8,078	21,421
Capital assets - net:		
Nondepreciable	123,627	182,950
Depreciable	746,833	765,193
Total assets	<u>1,389,757</u>	<u>1,442,474</u>
Liabilities:		
Accounts payable	63,620	64,552
Due to other governments	33,540	33,891
Contracts payable	80,535	10,388
Unearned revenue	6,789	88,681
Total liabilities	<u>184,484</u>	<u>197,512</u>
Net position:		
Investment in capital assets	870,460	948,143
Unrestricted	334,813	296,819
Total net position	<u>\$1,205,273</u>	<u>\$1,244,962</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, 2017

With Comparative Totals for The Year Ended December 31, 2016

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2017	2016
Primary government:						
Governmental activities:						
General government	\$192,693	\$61,391	\$ -	\$ -	(\$131,302)	(\$129,004)
Programs	543,573	-	1,817	-	(541,756)	(488,821)
Projects	375,818	-	95,759	-	(280,059)	(21,409)
Total governmental activities	\$1,112,084	\$61,391	\$97,576	\$0	(953,117)	(639,234)
General revenues:						
Property taxes					870,085	746,169
Grants and contributions not restricted to specific programs					1,129	1,063
Unrestricted investment earnings					446	540
Gain on sale of capital assets					41,763	3,130
Miscellaneous other					5	105
Total general revenues					913,428	751,007
Change in net position					(39,689)	111,773
Net position - January 1, as previously reported					1,244,962	1,010,004
Prior period adjustment					-	123,185
Net position - January 1, as restated					1,244,962	1,133,189
Net position - December 31					\$1,205,273	\$1,244,962

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

VALLEY BRANCH WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017
With Comparative Totals For December 31, 2016

Statement 3

Assets	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2017	2016
Cash and investments	\$98,137	\$33,612	\$9,039	\$23,903	\$332,564	\$497,255	\$631,611
Accounts receivable	-	-	-	-	-	-	7,320
Property taxes receivable:							
Delinquent	934	1,995	157	502	2,794	6,382	6,382
Due from county	1,250	2,684	39	289	3,320	7,582	7,614
Due from other governments	-	-	-	-	8,078	8,078	21,421
Total assets	\$100,321	\$38,291	\$9,235	\$24,694	\$346,756	\$519,297	\$674,348
Liabilities, Deferred Inflows of Resources and Fund Balance							
Liabilities:							
Accounts payable	\$23,063	\$17,380	\$2,588	\$4,955	\$15,634	\$63,620	\$64,552
Due to other governments	100	-	-	5,503	27,937	33,540	33,891
Contracts payable	-	-	-	-	80,535	80,535	10,388
Cash overdraft	-	-	-	-	-	-	180,017
Unearned revenue	-	-	-	-	6,789	6,789	88,681
Total liabilities	23,163	17,380	2,588	10,458	130,895	184,484	377,529
Deferred inflows of resources:							
Unavailable revenue	934	1,995	157	502	2,794	6,382	6,382
Total deferred inflows of resources	934	1,995	157	502	2,794	6,382	6,382
Fund balance (deficit):							
Committed	-	-	-	13,534	-	13,534	231,960
Assigned	-	18,916	6,490	200	213,067	238,673	195,320
Unassigned	76,224	-	-	-	-	76,224	(136,843)
Total fund balance (deficit)	76,224	18,916	6,490	13,734	213,067	328,431	290,437
Total liabilities, deferred inflows of resources and fund balance	\$100,321	\$38,291	\$9,235	\$24,694	\$346,756	\$519,297	\$674,348
Fund balance reported above						\$328,431	\$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.						870,460	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	6,382
Net position of governmental activities						\$1,205,273	\$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, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 4

