

**RILEY PURGATORY BLUFF CREEK  
WATERSHED DISTRICT**

**ANNUAL FINANCIAL REPORT**

December 31, 2013

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**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
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## **INTRODUCTORY SECTION**

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# **RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**

## **ORGANIZATION**

December 31, 2013

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<u>Name</u>	<u>Position 2013</u>
District Officers:	
Appointed:	
Board of Managers:	
Perry Forster	President
Mary Bisek	Vice-President
Jill Crafton	Treasurer
Kenneth Wencil	Secretary
Leslie Yetka	Manager
District Administrator:	
Claire Bleser	

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## **FINANCIAL SECTION**

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**TAUTGES REDPATH, LTD.**  
*Certified Public Accountants*

## 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, 2013, 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, 2013, 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 – Implementation of GASB 65***

As described in Note 14 to the financial statements, in 2013, the Riley Purgatory Bluff Creek Watershed District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 2012 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 11, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32 through 37, 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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

March 14, 2014

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## **BASIC FINANCIAL STATEMENTS**

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT****STATEMENT OF NET POSITION****Statement 1**

December 31, 2013

With Comparative Amounts For December 31, 2012

	Primary Government	
	Governmental Activities	
	2013	2012
Assets:		
Cash and investments	\$1,760,989	\$1,513,385
Property taxes receivable:		
Delinquent	10,091	18,122
Due from county	9,376	10,897
Security deposit	400	400
Prepaid expenses	600	600
Due from other governments	-	37,500
Capital assets - net:		
Nondepreciable	78,034	78,034
Depreciable	12,769	-
Total assets	<u>1,872,259</u>	<u>1,658,938</u>
Liabilities:		
Accounts payable	85,904	61,444
Contracts payable	232,562	363,699
Accrued payroll	7,576	4,169
Unearned revenue	75,000	-
Loan payable:		
Due within one year	20,000	45,000
Total liabilities	<u>421,042</u>	<u>474,312</u>
Net position:		
Net investment in capital assets	90,803	78,034
Unrestricted	1,360,414	1,106,592
Total net position	<u>\$1,451,217</u>	<u>\$1,184,626</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, 2013

With Comparative Totals For The Year Ended December 31, 2012

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	
					2013	2012
Primary government:						
Governmental activities:						
General government	\$212,804	\$ -	\$ -	\$ -	(\$212,804)	(\$235,181)
Programs	1,360,639	-	25,045	-	(1,335,594)	(1,462,943)
Projects	31	-	-	-	(31)	-
Interest on long-term debt	2,035	-	-	-	(2,035)	(2,800)
Total governmental activities	<u>\$1,575,509</u>	<u>\$0</u>	<u>\$25,045</u>	<u>\$0</u>	<u>(1,550,464)</u>	<u>(1,700,924)</u>
General revenues:						
Property taxes					1,816,995	1,762,863
Grants and contributions not restricted to specific programs					-	-
Unrestricted investment earnings					60	45
Total general revenues					<u>1,817,055</u>	<u>1,762,908</u>
Change in net position					266,591	61,984
Net position - January 1					<u>1,184,626</u>	<u>1,122,642</u>
Net position - December 31					<u>\$1,451,217</u>	<u>\$1,184,626</u>

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

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT****BALANCE SHEET****Statement 3****GOVERNMENTAL FUNDS**

