

**RILEY PURGATORY BLUFF CREEK
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2015

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RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
TABLE OF CONTENTS

	Ref No.	Page No.
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 - General Fund	Statement 6	36
Budgetary Comparison Schedule - Basic Water Management	Statement 7	37
Budgetary Comparison Schedule - 509 Plan Implementation	Statement 8	38
Budgetary Comparison Schedule - Water Maintenance and Repair	Statement 9	39
Budgetary Comparison Schedule - Survey and Data Acquisition	Statement 10	40
Schedule of Proportionate Share of Net Pension Liability - General Employees Retirement Fund	Statement 11	41
Schedule of Pension Contributions - General Employees Retirement Fund	Statement 12	42
Notes to RSI		43
OTHER INFORMATION - UNAUDITED		
Market Values by Watershed	Exhibit 1	46
OTHER REPORTS		
Report on Internal Control		49
Minnesota Legal Compliance Report		51
Schedule of Findings and Responses		53

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INTRODUCTORY SECTION

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RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

ORGANIZATION

December 31, 2015



<u>Name</u>	<u>Position 2015</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	

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the
Riley Purgatory Bluff Creek Watershed District
Eden Prairie, 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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Notes 10 and 13 to the financial statements, Riley Purgatory Bluff Creek Watershed District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Riley Purgatory Bluff Creek Watershed District's 2014 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 April 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Pension Contributions on pages 36 through 43, 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

March 15, 2016

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BASIC FINANCIAL STATEMENTS

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

STATEMENT OF NET POSITION

December 31, 2015

Statement 1

	<u>Primary Government</u> <u>Governmental Activities</u> <u>2015</u>
Assets:	
Cash and investments	\$3,632,242
Property taxes receivable:	
Delinquent	17,622
Security deposit	2,500
Prepaid expenses	13,413
Capital assets - net:	
Nondepreciable	127,891
Depreciable	125,271
Total assets	<u>3,918,939</u>
Deferred outflows of resources:	
Related to pensions	<u>44,890</u>
Liabilities:	
Accounts payable	92,259
Contracts payable	2,293
Due to other governments	27,892
Deposits payable	381,675
Accrued payroll	8,526
Accrued rent	17,838
Unearned revenue	156,438
Compensated absences payable:	
Due within one year	6,169
Due in more than one year	7,528
Net pension liability:	
Due in more than one year	145,111
Total liabilities	<u>845,729</u>
Deferred inflows of resources:	
Related to pensions	<u>7,316</u>
Net position:	
Investment in capital assets	253,162
Unrestricted	2,857,622
Total net position	<u><u>\$3,110,784</u></u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2015

Statement 2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and	
		Charges For	Operating	Capital	Changes in Net Position
		Services	Grants and	Grants and	Primary Government
			Contributions	Contributions	Totals
					2015
Primary government:					
Governmental activities:					
General government	\$522,400	\$20,100	\$ -	\$ -	(\$502,300)
Programs	1,225,955	-	93,765	33,454	(1,098,736)
Total governmental activities	<u>\$1,748,355</u>	<u>\$20,100</u>	<u>\$93,765</u>	<u>\$33,454</u>	<u>(1,601,036)</u>
General revenues:					
Property taxes					2,431,901
Unrestricted investment earnings					38
Other income					502
Total general revenues					<u>2,432,441</u>
Change in net position					<u>831,405</u>
Net position - January 1, as originally reported					2,372,119
Prior period adjustment					(92,740)
Net position - January 1, as restated					<u>2,279,379</u>
Net position - December 31					<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

