

**RILEY PURGATORY BLUFF CREEK
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2016

- This page intentionally left blank -

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Ref No.</u>	<u>Page No.</u>
INTRODUCTORY SECTION		
Organization		3
FINANCIAL SECTION		
Independent Auditor's Report		7
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	Statement 1	12
Statement of Activities	Statement 2	13
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	Statement 5	16
Notes to Financial Statements		17
Required Supplementary Information:		
Budgetary Comparison Schedule - 509 Plan Implementation	Statement 6	36
Schedule of Proportionate Share of Net Pension Liability - General Employees Retirement Fund	Statement 7	37
Schedule of Pension Contributions - General Employees Retirement Fund	Statement 8	38
Notes to RSI		39
OTHER INFORMATION - UNAUDITED		
Market Values by Watershed	Exhibit 1	42
OTHER REPORTS		
Report on Internal Control		45
Minnesota Legal Compliance Report		47
Schedule of Findings and Responses		49

- This page intentionally left blank -

INTRODUCTORY SECTION

- This page intentionally left blank -

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

ORGANIZATION

December 31, 2016



<u>Name</u>	<u>Position 2016</u>
District Officers:	
Appointed:	
Board of Managers:	
Perry Forster	President
Mary Bisek	Vice-President
Jill Crafton	Treasurer
Richard Chadwick	Manager
Leslie Yetka	Secretary
District Administrator:	
Claire Bleser	
District Council:	
Smith Partners PLLP	
District Accounting:	
JMSC Futurity	
District Engineer:	
Barr Engineering	

- This page intentionally left blank -

FINANCIAL SECTION

- This page intentionally left blank -



INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the
Riley Purgatory Bluff Creek Watershed District
Chanhassen, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek Watershed District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Riley Purgatory Bluff Creek 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 and each major fund of Riley Purgatory Bluff Creek 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 Riley Purgatory Bluff Creek Watershed District's 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated March 15, 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 and pension information on pages 36 through 39, 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 Riley Purgatory Bluff Creek Watershed District's basic financial statements. The introductory and other information sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and other information sections have 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 them.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

May 22, 2017

- This page intentionally left blank -

BASIC FINANCIAL STATEMENTS

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

STATEMENT OF NET POSITION

Statement 1

December 31, 2016

With comparative totals for December 31, 2015

	Primary Government	
	Governmental Activities	
	2016	2015
Assets:		
Cash and cash equivalents	\$4,109,949	\$3,632,242
Due from other governments	8,353	-
Property taxes receivable:		
Delinquent	20,822	17,622
Due from County	9,477	-
Security deposit	2,500	2,500
Prepaid expenses	6,268	13,413
Capital assets - net:		
Nondepreciable	78,034	127,891
Depreciable	163,312	125,271
Total assets	<u>4,398,715</u>	<u>3,918,939</u>
Deferred outflows of resources:		
Related to pensions	<u>111,360</u>	<u>44,890</u>
Liabilities:		
Accounts payable	193,006	92,259
Contracts payable	23,819	2,293
Due to other governments	98,317	27,892
Deposits payable	622,975	381,675
Accrued payroll	10,208	8,526
Accrued rent	-	17,838
Unearned revenue	101,368	156,438
Compensated absences payable:		
Due within one year	8,593	6,169
Due in more than one year	11,157	7,528
Net pension liability:		
Due in more than one year	227,346	145,111
Total liabilities	<u>1,296,789</u>	<u>845,729</u>
Deferred inflows of resources:		
Related to pensions	<u>18,468</u>	<u>7,316</u>
Net position:		
Investment in capital assets	241,346	253,162
Unrestricted	2,953,472	2,857,622
Total net position	<u>\$3,194,818</u>	<u>\$3,110,784</u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2016

With Comparative Totals For The Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Totals	
					2016	2015
Primary government:						
Governmental activities:						
General government	\$562,991	\$29,108	\$874	\$ -	(\$533,009)	(\$502,300)
Programs	1,931,605	-	35,001	-	(1,896,604)	(1,098,736)
Total governmental activities	<u>\$2,494,596</u>	<u>\$29,108</u>	<u>\$35,875</u>	<u>\$0</u>	<u>(2,429,613)</u>	<u>(1,601,036)</u>
General revenues:						
Property taxes					2,454,597	2,431,901
Unrestricted investment earnings					232	38
Other income					58,818	502
Total general revenues					<u>2,513,647</u>	<u>2,432,441</u>
Change in net position					<u>84,034</u>	<u>831,405</u>
Net position - January 1, as originally reported					3,110,784	2,372,119
Prior period adjustment					-	(92,740)
Net position - January 1, as restated					<u>3,110,784</u>	<u>2,279,379</u>
Net position - December 31					<u>\$3,194,818</u>	<u>\$3,110,784</u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2016