December 31, 2013

With Comparative Totals For December 31, 2012

Assets	General Fund	Basic Water Management	509 Plan Implementation	Water Maintenance and Repair	Survey and Data Acquisition	Total Governmental Funds	
						2013	2012
Cash and investments	\$152,996	\$103,525	\$1,367,457	\$87,121	\$49,890	\$1,760,989	\$1,513,385
Taxes receivable:							
Delinquent	1,460	3	8,340	83	205	10,091	18,122
Due from county	1,346	-	7,705	77	248	9,376	10,897
Due from other governments	-	-	-	-	-	-	37,500
Security deposit	600	-	-	-	-	600	600
Prepaid expense	400	-	-	-	-	400	400
Due from other funds	19,596	-	15,461	-	-	35,057	24,760
Total assets	<u>\$176,398</u>	<u>\$103,528</u>	<u>\$1,398,963</u>	<u>\$87,281</u>	<u>\$50,343</u>	<u>\$1,816,513</u>	<u>\$1,605,664</u>
Liabilities, Deferred Inflow of Resources, and Fund Balance							
Liabilities:							
Accounts payable	\$3,997	\$ -	\$81,907	\$ -	\$ -	\$85,904	\$61,444
Contracts payable	-	-	232,562	-	-	232,562	363,699
Accrued payroll	1,685	-	5,891	-	-	7,576	4,169
Due to other funds	15,461	-	19,596	-	-	35,057	24,760
Unearned revenue	-	-	75,000	-	-	75,000	-
Loan payable	20,000	-	-	-	-	20,000	45,000
Total liabilities	<u>41,143</u>	<u>0</u>	<u>414,956</u>	<u>0</u>	<u>0</u>	<u>456,099</u>	<u>499,072</u>
Deferred inflow of resources:							
Unavailable revenues	<u>1,460</u>	<u>3</u>	<u>8,340</u>	<u>83</u>	<u>205</u>	<u>10,091</u>	<u>18,122</u>
Fund balance:							
Nonspendable	1,000	-	-	-	-	1,000	1,000
Committed	-	103,420	975,667	87,198	50,138	1,216,423	1,001,716
Assigned	-	105	-	-	-	105	45
Unassigned	132,795	-	-	-	-	132,795	85,709
Total fund balance	<u>133,795</u>	<u>103,525</u>	<u>975,667</u>	<u>87,198</u>	<u>50,138</u>	<u>1,350,323</u>	<u>1,088,470</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$176,398</u>	<u>\$103,528</u>	<u>\$1,398,963</u>	<u>\$87,281</u>	<u>\$50,343</u>	<u>\$1,816,513</u>	<u>\$1,605,664</u>
Fund balance reported above						\$1,350,323	\$1,088,470
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.						90,803	78,034
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.						<u>10,091</u>	<u>18,122</u>
Net position of governmental activities						<u>\$1,451,217</u>	<u>\$1,184,626</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, 2013

With Comparative Totals For The Year Ended December 31, 2012

**Statement 4**

	General Fund	Basic Water Management	509 Plan Implementation	Water Maintenance and Repair	Survey and Data Acquisition	Total Governmental Funds	
						2013	2012
Revenues:							
General property taxes	\$249,917	\$ -	\$1,499,568	\$14,995	\$48,538	\$1,813,018	\$1,764,230
Insurance levy	12,008	-	-	-	-	12,008	6,072
Intergovernmental	-	-	25,045	-	-	25,045	42,943
Investment income	-	60	-	-	-	60	45
Total revenues	261,925	60	1,524,613	14,995	48,538	1,850,131	1,813,290
Expenditures:							
Current:							
General government	212,804	-	-	-	-	212,804	235,181
Programs	-	-	1,340,351	19,999	73	1,360,423	1,505,886
Projects	-	31	-	-	-	31	-
Capital outlay:							
Programs	-	-	12,985	-	-	12,985	-
Debt service:							
Interest	2,035	-	-	-	-	2,035	2,800
Total expenditures	214,839	31	1,353,336	19,999	73	1,588,278	1,743,867
Revenues over (under) expenditures	47,086	29	171,277	(5,004)	48,465	261,853	69,423
Fund balance - January 1	86,709	103,496	804,390	92,202	1,673	1,088,470	1,019,047
Fund balance - December 31	\$133,795	\$103,525	\$975,667	\$87,198	\$50,138	\$1,350,323	\$1,088,470

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, 2013

With Comparative Amounts For The Year Ended December 31, 2012

	<u>2013</u>	<u>2012</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)	\$261,853	\$69,423
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.	12,769	-
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, 2011	-	(25,561)
At December 31, 2012	(18,122)	18,122
At December 31, 2013	<u>10,091</u>	<u>-</u>
Change in net position of governmental activities (Statement 2)	<u>\$266,591</u>	<u>\$61,984</u>

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

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**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.