Statement 3

December 31, 2015
With Comparative Totals For December 31, 2014

Assets	509 Plan	Total Governmental Funds	
	Implementation	2015	2014
Cash and investments	\$3,632,242	\$3,632,242	\$2,434,450
Taxes receivable:			
Delinquent	17,622	17,622	2,775
Due from county	-	-	12,538
Security deposit	2,500	2,500	2,500
Prepaid expense	13,413	13,413	-
Due from other funds	-	-	1,300,179
Total assets	<u>\$3,665,777</u>	<u>\$3,665,777</u>	<u>\$3,752,442</u>
Liabilities, Deferred Inflow of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$92,259	\$92,259	\$78,495
Contracts payable	2,293	2,293	36,339
Due to other governments	27,892	27,892	-
Deposits payable	381,675	381,675	-
Accrued payroll	8,526	8,526	8,283
Due to other funds	-	-	1,300,179
Unearned revenue	156,438	156,438	105,204
Total liabilities	<u>669,083</u>	<u>669,083</u>	<u>1,528,500</u>
Deferred inflow of resources:			
Unavailable revenues	<u>17,622</u>	<u>17,622</u>	<u>2,775</u>
Fund balance:			
Nonspendable	15,913	15,913	2,500
Committed	2,926,938	2,926,938	2,169,071
Assigned	36,221	36,221	143
Unassigned	-	-	49,453
Total fund balance	<u>2,979,072</u>	<u>2,979,072</u>	<u>2,221,167</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$3,665,777</u>	<u>\$3,665,777</u>	<u>\$3,752,442</u>
Fund balance reported above		\$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.		253,162	
Deferred outflow of resources-pension related are not current financial resources and, therefore, are not reported in the funds		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		(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		(13,697)	
Net pension liability		(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>17,622</u>	
Net position of governmental activities		<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, 2015
With Comparative Totals For The Year Ended December 31, 2014

Statement 4

	General Fund	Basic Water Management	509 Plan Implementation	Water Maintenance and Repair	Survey and Data Acquisition	Total Governmental Funds	
						2015	2014
Revenues:							
General property taxes	\$ -	\$ -	\$2,417,054	\$ -	\$ -	\$2,417,054	\$2,251,115
Insurance levy	-	-	-	-	-	-	7,907
Permit Income	-	-	20,100	-	-	20,100	-
Intergovernmental	-	-	84,934	-	-	84,934	53,466
Investment income	-	-	38	-	-	38	38
Other income	-	-	9,333	-	-	9,333	4,986
Total revenues	<u>0</u>	<u>0</u>	<u>2,531,459</u>	<u>0</u>	<u>0</u>	<u>2,531,459</u>	<u>2,317,512</u>
Expenditures:							
Current:							
General government	-	-	501,005	-	-	501,005	337,809
Programs	-	-	1,203,395	-	-	1,203,395	998,360
Capital outlay:							
Programs	-	-	69,154	-	-	69,154	74,687
Total expenditures	<u>0</u>	<u>0</u>	<u>1,773,554</u>	<u>0</u>	<u>0</u>	<u>1,773,554</u>	<u>1,410,856</u>
Revenues over (under) expenditures	<u>0</u>	<u>0</u>	<u>757,905</u>	<u>0</u>	<u>0</u>	<u>757,905</u>	<u>906,656</u>
Other financing sources (uses):							
Transfers in	-	-	611,763	-	-	611,763	-
Transfers out	(51,953)	(411,094)	-	(102,029)	(46,687)	(611,763)	-
Total other financing sources (uses):	<u>(51,953)</u>	<u>(411,094)</u>	<u>611,763</u>	<u>(102,029)</u>	<u>(46,687)</u>	<u>0</u>	<u>0</u>
Net change in fund balance	<u>(51,953)</u>	<u>(411,094)</u>	<u>1,369,668</u>	<u>(102,029)</u>	<u>(46,687)</u>	<u>757,905</u>	<u>906,656</u>
Fund balance - January 1, as previously reported	51,953	411,094	1,609,404	102,029	46,687	2,221,167	1,350,323
Prior period adjustment	-	-	-	-	-	-	(35,812)
Fund balance - January 1, as restated	<u>51,953</u>	<u>411,094</u>	<u>1,609,404</u>	<u>102,029</u>	<u>46,687</u>	<u>2,221,167</u>	<u>1,314,511</u>
Fund balance - December 31	<u>\$0</u>	<u>\$0</u>	<u>\$2,979,072</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,979,072</u>	<u>\$2,221,167</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
For The Year Ended December 31, 2015

Statement 5

	<u>2015</u>
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)	\$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	69,154
Depreciation	(12,186)
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	(6,203)
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	\$12,742
Pension expense	(27,539) (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".	(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, 2014	(2,775)
At December 31, 2015	<u>17,622</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$831,405</u></u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

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 funds:

General Fund – Pursuant to Minnesota Statute 103D.905, a general fund, consisting of an ad valorem tax levy may not exceed 0.048 percent of taxable market value, or \$250,000, whichever is less. The money in the fund shall be used for general administrative expenses and for the construction or implementation and maintenance of projects of common benefit to the watershed district. Effective January 1, 2015, all assets, liabilities and equity amounts were transferred to the 509 Plan Implementation fund.