With Comparative Totals For December 31, 2015

Statement 3

Assets	509 Plan Implementation	
	2016	2015
Cash and cash equivalents	\$4,109,949	\$3,632,242
Due from other governments	8,353	-
Taxes receivable:		
Delinquent	20,822	17,622
Due from county	9,477	-
Security deposit	2,500	2,500
Prepaid expense	6,268	13,413
Total assets	<u>\$4,157,369</u>	<u>\$3,665,777</u>
Liabilities, Deferred Inflow of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$193,006	\$92,259
Contracts payable	23,819	2,293
Due to other governments	98,317	27,892
Deposits payable	622,975	381,675
Accrued payroll	10,208	8,526
Unearned revenue	101,368	156,438
Total liabilities	<u>1,049,693</u>	<u>669,083</u>
Deferred inflow of resources:		
Unavailable revenues	<u>20,822</u>	<u>17,622</u>
Fund balance:		
Nonspendable	8,768	15,913
Committed	3,034,488	2,926,938
Assigned	43,598	36,221
Total fund balance	<u>3,086,854</u>	<u>2,979,072</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$4,157,369</u>	<u>\$3,665,777</u>
Fund balance reported above	\$3,086,854	\$2,979,072
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.	241,346	253,162
Deferred outflow of resources-pension related are not current financial resources and, therefore, are not reported in the funds	111,360	44,890
Deferred inflow of resources-pension related are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds	(18,468)	(7,316)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Deferred rent	-	(17,838)
Compensated absences payable	(19,750)	(13,697)
Net pension liability	(227,346)	(145,111)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	<u>20,822</u>	<u>17,622</u>
Net position of governmental activities	<u>\$3,194,818</u>	<u>\$3,110,784</u>

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

RILEY PURGATORY BLUFF CREEK 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

	509 Plan Implementation	
	2016	2015
Revenues:		
General property taxes	\$2,451,397	\$2,417,054
Permit income	29,108	20,100
Intergovernmental	34,001	84,934
Investment income	232	38
Other income	59,818	9,333
Total revenues	<u>2,574,556</u>	<u>2,531,459</u>
Expenditures:		
Current:		
General government	547,681	501,005
Programs	1,898,536	1,203,395
Capital outlay:		
Programs	20,557	69,154
Total expenditures	<u>2,466,774</u>	<u>1,773,554</u>
Revenues over (under) expenditures	<u>107,782</u>	<u>757,905</u>
Other financing sources (uses):		
Transfers in	-	611,763
Transfers out	-	(611,763)
Total other financing sources (uses):	<u>0</u>	<u>0</u>
Net change in fund balance	<u>107,782</u>	<u>757,905</u>
Fund balance - January 1	<u>2,979,072</u>	<u>2,221,167</u>
Fund balance - December 31	<u><u>\$3,086,854</u></u>	<u><u>\$2,979,072</u></u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS

Statement 5

For The Year Ended December 31, 2016

With Comparative Totals for The Year Ended December 31, 2015

	2016	2015
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balance - total governmental funds (Statement 4)	\$107,782	\$757,905
Governmental funds report capital outlays as expenditures. However, in the Statement of Net Position the costs 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.		
Capital outlay	20,557	69,154
Depreciation	(17,087)	(12,186)
In the Statement of Activities, the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, only the proceeds of a sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the disposed capital assets.	(15,286)	-
Various other transactions involving capital assets increase net position on the statement of activities, but are not reported in governmental funds because they do not provide current financial resources:		
Contributed assets	-	33,454
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	(6,053)	(6,203)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the Statement of Activities. This is the amount by which pension expense exceeded pension contributions:		
Pension contributions	\$13,813	
Pension expense	(40,730)	(14,797)
In governmental funds, an expenditure is recognized only as amounts become due and payable in accordance with a lease contract. However, in the Statement of Net Position, expense is recognized during periods when the terms of the lease provide for a "rent holiday".	17,838	(10,769)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Unavailable general property taxes revenue:		
At December 31, 2015	(17,622)	(2,775)
At December 31, 2016	20,822	17,622
Change in net position of governmental activities (Statement 2)	\$84,034	\$831,405

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Riley Purgatory Bluff Creek Watershed District (the District) conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

The District was created under the provisions of Minnesota Statutes. The District is operated by a five member Board of Managers appointed by the Hennepin and Carver County Boards of Commissioners for three year terms.