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.

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, 2013

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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.

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.

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, 2013

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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, 2013

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**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 2013.

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 2013.

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

Equipment	5-10 years
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**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**J. 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.

**K. 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.

**L. 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, 2012, from which the summarized information was derived.

**M. RECLASSIFICATIONS**

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

## **N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from 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.

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.

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**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 \$1,760,989 and the bank balance was \$1,804,116. 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;
  - 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 2013.

**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.

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**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 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2013 are as follows:

	General	509 Plan Implementation	Total
Delinquent property taxes	<u>\$1,000</u>	<u>\$6,000</u>	<u>\$7,000</u>

**Note 4 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>Property taxes</u>
General Fund	\$1,460
Basic Water Management Fund	3
509 Plan Implementation Fund	8,340
Water Maintenance and Repair Fund	83
Survey and data acquisition	<u>205</u>
Total governmental funds	<u>\$10,091</u>

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$78,034	\$ -	\$ -	\$78,034
Total capital assets, not being depreciated	78,034	-	-	78,034
Capital assets, being depreciated:				
Equipment	-	12,985	-	12,985
Total capital assets, being depreciated	-	12,985	-	12,985
Less accumulated depreciation for:				
Equipment	-	216	-	216
Total accumulated depreciation	-	216	-	216
Total capital assets being depreciated - net	-	12,769	-	12,769
Governmental activities capital assets - net	\$78,034	\$12,769	\$0	\$90,803

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

Governmental activities:	
Programs	\$216
Total depreciation expense - governmental activities	\$216

**Note 6 COMMITMENTS AND CONTINGENCIES**

The District had no committed contracts at December 31, 2013.

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, 2013

**Note 7 FUND BALANCE**

At December 31, 2013, the District had the following fund balance:

	General Fund	Basic Water Management	509 Plan Implementation	Water Maintenance and Repair	Survey and Data Acquisition	Total
Nonspendable:						
Prepaid expenses	\$400	\$ -	\$ -	\$ -	\$ -	\$400
Security deposit	600	-	-	-	-	600
Total nonspendable	1,000	0	0	0	0	1,000
Committed to:						
Water management	-	103,420	-	-	-	103,420
509 plan implementation	-	-	975,667	-	-	975,667
Water maintenance and repair	-	-	-	87,198	-	87,198
Survey and data acquisition	-	-	-	-	50,138	50,138
Total committed	0	103,420	975,667	87,198	50,138	1,216,423
Assigned to:						
Water management	-	105	-	-	-	105
Unassigned	132,795	-	-	-	-	132,795
Total	\$133,795	\$103,525	\$975,667	\$87,198	\$50,138	\$1,350,323

**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 - STATEWIDE**

**A. PLAN DESCRIPTION**

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan.

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement 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.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

**B. FUNDING POLICY**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The District is required to contribute the following percentages of annual covered payroll in 2013: 11.78% for Basic Plan GERP members and 7.25% for Coordinated Plan GERP members. The District's contributions for the years ended December 31, 2013, 2012 and 2011 were \$6,186, \$1,887 and \$0, respectively, equal to the contractually required contributions for each year as set by State Statute. The District did not have employees covered by PERA during 2011.

**Note 10 DEBT**

Short term debt is used for cash flow needs when necessary. The line of credit is liquidated by the General Fund.

Annual debt service requirements to maturity for the line of credit is as follows:

Year Ended December 31,	Governmental Activities	
	General Fund	
	Principal	Interest
2014	\$20,000	\$146

Line of credit activity for the year ended December 31, 2013 was as follows:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13	Due Within One Year
Governmental activities:					
Line of credit	\$45,000	\$45,000	\$70,000	\$20,000	\$20,000

This line of credit is secured by all assignments of deposit/share accounts on file with Klein Bank. The maturity date of the line of credit was January 15, 2014 and was paid off on February 10, 2014.