Basic Water Management (special revenue fund) – Pursuant to Minnesota Statute 103D.905, in addition to the annual general levy, the managers may annually levy a tax not to exceed 0.00798 percent of taxable market value for a period not to exceed 15 consecutive years to pay the cost attributable to the basic water management features of projects initiated by petition of a political subdivision within the watershed district or by petition of at least 50 resident owners whose property is within the watershed district. Effective January 1, 2015, all assets, liabilities and equity amounts were transferred to the 509 Plan Implementation 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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Water Maintenance and Repair (special revenue fund) – The water maintenance and repair fund may be used for any maintenance, repair, restoration, upkeep and rehabilitation of any public ditch, drain, dams, sewer, river, stream, watercourse, and waterbody, natural or artificial, lying wholly or partly within the District. Any work performed in accordance with the purposes of this act may include, but is not limited to, stream and watercourse clean up and maintenance and stream and watercourse bank and bed repair and stabilization. Financing is provided by property taxes. Effective January 1, 2015, all assets, liabilities and equity amounts were transferred to the 509 Plan Implementation fund.

Survey and Data Acquisition (special revenue fund) – Pursuant to Minnesota Statute 103D.905:

- a. A survey and data acquisition fund is established and used only if other funds are not available to the watershed district to pay for making necessary surveys and acquiring data.
- b. The survey and data acquisition fund consists of the proceeds of a property tax that can be levied only once every five years. The levy may not exceed 0.02418 percent of taxable market value.
- c. The balance of the survey and data acquisition fund may not exceed \$50,000.
- d. In a subsequent proceeding for a project where a survey has been made, the attributable cost of the survey as determined by the managers shall be included as a part of the cost of the work and the sum shall be repaid to the survey and data acquisition fund.

Effective January 1, 2015, all assets, liabilities and equity amounts were transferred to the 509 Plan Implementation fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

D. BUDGETARY DATA

The Board of Managers adopts an annual budget for the General Fund and all Special Revenue Funds. 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.

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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

The District prepares a revenue and expenditure budget for all funds. 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.

E. CASH AND INVESTMENTS

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

In accordance with the provisions of GASB No. 31, the District reports investments at fair value, based upon quoted market prices, in the financial statements. Also in accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

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 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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 2015.

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 2015.

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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. 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. Interfund loans are reported as due to/from other funds, which offsets the movement of cash between funds. All other interfund transactions are reported as transfers.

L. 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 - 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, 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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

M. 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.

N. 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, 2014, from which the summarized information was derived.

O. RECLASSIFICATIONS

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

P. 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.

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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 deposit was \$3,632,242 and the bank balance was \$3,751,673. 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.
- 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;

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

- 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 2015.

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.

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	\$17,622

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
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>78,034</u>	<u>49,857</u>	<u>0</u>	<u>127,891</u>
Capital assets, being depreciated:				
Building	50,856	-	-	50,856
Equipment, boats and vehicles	36,816	52,751	-	89,567
Total capital assets, being depreciated	<u>87,672</u>	<u>52,751</u>	<u>0</u>	<u>140,423</u>
Less accumulated depreciation for:				
Building	706	1,695	-	2,401
Equipment, boats and vehicles	2,260	10,491	-	12,751
Total accumulated depreciation	<u>2,966</u>	<u>12,186</u>	<u>0</u>	<u>15,152</u>
Total capital assets being depreciated - net	<u>84,706</u>	<u>40,565</u>	<u>-</u>	<u>125,271</u>
Governmental activities capital assets - net	<u>\$162,740</u>	<u>\$90,422</u>	<u>\$0</u>	<u>\$253,162</u>

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

Governmental activities:	
Programs	<u>\$12,186</u>

Note 5 COMMITMENTS AND CONTINGENCIES

The District had \$13,500 of committed contracts at December 31, 2015.