The District's policy is to include in the financial statements all funds, account groups, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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.

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 fund:

509 Plan Implementation (special revenue fund) – Notwithstanding chapter 103D, a local government unit or watershed management organization may levy a tax to pay the increased costs of preparing a plan under sections 103B.231 and 103B.235 or for projects identified in an approved and adopted plan necessary to implement the purposes of section 103B.201. The proceeds of any tax levied under this section shall be deposited in a separate fund and expended only for the purposes authorized by this section. Watershed management organizations and local government units may accumulate the proceeds of levies as an alternative to issuing bonds to finance improvements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

D. BUDGETARY DATA

The Board of Managers adopts an annual budget for the 509 Plan Implementation Special Revenue Fund. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

The Board of Managers annually adopts a tax levy for collection during the calendar year. The District's records are maintained on a calendar year ending December 31. The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

The District prepares a revenue and expenditure budget for the 509 Plan Implementation Special Revenue Fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

During 2016, the District's expenditures exceeded budget appropriations as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
509 Plan Implementation	\$2,451,500	\$2,466,774	\$15,274

The over expenditures were funded by available fund balance.

E. CASH AND INVESTMENTS

Cash and investment balances are made up of checking and money market savings accounts.

F. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the Counties on September 15 (levy/assessment date) of each year for collection in the following year. The Counties are 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 Counties 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 Counties possess 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.

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 Counties 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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

delinquent taxes not collected by the District in January is fully offset by deferred inflow 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. The District does not maintain material amounts of inventories of goods and supplies.

H. PREPAIDS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, intangibles, and infrastructure assets (e.g., storm sewers, manholes, control structures and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets (including intangible 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 asset lives are not capitalized.

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective in 2004. 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 has elected to implement the general provisions of GASB Statement No. 34 in the current year and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets from 2004 through 2016.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010. GASB Statement No. 51 required the District to capitalize and amortize intangible assets. Intangible assets include easements and computer software. 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 has elected not to report intangible assets acquired in years prior to 2010. The District did not acquire any intangible assets from 2010 through 2016.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

Building	30 years
Equipment, boats and vehicles	7-10 years
Intangibles	10 years

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and personal leave benefits. All vacation pay and personal leave that is payable at termination is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. FUND EQUITY

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 District's Board.

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

Unassigned - consists of negative residual amounts in the fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, 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) assigned 2) committed, and 3) unassigned.

L. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles (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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

M. COMPARATIVE 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 generally accepted accounting principles. 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. RECLASSIFICATIONS

Certain reclassifications were made to prior year amounts to conform to current year presentation.

O. 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 government has one item that qualifies for reporting in this category. It is the pension related deferred outflows reported in the government-wide Statement of Net Position.

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 government has pension related deferred inflows of related deferred inflows of sources reported in the government-wide Statement of Net Position. The government also has an 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 property taxes.

P. DEFINED BENEFIT PENSION PLANS

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State Statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds.

At year end the carrying amount of the District's deposits were \$4,109,949 and the bank balance was \$4,138,343. The entire bank balance was covered by federal depository insurance or perfected collateral provided by the financial institution and held in the District's name.

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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

- 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 acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

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

Custodial Credit Risk – Investments. For investments in securities, custodial credit risk is the risk that in the event of 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 addresses the custodial credit risk of investments.

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. The District follows State Statutes in regards to credit risk of investments. 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 the 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 the District's investment in a single issuer. The District does not have an investment policy which addresses the concentration of credit risk.