**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**Note 11 UNIVERSITY OF MINNESOTA RESEARCH AGREEMENT**

The District has an agreement with the University of Minnesota for contracted services for the fish barrier and invasive species control project. The original agreement period was from April 1, 2008 through June 30, 2011. The Regents of the University of Minnesota and Riley Purgatory Bluff Creek Watershed District amended the original award during 2012 to extend the end date and add additional funds. The amended agreement period is through December 31, 2014. Original funding for this project was \$968,480 spanning over the life of the agreement. Additional funding in the amount of \$1,760,291 brings the total award amount to \$2,728,771. Total costs incurred through December 31, 2013 are \$2,223,038. Being as the agreement can be terminated by either party at any time, the District is liable only for costs incurred through the termination date.

Future projected payments of the agreement are as follows:

	<u>Payment</u>
2014	<u>\$232,560</u>
Total	<u><u>\$232,560</u></u>

In addition, the District has an agreement with the Regent of the University of Minnesota for contracted services for the restoration and maintenance of native vegetation project. The agreement period was from March 3, 2010 through December 31, 2014. Funding for this project was \$336,135 spanning over the life of the agreement. Total costs incurred through December 31, 2013 are \$263,457.

Future projected payments of the agreement are as follows:

	<u>Payment</u>
2014	<u>\$72,678</u>
Total	<u><u>\$72,678</u></u>

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2013

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**Note 12 INTERFUND RECEIVABLES/PAYABLES**

Individual fund interfund receivable and payable balances at December 31, 2013 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$19,596	\$15,461
Basic Water Management	-	-
509 Plan Implementation	15,461	19,596
Water Maintenance and Repair	-	-
Total	<u>\$35,057</u>	<u>\$35,057</u>

Interfund receivables and payables are representative of per diem related activity during December 31, 2013, and the allocation of property taxes.

**Note 13 OPERATING LEASE**

The District leases building space under an operating lease that expires in 2014. The lease calls for monthly payments of \$200. Total rent expense for the year ended December 31, 2013 was \$2,400.

Future minimum lease payments are as follows:

2014	<u>\$1,400</u>
Total	<u>\$1,400</u>

The District has the option to renew the lease agreement for additional years at a monthly rate of \$220.

**Note 14 CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2013, the District implemented GASB Statements No. 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB No. 14 and No.34* modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (i.e. blending). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in accounts previously presented as liabilities being reclassified as deferred inflows of resources.

## **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, 2013

With Comparative Actual Amounts For The Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual	Variance with Final Budget - Positive (Negative)	2012 Actual
	Original	Final	Amounts		Amounts
Revenues:					
General property taxes	\$250,000	\$250,000	\$249,917	(\$83)	\$254,952
Insurance levy	12,000	12,000	12,008	8	6,072
Total revenues	262,000	262,000	261,925	(75)	261,024
Expenditures:					
Current:					
General government:					
Engineering	62,000	62,000	78,835	(16,835)	72,000
Coordinator	-	-	-	-	48,000
Legal	50,000	50,000	47,901	2,099	28,301
Other district administration:					
Manager's per diem and expenses	7,000	7,000	4,938	2,062	18,040
Administrator expenses	44,500	44,500	44,092	408	4,571
Accounting and audit	9,000	9,000	8,600	400	26,575
Insurance	12,000	10,000	5,919	4,081	5,083
State association	3,500	5,500	5,111	389	5,050
Office and communication expenses	15,000	18,000	17,408	592	27,561
Contingency reserve	11,200	8,200	-	8,200	-
Debt service:					
Principal	45,000	45,000	-	45,000	-
Interest	2,800	2,800	2,035	765	2,800
Total expenditures	262,000	262,000	214,839	47,161	237,981
Revenues over expenditures	\$0	\$0	47,086	\$47,086	23,043
Fund balance - January 1			86,709		63,666
Fund balance - December 31			\$133,795		\$86,709

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - BASIC WATER MANAGEMENT**  
For The Year Ended December 31, 2013  
With Comparative Actual Amounts For The Year Ended December 31, 2012