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 6 LONG-TERM DEBT

Changes in general long-term liabilities for the year ended December 31, 2015 is as follows:

	<u>Balance</u> 12/31/14	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/15	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated payable	\$7,494	\$13,952	(\$7,749)	\$13,697	\$6,169

It is not practicable to determine specific year of payment of long-term accrued compensated absences. Compensated absences are generally liquidated by the General Fund.

Note 7 FUND BALANCE

At December 31, 2015, the District had the following fund balance:

	<u>509 Plan</u> <u>Implementation</u>
Nonspendable	\$15,913
Committed to:	
509 plan implementation	2,926,938
Assigned to:	
509 plan implementation	36,221
Total	<u>\$2,979,072</u>

Note 8 INTERFUND TRANSFERS

Interfund transfers at December 31, 2014 are as follows:

	<u>Transfers In</u> <u>509 Plan</u> <u>Implementation</u>
Transfers Out:	
General Fund	\$51,953
Basic Water Management	411,094
Water Maintenance and Repair	102,029
Survey and Data Acquisition	46,687
Total transfers	<u>\$611,763</u>

Interfund transfers relate to the transfer of all assets, liabilities and equity amounts effective January 1, 2015 from the various funds to the 509 Plan Implementation Fund. This is a one-time transfer and is not considered routine.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 9 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 10 DEFINED BENEFIT PENSION PLANS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

B. 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.

C. 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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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% 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.

D. 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 2015. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The District's contributions to the GERF for the year ended December 31, 2015, were \$12,742. The District's contributions were equal to the required contributions as set by state statute.

E. PENSION COSTS

GERF Pension Costs

At December 31, 2015, the District reported a liability of \$145,111 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was .0028% which was an increase of .0007% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$27,539 for its proportionate share of the GERF's pension expense.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

At December 31, 2015, the District reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$7,316
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	13,737	-
Changes in proportion	24,662	-
Contributions paid to PERA subsequent to the measurement date	6,491	-
Total	\$44,890	\$7,316

\$6,491 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2016	\$9,216
2017	9,216
2018	9,216
2019	3,435
2020	-
Thereafter	-

F. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034, and 2.5% thereafter.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERV was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There are no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. 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 arithmetic 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%

G. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

H. 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERV net pension liability	\$228,165	\$145,111	\$76,520

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

I. 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 11 OPERATING LEASE

The District leased building space under an operating lease that expired during 2014. The lease called for monthly payments of \$200. 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, 2015 was \$33,574. Total rent expense for the year ended December 31, 2015 was \$44,343.

Future minimum lease payments are as follows:

	<u>Payment</u>
2016	\$24,167
2017	24,792
2018	25,667
2019	26,542
2020	<u>18,082</u>
Total	<u><u>\$119,250</u></u>

The district will have the option to extend the lease an additional 3 years when the current lease expires on June 30, 2020.

Note 12 RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

Statement No. 79 *Certain External Investment Pools and Pool Participants*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015.

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

Note 13 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 10 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, 2015, 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, 2015, as restated	<u><u>\$2,279,379</u></u>

During 2014, corrections to prior year financial statements were made to record a previously unrecorded payable in the 509 Plan Implementation Fund. A summary of this change is as follows:

	<u>Governmental Funds</u>
Net position/fund balance - January 1, 2014 as previously reported	\$1,350,323
Prior period adjustment:	
Program expense	<u>(35,812)</u>
Net position/fund balance - January 1, 2014 as restated	<u><u>\$1,314,511</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Statement 6