RILEY PURGATORY BLUFF CREEK 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. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

<u>Major Fund</u>	<u>Property Taxes</u>
509 Plan Implementation Fund	\$20,822

Note 4 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$78,034	\$ -	\$ -	\$78,034
Construction-in-process	49,857	-	49,857	-
Total capital assets, not being depreciated	<u>127,891</u>	<u>-</u>	<u>49,857</u>	<u>78,034</u>
Capital assets, being depreciated:				
Building	50,856	-	-	50,856
Equipment, boats and vehicles	89,567	20,557	-	110,124
Intangibles	-	34,571	-	34,571
Total capital assets, being depreciated	<u>140,423</u>	<u>55,128</u>	<u>-</u>	<u>195,551</u>
Less accumulated depreciation for:				
Building	2,401	1,695	-	4,096
Equipment, boats and vehicles	12,751	13,663	-	26,414
Intangibles	-	1,729	-	1,729
Total accumulated depreciation	<u>15,152</u>	<u>17,087</u>	<u>-</u>	<u>32,239</u>
Total capital assets being depreciated - net	<u>125,271</u>	<u>38,041</u>	<u>-</u>	<u>163,312</u>
Governmental activities capital assets - net	<u>\$253,162</u>	<u>\$38,041</u>	<u>\$49,857</u>	<u>\$241,346</u>

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

Governmental activities:	
General government	\$1,729
Programs	15,358
	<u>\$17,087</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 5 COMMITMENTS AND CONTINGENCIES

The District had \$61,624 of committed contracts at December 31, 2016.

The District’s office space lease had a term that goes through June 30, 2020. Due to persistent noise problems and unsuccessful attempts to have the landlord address the problem, the District informed the landlord formally on December 9, 2016, that it had no choice but to move its office and conclude its occupancy on or before February 28, 2017. The landlord’s attorney has made contact with the District’s attorney stating that the landlord did not consent to the ‘voluntary termination’ of the lease and that the District will remain responsible for rent through June 30, 2020 in the amount of \$150,000. The District denies liability. At this time, the outcome of this matter is undeterminable.

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

Note 6 LONG-TERM DEBT

Changes in general long-term liabilities for the year ended December 31, 2016 is as follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated payable	<u>\$13,697</u>	<u>\$18,197</u>	<u>(\$12,144)</u>	<u>\$19,750</u>	<u>\$8,593</u>

It is not practicable to determine specific year of payment of long-term accrued compensated absences.

Note 7 FUND BALANCE

At December 31, 2016, the District had the following fund balance:

	<u>509 Plan</u> <u>Implementation</u>
Nonspendable	<u>\$8,768</u>
Committed	<u>3,034,488</u>
Assigned	<u>43,598</u>
Total	<u>\$3,086,854</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 8 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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 DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7%

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The District's contributions to the GERF for the year ended December 31, 2016, were \$13,813. The District's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

GERF Pension Costs

At December 31, 2016, the District reported a liability of \$227,346 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$2,931. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was .0028% which was equal to its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$40,730 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$874 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$18,468
Changes in actuarial assumptions	44,515	-
Difference between projected and actual investment earnings	43,152	-
Changes in proportion	16,441	-
Contributions paid to PERA subsequent to the measurement date	<u>7,252</u>	<u>-</u>
Total	<u><u>\$111,360</u></u>	<u><u>\$18,468</u></u>

\$7,252 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2017	\$27,736
2018	27,736
2019	21,955
2020	8,213
2021	-

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year in all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study on the GERF was completed in 2015.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefits increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increase, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and employers will be made at rates set in Minnesota Statutes. Based on that assumption, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

G. PENSION LIABILITY SENSITIVITY

The following presents the District’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the GERF net pension liability	\$322,899	\$227,346	\$148,637

H. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 10 OPERATING LEASE

Starting in July of 2014 the District entered into a new lease with required base monthly payments that vary from year to year and an initial estimated monthly operating charge of \$1,496. The District received 12 months of \$0 monthly base payments that began on September 1, 2014. Total rent paid for the year ended December 31, 2016 was \$51,063. Total rent expense for the year ended December 31, 2016 was \$44,343.

Effective January 10, 2017, the District entered into a new operating lease agreement and terminated their old operating agreement. The new agreement has an initial term of 122 calendar months beginning March 1, 2017. The new lease has required base monthly payments that vary from year to year.

Future minimum lease payments are as follows:

	<u>Payment</u>
2017	\$38,153
2018	58,185
2019	59,333
2020	60,533
2021	61,744
2022-2026	327,647
2027	23,017
Total	<u><u>\$628,612</u></u>

The District will have the option to extend the lease an additional 5 years when the current lease expires on April 30, 2027.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 11 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.

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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 12 CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For the year ended December 31, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. GASB 68 addresses accounting and financial reporting for pension plans that are provided to employees of state and local governments. The standard requires the District to record its share of the net pension liability of defined benefit plans, as well as any corresponding deferred inflows and outflows of resources. See Note 9 for further information.