**Statement 7**

	Budgeted Amounts		2013 Actual	Variance with Final Budget - Positive (Negative)	2012 Actual
	Original	Final	Amounts		Amounts
Revenues:					
Investment income	\$ -	\$ -	\$60	\$60	\$45
Expenditures:					
Current:					
Projects	-	-	31	(31)	-
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	29	<u>\$29</u>	45
Fund balance - January 1			<u>103,496</u>		<u>103,451</u>
Fund balance - December 31			<u>\$103,525</u>		<u>\$103,496</u>

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - 509 PLAN IMPLEMENTATION**  
For The Year Ended December 31, 2013  
With Comparative Actual Amounts For The Year Ended December 31, 2012

**Statement 8**

	Budgeted Amounts		2013 Actual	Variance with Final Budget - Positive (Negative)	2012 Actual
	Original	Final	Amounts		Amounts
Revenues:					
General property taxes	\$1,500,000	\$1,500,000	\$1,499,568	(\$432)	\$1,494,334
Intergovernmental	19,998	132,498	25,045	(107,453)	42,943
Total revenues	<u>1,519,998</u>	<u>1,632,498</u>	<u>1,524,613</u>	<u>(107,885)</u>	<u>1,537,277</u>
Expenditures:					
Current:					
Programs	1,535,000	1,553,700	1,340,351	213,349	1,505,814
Capital outlay:					
Programs	-	-	12,985	(12,985)	-
Total expenditures	<u>1,535,000</u>	<u>1,553,700</u>	<u>1,353,336</u>	<u>200,364</u>	<u>1,505,814</u>
Revenues over (under) expenditures	<u>(\$15,002)</u>	<u>\$78,798</u>	171,277	<u>\$92,479</u>	31,463
Fund balance - January 1			<u>804,390</u>		<u>772,927</u>
Fund balance - December 31			<u>\$975,667</u>		<u>\$804,390</u>

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT****REQUIRED SUPPLEMENTARY INFORMATION****Statement 9****BUDGETARY COMPARISON SCHEDULE - WATER MAINTENANCE AND REPAIR**

For The Year Ended December 31, 2013

With Comparative Actual Amounts For The Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$15,000	\$15,000	\$14,995	(\$5)	\$14,944
Expenditures:					
Current:					
Programs	-	-	19,999	(19,999)	-
Revenues over (under) expenditures	\$15,000	\$15,000	(5,004)	(\$20,004)	14,944
Fund balance - January 1			92,202		77,258
Fund balance - December 31			\$87,198		\$92,202

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - SURVEY AND DATA ACQUISITION**  
For The Year Ended December 31, 2013  
With Comparative Actual Amounts For The Year Ended December 31, 2012

**Statement 10**

	Budgeted Amounts		2013 Actual	Variance with Final Budget - Positive (Negative)	2012 Actual
	Original	Final	Amounts		Amounts
Revenues:					
General property taxes	\$48,255	\$48,255	\$48,538	\$283	\$ -
Expenditures:					
Programs	-	-	73	(73)	72
Revenues over (under) expenditures	\$48,255	\$48,255	48,465	\$210	(72)
Fund balance - January 1			1,673		1,745
Fund balance - December 31			\$50,138		\$1,673



**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2013

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**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.

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## **OTHER INFORMATION - UNAUDITED**

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

**Exhibit 1**

	For Taxes Payable in 2013	Proposed For Taxes Payable in 2014
Estimate market value:		
Personal	\$77,813,600	\$79,688,740
Real	8,892,942,900	8,963,250,100
Total	<u>\$8,970,756,500</u>	<u>\$9,042,938,840</u>
Taxable market value:		
Personal	\$77,813,600	\$79,688,740
Real	8,592,040,694	8,669,098,140
Total	<u>\$8,669,854,294</u>	<u>\$8,748,786,880</u>
Referendum market value:		
Personal	\$77,813,600	\$79,688,740
Real	8,865,221,900	9,013,487,790
Total	<u>\$8,943,035,500</u>	<u>\$9,093,176,530</u>

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

## **OTHER REPORTS**

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**TAUTGES REDPATH, LTD.**  
*Certified Public Accountants*

## 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, 2013, 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 our auditing 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

March 14, 2014

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**TAUTGES REDPATH, LTD.**  
Certified Public Accountants

## 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2014.

The *Minnesota Legal Compliance Audit Guide for 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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the above listed categories.