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2015

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

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$ -	\$ -	\$ -	\$ -	\$247,161
Insurance levy	-	-	-	-	7,907
Other income	-	-	-	-	899
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>255,967</u>
Expenditures:					
Current:					
General government:					
Engineering	-	-	-	-	100,444
Legal	-	-	-	-	149,287
Other district administration:					
Manager's per diem and expenses	-	-	-	-	677
Administrator expenses	-	-	-	-	48,260
Accounting and audit	-	-	-	-	10,357
Insurance	-	-	-	-	6,362
State association	-	-	-	-	5,232
Office and communication expenses	-	-	-	-	16,974
Education and outreach	-	-	-	-	216
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>337,809</u>
Revenues over (under) expenditures	-	-	-	-	(81,842)
Other financing sources (uses):					
Transfers out	-	-	(51,953)	(51,953)	-
Total other financing sources (uses):	-	-	(51,953)	(51,953)	-
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	(51,953)	(\$51,953)	-
Fund balance - January 1			<u>51,953</u>		<u>133,795</u>
Fund balance - December 31			<u>\$0</u>		<u>\$51,953</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BASIC WATER MANAGEMENT
For The Year Ended December 31, 2015
With Comparative Actual Amounts For The Year Ended December 31, 2014

Statement 7

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$ -	\$ -	\$ -	\$ -	\$307,531
Investment income	-	-	-	-	38
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>307,569</u>
Expenditures:					
Current:					
Projects	-	-	-	-	-
Revenues over (under) expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>307,569</u>
Other financing sources (uses):					
Transfers out	-	-	(411,094)	411,094	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>(411,094)</u>	<u>411,094</u>	<u>-</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	<u>(411,094)</u>	<u>\$411,094</u>	<u>307,569</u>
Fund balance - January 1			<u>411,094</u>		<u>103,525</u>
Fund balance - December 31			<u>\$0</u>		<u>\$411,094</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - 509 PLAN IMPLEMENTATION
For The Year Ended December 31, 2015
With Comparative Actual Amounts For The Year Ended December 31, 2014

Statement 8

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$2,431,500	\$2,431,500	\$2,417,054	(\$14,446)	\$1,681,840
Permit income	15,000	15,000	20,100	5,100	-
Intergovernmental	-	-	84,934	84,934	53,466
Investment income	-	-	38	38	-
Other income	-	-	9,333	9,333	4,087
Total revenues	<u>2,446,500</u>	<u>2,446,500</u>	<u>2,531,459</u>	<u>84,959</u>	<u>1,739,393</u>
Expenditures:					
Current:					
General government	723,500	748,500	501,005	247,495	-
Programs	1,708,000	1,683,000	1,203,395	479,605	995,157
Capital outlay:					
Programs	-	-	69,154	(69,154)	74,687
Total expenditures	<u>2,431,500</u>	<u>2,431,500</u>	<u>1,773,554</u>	<u>657,946</u>	<u>1,069,844</u>
Revenues over (under) expenditures	<u>15,000</u>	<u>15,000</u>	<u>757,905</u>	<u>(742,905)</u>	<u>669,549</u>
Other financing sources (uses):					
Transfers in	-	-	611,763	(611,763)	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>611,763</u>	<u>(611,763)</u>	<u>-</u>
Net change in fund balance	<u>\$15,000</u>	<u>\$15,000</u>		<u>(\$1,354,668)</u>	669,549
Fund balance - January 1, as previously reported			1,609,404		975,667
Prior period adjustment			-		(35,812)
Fund balance - January 1, as restated			<u>1,609,404</u>		<u>939,855</u>
Fund balance - December 31			<u>\$2,979,072</u>		<u>\$1,609,404</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - WATER MAINTENANCE AND REPAIR
For The Year Ended December 31, 2015
With Comparative Actual Amounts For The Year Ended December 31, 2014

Statement 9

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$ -	\$ -	\$ -	\$ -	\$14,831
Expenditures:					
Current:					
Programs	-	-	-	-	-
Revenues over (under) expenditures	0	0	0	0	14,831
Other financing sources (uses):					
Transfers out	-	-	(102,029)	(102,029)	-
Total other financing sources (uses):	0	0	(102,029)	(102,029)	0
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	(102,029)	<u>(\$102,029)</u>	14,831
Fund balance - January 1			<u>102,029</u>		<u>87,198</u>
Fund balance - December 31			<u>\$0</u>		<u>\$102,029</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SURVEY AND DATA ACQUISITION
For The Year Ended December 31, 2015
With Comparative Actual Amounts For The Year Ended December 31, 2014