The standard required retroactive implementation which resulted in a restatement of net position as of December 31, 2014. Certain amounts necessary to fully restate 2014 financial information are not determinable, therefore, prior year comparative amounts have not been restated. Details of the prior period adjustment are as follows:

	<u>Governmental Activities</u>
Net position - January 1, 2016, as previously reported	\$2,372,119
Prior period adjustment:	
Deferred outflows of resources - pension related	5,907
Net pension liability	<u>(98,647)</u>
Net position - January 1, 2016, as restated	<u><u>\$2,279,379</u></u>

- This page intentionally left blank -

REQUIRED SUPPLEMENTARY INFORMATION

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - 509 PLAN IMPLEMENTATION
For The Year Ended December 31, 2016
With Comparative Actual Amounts For The Year Ended December 31, 2015

Statement 6

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget -	2015 Actual Amounts
	Original	Final		Positive	
				(Negative)	
Revenues:					
General property taxes	\$2,481,500	\$2,481,500	\$2,451,397	(\$30,103)	\$2,417,054
Permit income	15,000	15,000	29,108	14,108	20,100
Intergovernmental	-	-	34,001	34,001	84,934
Investment income	-	-	232	232	38
Other income	-	-	59,818	59,818	9,333
Total revenues	<u>2,496,500</u>	<u>2,496,500</u>	<u>2,574,556</u>	<u>78,056</u>	<u>2,531,459</u>
Expenditures:					
Current:					
General government	648,000	726,000	547,681	178,319	501,005
Programs	1,720,500	1,725,500	1,898,536	(173,036)	1,203,395
Capital outlay:					
Programs	-	-	20,557	(20,557)	69,154
Total expenditures	<u>2,368,500</u>	<u>2,451,500</u>	<u>2,466,774</u>	<u>(15,274)</u>	<u>1,773,554</u>
Revenues over (under) expenditures	<u>128,000</u>	<u>45,000</u>	<u>107,782</u>	<u>\$62,782</u>	<u>757,905</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	611,763
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>611,763</u>
Net change in fund balance	<u>\$128,000</u>	<u>\$45,000</u>	107,782	<u>\$62,782</u>	1,369,668
Fund balance - January 1			<u>2,979,072</u>		<u>1,609,404</u>
Fund balance - December 31			<u>\$3,086,854</u>		<u>\$2,979,072</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY* -
 GENERAL EMPLOYEES RETIREMENT FUND
 For The Year Ended December 31, 2016

Statement 7

Measurement Date	Fiscal Year Ending	District's Proportionate Share (Percentage) of the Net Pension Liability	District's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)	Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	December 31, 2015	0.0028%	\$145,111	\$ -	\$145,111	\$177,271	81.9%	78.2%
June 30, 2016	December 31, 2016	0.0028%	227,346	2,931	230,277	174,027	132.3%	68.9%

* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS* - GENERAL EMPLOYEES RETIREMENT FUND
For The Year Ended December 31, 2016

Statement 8

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$12,742	\$12,742	\$0	\$170,252	7.5%
December 31, 2016	13,813	13,813	0	184,173	7.5%

* The schedule is provided prospectively beginning with the District's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2016

Note A BUDGETS

The 509 Plan Implementation 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.

Note B PENSION INFORMATION

PERA – General Employees Retirement Fund

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

- This page intentionally left blank -

OTHER INFORMATION - UNAUDITED

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
MARKET VALUES BY WATERSHED - UNAUDITED

Exhibit 1

	For Taxes Payable in 2016	Proposed For Taxes Payable in 2017
Estimate market value:		
Personal	\$86,473,200	\$93,221,300
Real	10,027,172,500	10,294,202,400
Total	<u>\$10,113,645,700</u>	<u>\$10,387,423,700</u>
Taxable market value:		
Personal	\$86,473,200	\$93,221,300
Real	9,784,727,433	10,061,121,993
Total	<u>\$9,871,200,633</u>	<u>\$10,154,343,293</u>
Referendum market value:		
Personal	\$86,473,200	\$93,221,300
Real	9,972,002,700	10,236,834,675
Total	<u>\$10,058,475,900</u>	<u>\$10,330,055,975</u>

Source: Hennepin County Taxpayer Services - Property Tax - Tax Accounting
 Carver County information is not available.