	General Fund	Water Management and Maintenance Fund	Water Quantity Fund	Public Education Fund	Plan Implementation Fund	Total Governmental Funds	
						2017	2016
Revenues:							
General property taxes:							
Current and delinquent	\$143,445	\$307,959	\$4,482	\$33,217	\$380,982	\$870,085	\$747,085
Intergovernmental	186	400	6	43	98,070	98,705	192,985
Investment income	74	158	2	17	195	446	540
Permits	61,391	-	-	-	-	61,391	44,763
Miscellaneous	5	-	-	-	-	5	7,420
Total revenues	<u>205,101</u>	<u>308,517</u>	<u>4,490</u>	<u>33,277</u>	<u>479,247</u>	<u>1,030,632</u>	<u>992,793</u>
Expenditures:							
Current:							
Engineering	94,189	303,608	72,992	-	123,084	593,873	615,450
Accounting and audit	23,154	-	-	-	-	23,154	21,425
Legal	21,070	126	2,376	316	1,039	24,927	24,110
Manager's per diem and expenses	19,880	-	-	-	-	19,880	13,826
Secretarial services	2,806	-	-	-	-	2,806	5,051
Insurance	12,985	-	-	-	-	12,985	14,025
Inspector's services and mileage	14,067	-	-	-	-	14,067	754
Dues	4,000	-	-	-	-	4,000	5,000
Contingency projects	-	35,208	19,684	-	309,966	364,858	319,366
Public education	-	-	-	33,809	-	33,809	11,316
Annual report	-	-	-	7,209	-	7,209	5,781
Website	-	-	-	9,315	-	9,315	-
Miscellaneous	542	-	-	99	-	641	1,542
Total expenditures	<u>192,693</u>	<u>338,942</u>	<u>95,052</u>	<u>50,748</u>	<u>434,089</u>	<u>1,111,524</u>	<u>1,037,646</u>
Revenues over (under) expenditures	12,408	(30,425)	(90,562)	(17,471)	45,158	(80,892)	(44,853)
Other financing sources (uses):							
Transfers in	-	250,000	45,000	-	-	295,000	-
Transfers out	-	-	-	-	(295,000)	(295,000)	-
Sale of capital asset	-	-	-	-	118,886	118,886	-
Total other financing sources (uses)	<u>0</u>	<u>250,000</u>	<u>45,000</u>	<u>0</u>	<u>(176,114)</u>	<u>118,886</u>	<u>0</u>
Net change in fund balance	12,408	219,575	(45,562)	(17,471)	(130,956)	37,994	(44,853)
Fund balance (deficit) - January 1	<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>
Fund balance (deficit) - December 31	<u>\$76,224</u>	<u>\$18,916</u>	<u>\$6,490</u>	<u>\$13,734</u>	<u>\$213,067</u>	<u>\$328,431</u>	<u>\$290,437</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, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 5

	<u>2017</u>	<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)	\$37,994	(\$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.	(560)	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.	(77,123)	(4,185)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>-</u>	<u>(916)</u>
Change in net position of governmental activities (Statement 2)	<u><u>(\$39,689)</u></u>	<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, 2017
 With Comparative Totals For December 31, 2016

Statement 6

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and investments	<u>\$9,734</u>	<u>\$121,404</u>
Total assets	<u><u>\$9,734</u></u>	<u><u>\$121,404</u></u>
Liabilities:		
Escrow deposits payable	<u>\$9,734</u>	<u>\$121,404</u>
Total liabilities	<u><u>\$9,734</u></u>	<u><u>\$121,404</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 Governmental Accounting Standards Board (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, 2017

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, 2017

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.

The General Fund's expenditures exceeded budgeted appropriations in 2017 by \$32,693.

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, 2017

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.

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, 2016, 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 (\$0) difference is as follows:

Unavailable revenue - general property taxes:	
At December 31, 2016	(\$6,382)
At December 31, 2017	<u>6,382</u>
Net adjustment to fund balance - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$0</u></u>

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 (\$560) difference is as follows:

Capital outlay	\$17,800
Depreciation expense	<u>(18,360)</u>
Net adjustment to decrease net changes in fund balance - total government funds to arrive at changes in net position of governmental activities	<u><u>(\$560)</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, 2017

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, 2017, the carrying amount of the District's deposits was \$506,989 and the bank balance was \$540,271. 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, 2017:

	<u>Cash and Investments</u>
Government-wide statement of net position	\$497,255
Fiduciary fund statement of net position	<u>9,734</u>
Total	<u><u>\$506,989</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, 2017

The District did not invest in any of the above listed investments during 2017.

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, 2017.