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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

March 14, 2014

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**TAUTGES REDPATH, LTD.**  
*Certified Public Accountants*

## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek Watershed District (the District) as of and for the year ended December 31, 2013 and have issued our report thereon dated March 14, 2014. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 8, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Results**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 14 to the financial statements for the fiscal year 2013, the District was required to implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The most significant effect of this standard is that accounts previously presented as liabilities are now reported as deferred inflows of resources. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The District does not have any particularly sensitive disclosures in its financial statements.

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

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated March 14, 2014.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

**Other Information in Documents Containing Audited Financial Statements**

With respect to the introductory and other information accompanying the financial statements, we read the information presented and did not identify any material inconsistencies with the audited financial statements. .

**Other Reports**

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

**Closing**

This information is intended solely for the use of management and Riley Purgatory Bluff Creek Watershed District's Board, and is not intended to be, and should not be used, by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

March 14, 2014

The following table lists audit differences exceeding: \$1,800

			Financial Statement Effect - Amount of Over (Under) Statement of:						
Description (Nature) of Audit Difference	Known (K) or Likely (L)	W/P Ref.	Total Assets	Total Liabilities	Equity	Working Capital	Income Before Taxes	Revenues	Expenditures
Uncollectible Taxes Not Recorded.	L	4250.07	\$5,765	\$ -	\$5,762	\$ -	\$ -	\$5,765	\$ -
2013 Manager Per Diem's not accrued	K	5200.05a	-	(2,625)	2,625	-	-	-	(2,625)
Total Unadjusted Audit Differences - Current Year			5,765	(2,625)	8,387	-	-	5,765	(2,625)
Effect of Unadjusted Audit Differences - Prior Year								(14,699)	(3,247)
Net Audit Differences			5,765	(2,625)	8,387	-	-	(8,934)	(5,872)

The following table lists audit differences exceeding: \$1,600

			Financial Statement Effect - Amount of Over (Under) Statement of:						
Description (Nature) of Audit Difference	Known (K) or Likely (L)	W/P Ref.	Total Assets	Total Liabilities	Equity	Working Capital	Income Before Taxes	Revenues	Expenditures
<b>2013 Manager Per Diem not accrued</b>	K	5200.05a	\$ -	(\$2,625)	\$2,625	\$ -	\$ -	\$ -	(\$2,625)
<b>No audit differences noted in the PY</b>									
Total Unadjusted Audit Differences - Current Year			-	(2,625)	2,625	-	-	-	(2,625)
Effect of Unadjusted Audit Differences - Prior Year									
Net Audit Differences			-	(2,625)	2,625	-	-	-	(2,625)



**TAUTGES REDPATH, LTD.**  
*Certified Public Accountants*

March 14, 2013

Mrs. Claire Bleser  
Riley Purgatory Bluff Creek Watershed District  
8080 Mitchell Road  
Eden Prairie, MN 55344

Dear Mrs. Bleser:

Transmitted herewith are 3 copies of the Annual Financial Report, including the Report on Internal Control and Legal Compliance Report, and Communication with Those Charged with Governance Letter for the Riley Purgatory Bluff Creek Watershed District for the year ended December 31, 2013.

We understand that you intend to submit copies of each report to the Office of the State Auditor, the Board of Water and Soil Resources, and the Director of the Division of Waters at the Department of Natural Resources to fulfill the reporting requirements of the District.

Thank you for the opportunity to be of service. If you need additional information or additional copies of reports, please advise.

Sincerely,

HLB TAUTGES REDPATH, LTD.

A handwritten signature in black ink, reading "Peggy Moeller".

Peggy Moeller, CPA

PAM:chl