OTHER REPORTS

- This page intentionally left blank -



REPORT ON INTERNAL CONTROL

To the Honorable Managers of the
Riley Purgatory Bluff Creek Watershed District and Management
Chanhassen, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek 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 Riley Purgatory Bluff Creek 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 Riley Purgatory Bluff Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Riley Purgatory Bluff Creek 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 material weaknesses.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control presented in the accompanying Schedule of Findings and Responses as item 2016-001 to be a material weakness.

Riley Purgatory Bluff Creek Watershed District's written response to the material weakness identified in our audit has not been subject to the auditing 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, Riley Purgatory Bluff Creek 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 22, 2017



MINNESOTA LEGAL COMPLIANCE REPORT

To the Honorable Managers of the
Riley Purgatory Bluff Creek Watershed District
Chanhassen, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek Watershed District, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the Riley Purgatory Bluff Creek Watershed District's basic financial statements, and have issued our report thereon dated May 22, 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 we did not test for compliance with the provisions for tax increment financing because it is not applicable to the Riley Purgatory Bluff Creek Watershed District.

In connection with our audit, nothing came to our attention that caused us to believe that Riley Purgatory Bluff Creek 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 and 2016-003. 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 Riley Purgatory Bluff Creek Watershed District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of Riley Purgatory Bluff Creek Watershed District's Board 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 22, 2017

- This page intentionally left blank -

2016-001 Audit Adjustments

Criteria: A District's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Condition: During the course of our audit, we identified and proposed journal entries to correct two material misstatements as follows:

- A settlement reached with CH2M Hill Engineers Inc. totaling \$50,000 and a permit litigation settlement from the league of MN Cities totaling \$8,418 were netted with expenses instead of being recorded as revenue.
- The District received an advance payment on their BWSR grant. The grant expired on December 31, 2016 with \$42,021 of unspent funds. An entry was required to record a payable back to BWSR for the remaining amount of the grant.

In addition, we also identified and proposed journal entries to correct several immaterial audit adjustments:

- Accrued payroll of \$10,116 relating to the last pay period of December 2016 was not included as a year-end payable.
- Prior year 'Due from County' receivable was reversed to revenue and expense instead of the receivable account which resulted in a net misstatement of \$1,627.
- Retainage payable of \$2,293 relating to a project was included in payables twice.
- Retainage payable of approximately \$8,025 was not removed from payables even though the amount was already paid.
- 'Due from Other Governments' receivable of \$8,353 relating to grant funds already expended was not accrued.

Cause: The District's year end closing process did not identify the misstatements prior to the audit.

Effect: Inadequate controls over the year end closing process result in an increased risk that financial statement misstatements could occur and not be detected in a timely basis.

Recommendation: We recommend the District review its year end closing procedures in an effort to eliminate or minimize the amount of reconciliation and adjustments needed during the audit process.

Views of Responsible Officials and Corrective Action Plan: Administrator, Treasurer and outside accountant will meet after Board approval of year end Treasurer Report to prepare GAAP basis adjustments required for the audit.

Finding 2016-002 Contractual Language

Condition: Certain required contractual language noted below was not in the contract for the District's Purgatory Creek Highway 101 Project.

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.

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.

Context: Contract in question did not use subcontractors for the project.

Cause: Unknown.

Effect: Not Determinable.

Recommendation: We recommend the District work with their engineer to ensure the required contract language is included in all contracts.

Management Response: Management will notify the District Engineer and other engineers that the prompt payment of local government clause be incorporated into the contracting documents.

Finding 2016-003 Lack of Prompt Payment

Condition: The District approved the Minger Construction Payment Application #2 in July of 2016 for payment, however, payment was not made until October of 2016.

Criteria: Minnesota Statute 471.425 reads as follows.

471.425 Prompt payment of local government bills.

Subd. 2. **Payment required.** A municipality must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the municipality in good faith disputes the obligation. Standard payment period is defined as follows: (a) For municipalities who have governing boards which have regularly scheduled meetings at least once a month, the standard payment period is defined as within 35 days of the date of receipt. (b) For municipalities whose governing boards do not regularly meet at least once a month, the standard payment period is defined as 45 days after receipt of the goods or services or the invoice for the goods or services, whichever is later.

Cause: Unknown.

Effect: Not Determinable.

Recommendation: We recommend the District review all of their invoices monthly to ensure compliance with the prompt payment statues relating to invoices.

Management Response: Management has reviewed with the Administrator due process payment in regards to capital improvement projects.

- This page intentionally left blank -