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, 2017

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	\$934
Water Management and Maintenance Fund	1,995
Water Quantity Fund	157
Public Education Fund	502
Plan Implementation Fund	<u>2,794</u>
Total	<u><u>\$6,382</u></u>

VALLEY BRANCH WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	1/1/17 Beginning Balance	Increase	Decrease	12/31/17 Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Permanent easements	\$52,150	\$ -	\$ -	\$52,150
Construction in progress	130,800	17,800	77,123	71,477
Total capital assets, not being depreciated	<u>\$182,950</u>	<u>\$17,800</u>	<u>\$77,123</u>	<u>\$123,627</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	269,959	-	-	269,959
Moynagh ravine stabilization project	91,951	-	-	91,951
Total capital assets, being depreciated	<u>917,977</u>	<u>0</u>	<u>0</u>	<u>917,977</u>
Less accumulated depreciation for:				
Lift stations and pumps	82,144	2,282	-	84,426
Ravine stabilization	40,489	5,784	-	46,273
Oakgreen infiltration basin	24,445	3,056	-	27,501
CWF ravine stabilization	5,399	5,399	-	10,798
Moynagh ravine stabilization project	307	1,839	-	2,146
Total accumulated depreciation	<u>152,784</u>	<u>18,360</u>	<u>0</u>	<u>171,144</u>
Total capital assets being depreciated - net	<u>765,193</u>	<u>(18,360)</u>	<u>0</u>	<u>746,833</u>
Governmental activities capital assets - net	<u>\$948,143</u>	<u>(\$560)</u>	<u>\$77,123</u>	<u>\$870,460</u>

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

Governmental activities:	
Projects	<u>\$18,360</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, 2017

Note 6 FUND BALANCE

At December 31, 2017, 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:						
Public education	\$ -	\$ -	\$ -	\$13,534	\$ -	\$13,534
Total committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,534</u>	<u>0</u>	<u>13,534</u>
Assigned to:						
Emergency conditions	-	-	6,490	-	-	6,490
Maintenance	-	18,916	-	-	-	18,916
Implementation of watershed plan	-	-	-	-	213,067	213,067
Public education	-	-	-	200	-	200
Total assigned	<u>0</u>	<u>18,916</u>	<u>6,490</u>	<u>200</u>	<u>213,067</u>	<u>238,673</u>
Unassigned	<u>76,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,224</u>
Total	<u>\$76,224</u>	<u>\$18,916</u>	<u>\$6,490</u>	<u>\$13,734</u>	<u>\$213,067</u>	<u>\$328,431</u>

Note 7 COMMITTED CONTRACTS

At December 31, 2017, the District had committed contracts totaling \$402,872 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, 2017

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. 83 *Certain Asset Retirement Obligations*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

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.

Statement No. 86 *Certain Debt Extinguishment Issues*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87 *Leases*. The provisions of this statements are effective for periods beginning after December 15, 2019.

Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The provisions of this statements are effective for periods beginning after June 15, 2018.

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

Statement 7

For The Year Ended December 31, 2017

With Comparative Actual Amounts For The Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
Revenues:					
General property taxes:					
Current and delinquent	\$141,968	\$141,968	\$143,445	\$1,477	\$118,526
Intergovernmental	-	-	186	186	169
Investment income	82	82	74	(8)	86
Permits	-	-	61,391	61,391	44,763
Miscellaneous	-	-	5	5	7,420
Total revenues	<u>142,050</u>	<u>142,050</u>	<u>205,101</u>	<u>63,051</u>	<u>170,964</u>
Expenditures:					
Current:					
Engineering:					
Administration	85,000	85,000	94,189	(9,189)	92,552
Accounting and audit	21,700	21,700	23,154	(1,454)	21,425
Legal	15,000	15,000	21,070	(6,070)	19,592
Manager's per diem and expenses	12,000	12,000	19,880	(7,880)	13,826
Secretarial services	2,000	2,000	2,806	(806)	5,051
Insurance	13,500	13,500	12,985	515	14,025
Inspector's services and mileage	4,000	4,000	14,067	(10,067)	754
Dues	5,000	5,000	4,000	1,000	5,000
Miscellaneous	1,800	1,800	542	1,258	1,542
Total expenditures	<u>160,000</u>	<u>160,000</u>	<u>192,693</u>	<u>(32,693)</u>	<u>173,767</u>
Revenues over (under) expenditures	<u>(\$17,950)</u>	<u>(\$17,950)</u>	12,408	<u>\$30,358</u>	(2,803)
Fund balance - January 1			<u>63,816</u>		<u>66,619</u>
Fund balance - December 31			<u>\$76,224</u>		<u>\$63,816</u>