Statement 10

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$ -	\$ -	\$ -	\$ -	(\$248)
Expenditures:					
Programs	-	-	-	-	3,203
Revenues over (under) expenditures	-	-	-	-	(3,451)
Other financing sources (uses):					
Transfers out	-	-	(46,687)	(46,687)	-
Total other financing sources (uses):	-	-	(46,687)	(46,687)	-
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	(46,687)	<u>(\$46,687)</u>	(3,451)
Fund balance - January 1			<u>46,687</u>		<u>50,138</u>
Fund balance - December 31			<u>\$0</u>		<u>\$46,687</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, 2015

Statement 11

<u>Measurement Date</u>	<u>Fiscal Year Ending</u>	<u>Proportion (Percentage) of the Net Pension Liability</u>	<u>Proportionate Share (Amount) of the Net Pension Liability (a)</u>	<u>Covered-Employee Payroll (b)</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	December 31, 2015	0.0028%	\$145,111	\$177,271	81.9%	78.2%

* 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, 2015

Statement 12

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
December 31, 2015	\$12,742	\$12,742	\$0	\$170,252	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
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI
December 31, 2015

Note A BUDGETS

All fund budgets are 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

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes. Details can be obtained from the financial reports of PERA.

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OTHER INFORMATION - UNAUDITED

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

Exhibit 1

	For Taxes Payable in 2015	Proposed For Taxes Payable in 2016
Estimate market value:		
Personal	\$81,890,200	\$86,473,200
Real	9,471,774,400	10,030,829,600
Total	<u>\$9,553,664,600</u>	<u>\$10,117,302,800</u>
Taxable market value:		
Personal	\$81,890,200	\$86,473,200
Real	9,205,571,251	9,790,363,665
Total	<u>\$9,287,461,451</u>	<u>\$9,876,836,865</u>
Referendum market value:		
Personal	\$81,890,200	\$86,473,200
Real	9,434,555,100	9,974,338,300
Total	<u>\$9,516,445,300</u>	<u>\$10,060,811,500</u>

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

OTHER REPORTS

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REPORT ON INTERNAL CONTROL

To the Honorable Managers of the
Riley Purgatory Bluff Creek Watershed District and Management
Eden Prairie, 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, 2015, 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 significant deficiencies.

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

A significant deficiency is a deficiency, or 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 described in the accompanying Schedule of Findings and Responses as finding 2015-001 to be a significant deficiency.

Riley Purgatory Bluff Creek Watershed District's written response to the significant deficiency 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.

Riley Purgatory Bluff Creek Watershed District
Report on Internal Control
Page 2

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

March 15, 2016



MINNESOTA LEGAL COMPLIANCE REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of Riley Purgatory Bluff Creek Watershed District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2016.

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 item 2015-002. 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 management, 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

March 15, 2016

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Finding 2015-001 Timely Cash Deposits

Criteria: Deposits of the District's cash and checks should be made on a timely basis.

Condition: Audit procedures detected that escrow and permit fee deposits from August 2015 through November were not deposited into the bank until January 2016.

Context: Three checks totaling \$16,600 dated August 25, 2015 relating to escrow deposits and several smaller checks totaling \$3,575 relating to permits fees received from September through November 2015, were deposited in January 2016.

Cause: Unknown.

Effect: Lack of timely deposit of receipts subjects the District to an increased risk that fraud or error could occur and not be detected in a timely manner.

Recommendation: We recommend that the District deposit receipts on at least a weekly basis. An individual other than the depositor should review deposits for consistency with known District activities, and reconcile deposits to total anticipated revenue.

Management Response: Material deposits will be sent to the accountant for deposit within a week. All other deposits will be made in the normal course of business.

Finding 2015-002 Contractual Language

Condition: Certain required contractual language noted below was not in the contract for the District's 2015 Lake Susan Spent Lime 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 have any subcontractor's 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: The District has already started work to ensure that the required contract language is included in all contracts.