VALLEY BRANCH WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2017

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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 8

	<u>2017</u>	<u>2016</u>
Revenues:		
General property taxes:		
Current and delinquent	\$143,445	\$118,526
Intergovernmental	186	169
Investment income	74	86
Permits	61,391	44,763
Miscellaneous	5	7,420
Total revenues	<u>205,101</u>	<u>170,964</u>
Expenditures:		
Current:		
Engineering	94,189	92,552
Accounting and audit	23,154	21,425
Legal	21,070	19,592
Manager's per diem and expenses	19,880	13,826
Secretarial services	2,806	5,051
Insurance	12,985	14,025
Inspector's services and mileage	14,067	754
Dues	4,000	5,000
Miscellaneous	542	1,542
Total expenditures	<u>192,693</u>	<u>173,767</u>
Revenues over (under) expenditures	12,408	(2,803)
Fund balance - January 1	<u>63,816</u>	<u>66,619</u>
Fund balance - December 31	<u><u>\$76,224</u></u>	<u><u>\$63,816</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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 9

	<u>2017</u>	<u>2016</u>
Revenues:		
General property taxes	\$307,959	\$238,755
Intergovernmental	400	295
Investment income	158	150
Total revenues	<u>308,517</u>	<u>239,200</u>
Expenditures:		
Legal	126	1,776
Engineering	303,608	326,301
Contingency projects	<u>35,208</u>	<u>10,983</u>
Total expenditures	<u>338,942</u>	<u>339,060</u>
Revenues over (under) expenditures	<u>(30,425)</u>	<u>(99,860)</u>
Other financing sources (uses):		
Transfers in	<u>250,000</u>	<u>-</u>
Total other financing sources (uses)	<u>250,000</u>	<u>0</u>
Net change in fund balance	219,575	(99,860)
Fund balance (deficit) - January 1	<u>(200,659)</u>	<u>(100,799)</u>
Fund balance (deficit) - December 31	<u><u>\$18,916</u></u>	<u><u>(\$200,659)</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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 10

	<u>2017</u>	<u>2016</u>
Revenues:		
General property taxes	\$4,482	\$18,520
Intergovernmental	6	26
Investment income	2	13
Total revenues	<u>4,490</u>	<u>18,559</u>
Expenditures:		
Engineering	72,992	-
Legal	2,376	-
Contingency projects	19,684	19,516
Total expenditures	<u>95,052</u>	<u>19,516</u>
Revenues over (under) expenditures	(90,562)	(957)
Other financing sources (uses):		
Transfers in	45,000	-
Total other financing sources (uses)	<u>45,000</u>	<u>0</u>
Net change in fund balance	(45,562)	(957)
Fund balance - January 1	<u>52,052</u>	<u>53,009</u>
Fund balance - December 31	<u><u>\$6,490</u></u>	<u><u>\$52,052</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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 11

	<u>2017</u>	<u>2016</u>
Revenues:		
General property taxes	\$33,217	\$23,261
Intergovernmental	43	33
Investment income	17	17
Total revenues	<u>33,277</u>	<u>23,311</u>
Expenditures:		
Legal	316	816
Public education	33,809	11,316
Annual report	7,209	5,781
Website	9,315	-
Miscellaneous	99	-
Total expenditures	<u>50,748</u>	<u>17,913</u>
Revenues over (under) expenditures	(17,471)	5,398
Fund balance - January 1	<u>31,205</u>	<u>25,807</u>
Fund balance - December 31	<u><u>\$13,734</u></u>	<u><u>\$31,205</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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 12

	<u>2017</u>	<u>2016</u>
Revenues:		
General property taxes	\$380,982	\$348,023
Intergovernmental	98,070	192,462
Investment income	195	274
Total revenues	<u>479,247</u>	<u>540,759</u>
Expenditures:		
Engineering	123,084	196,597
Legal	1,039	1,926
Contingency projects	309,966	288,867
Total expenditures	<u>434,089</u>	<u>487,390</u>
Revenues over expenditures	<u>45,158</u>	<u>53,369</u>
Other financing sources (uses):		
Transfers out	(295,000)	-
Sale of capital asset	118,886	-
Total other financing sources (uses)	<u>(176,114)</u>	<u>0</u>
Net change in fund balance	(130,956)	53,369
Fund balance - January 1	<u>344,023</u>	<u>290,654</u>
Fund balance - December 31	<u><u>\$213,067</u></u>	<u><u>\$344,023</u></u>

VALLEY BRANCH WATERSHED DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND - ESCROW FUND
For The Year Ended December 31, 2017

Statement 13

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
<u>Escrow Fund</u>				
Assets:				
Cash and investments	\$121,404	\$35,000	\$146,670	\$9,734
Total assets	<u>\$121,404</u>	<u>\$35,000</u>	<u>\$146,670</u>	<u>\$9,734</u>
Liabilities:				
Escrow deposits payable	\$121,404	\$35,000	\$146,670	\$9,734
Total liabilities	<u>\$121,404</u>	<u>\$35,000</u>	<u>\$146,670</u>	<u>\$9,734</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, 2017, 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 material weakness and another deficiency 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 consider the deficiency in internal control presented in the Schedule of Findings and Responses as 2017-001 to be a material weakness.

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 2017-002 to be a significant deficiency.

Valley Branch Watershed District
Report on Internal Control

Valley Branch Watershed Districts' written response to the significant deficiency and material weakness identified in our audit is described in the accompanying Schedule of Findings and Responses. The response has not been subjected to the audit procedures applied in the audit of the financial statements 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

June 11, 2018



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, 2017, 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 June 11, 2018.

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 item 2017-003. 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

June 11, 2018

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Valley Branch Watershed District
Schedule of Findings and Responses

2017-001 Audit Adjustments / Year-end Closing Process

Criteria: Material audit adjustments are considered to be a deficiency in internal control.

Condition: During the course of our audit, we identified adjustments to the financial statements related to the recording of accounts payable and contracts payable.

Cause: The Valley Branch Watershed District's (the District) year-end closing process did not identify these corrections prior to the audit.

Effect: By not having effective closing and review controls, there is an increased risk that financial statement misstatements could occur and not be detected in a timely basis.

Recommendation: We recommend the District continue efforts to assure that all adjustments are identified during the year-end closing process.

Management Response: The District will continue to monitor and develop processes to ensure the financial statements are reviewed and any misstatements are detected and prevented on a timely basis.

Valley Branch Watershed District
Schedule of Findings and Responses

2017-002 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

2017-003 Report of Abandoned Property

Criteria: Minnesota Statute 345.41 requires a report of uncashed checks outstanding for more than three years be filed with the Minnesota Commissioner of Commerce.

345.41 REPORT OF ABANDONED PROPERTY.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(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.

Valley Branch Watershed District
Schedule of Findings and Responses

(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, 2017, the District had not yet filed a report with the Commissioner of Commerce listing the checks that had been outstanding for longer than three years as abandoned property. The District had one outstanding check totaling \$267.50, which has been outstanding longer than three years.

Cause: Unknown

Effect: Not Determinable.

Recommendation: We recommend the District begin the process of notifying vendors, re-issuing checks if necessary and reporting to the Commissioner of Commerce a listing of checks as abandoned property. We recommend this process be done on a timely basis in future years in order to comply with State Statutes.

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



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Branch Watershed District (the District) for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 5, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The District does not have any significant sensitive estimates affecting the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statement was the disclosure of Prior Period Adjustment in Note 9 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. The following material misstatements detected as a result of audit procedures were corrected by management:

Only three quarterly invoices for 2017 were expensed during the year for the Washington Conservation District public education. Valley Branch Watershed District was unable to locate the missing quarterly invoice (third quarter invoice) but was in agreement that there should be four quarterly invoices expensed in 2017 for \$4,625 each.

Pay request #3 to Penn Contracting, Inc. for \$13,960 was for work performed in 2017 and was initially recorded as a 2018 expense.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 11, 2018

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our

procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. Such information 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.

Other Reports

Various reports on compliance and internal controls are contained in the Other Reports section of the audited financial statements document.

Restriction on Use

This information is intended solely for the information and use of management and Valley Branch Watershed District's Board of Managers, 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

June 11, 2018