

**RILEY PURGATORY BLUFF CREEK
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2017

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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, 2017

<u>Name</u>	<u>Position 2017</u>
District Officers:	
Appointed:	
Board of Managers:	
Leslie Yetka	President
Dorothy Pedersen	Vice-President
Jill Crafton	Treasurer
Richard Chadwick	Secretary
Dick Ward	Manager
District Administrator:	
Claire Bleser	
District Council:	
Smith Partners PLLP	
District Accounting:	
JMSC Futurity	
District Engineer:	
Barr Engineering	

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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
Chanhassen, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek Watershed District, as of and for the year ended December 31, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Riley Purgatory Bluff Creek Watershed District's 2016 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 May 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

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

Redpath and Company, Ltd.
REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 14, 2018

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BASIC FINANCIAL STATEMENTS

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
 STATEMENT OF NET POSITION
 December 31, 2017
 With comparative totals for December 31, 2016

Statement 1

	Primary Government	
	Governmental Activities	
	2017	2016
Assets:		
Cash and cash equivalents	\$5,013,661	\$4,109,949
Due from other governments	154,436	8,353
Accrued interest receivable	8,671	-
Property taxes receivable:		
Delinquent	20,556	20,822
Due from county	26,218	9,477
Security deposit	7,244	2,500
Prepaid expenses	17,509	6,268
Capital assets - net:		
Nondepreciable	78,034	78,034
Depreciable	169,603	163,312
Total assets	<u>5,495,932</u>	<u>4,398,715</u>
Deferred outflows of resources:		
Related to pensions	<u>90,554</u>	<u>111,360</u>
Liabilities:		
Accounts payable	269,851	193,006
Contracts payable	13,469	23,819
Due to other governments	32,650	98,317
Deposits payable	704,352	622,975
Accrued payroll	17,564	10,208
Unearned revenue	6,666	101,368
Compensated absences payable:		
Due within one year	11,895	8,593
Due in more than one year	20,346	11,157
Net pension liability:		
Due in more than one year	217,054	227,346
Total liabilities	<u>1,293,847</u>	<u>1,296,789</u>
Deferred inflows of resources:		
Related to pensions	<u>35,985</u>	<u>18,468</u>
Net position:		
Investment in capital assets	247,637	241,346
Unrestricted	4,009,017	2,953,472
Total net position	<u>\$4,256,654</u>	<u>\$3,194,818</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, 2017
 With Comparative Totals For The Year Ended December 31, 2016

Statement 2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Primary Government Totals		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	2017	2016
Primary government:						
Governmental activities:						
General government	\$1,015,242	\$47,400	\$79	\$ -	(\$967,763)	(\$533,009)
Programs	1,114,639	-	257,695	-	(856,944)	(1,896,604)
Total governmental activities	<u>\$2,129,881</u>	<u>\$47,400</u>	<u>\$257,774</u>	<u>\$0</u>	<u>(1,824,707)</u>	<u>(2,429,613)</u>
General revenues:						
Property taxes					2,841,853	2,454,597
Unrestricted investment earnings					15,240	232
Other income					29,450	58,818
Total general revenues					<u>2,886,543</u>	<u>2,513,647</u>
Change in net position					1,061,836	84,034
Net position - January 1					<u>3,194,818</u>	<u>3,110,784</u>
Net position - December 31					<u>\$4,256,654</u>	<u>\$3,194,818</u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2017

With Comparative Totals For December 31, 2016

Statement 3

Assets	509 Plan Implementation	
	2017	2016
Cash and cash equivalents	\$5,013,661	\$4,109,949
Due from other governments	154,436	8,353
Accrued interest receivable	8,671	-
Taxes receivable:		
Delinquent	20,556	20,822
Due from county	26,218	9,477
Security deposit	7,244	2,500
Prepaid expense	17,509	6,268
Total assets	<u>\$5,248,295</u>	<u>\$4,157,369</u>
Liabilities, Deferred Inflow of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$269,851	\$193,006
Contracts payable	13,469	23,819
Due to other governments	32,650	98,317
Deposits payable	704,352	622,975
Accrued payroll	17,564	10,208
Unearned revenue	6,666	101,368
Total liabilities	<u>1,044,552</u>	<u>1,049,693</u>
Deferred inflow of resources:		
Unavailable revenues	<u>20,556</u>	<u>20,822</u>
Fund balance:		
Nonspendable	24,753	8,768
Committed	4,115,581	3,034,488
Assigned	42,853	43,598
Total fund balance	<u>4,183,187</u>	<u>3,086,854</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$5,248,295</u>	<u>\$4,157,369</u>
Fund balance reported above	\$4,183,187	\$3,086,854
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.	247,637	241,346
Deferred outflow of resources-pension related are not current financial resources and, therefore, are not reported in the funds.	90,554	111,360
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.	(35,985)	(18,468)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences payable	(32,241)	(19,750)
Net pension liability	(217,054)	(227,346)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	<u>20,556</u>	<u>20,822</u>
Net position of governmental activities	<u>\$4,256,654</u>	<u>\$3,194,818</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, 2017
 With Comparative Totals For The Year Ended December 31, 2016

Statement 4

	509 Plan Implementation	
	2017	2016
Revenues:		
General property taxes	\$2,842,119	\$2,451,397
Permit income	47,400	29,108
Intergovernmental	257,695	34,001
Investment income	15,240	232
Other income	29,450	59,818
Total revenues	<u>3,191,904</u>	<u>2,574,556</u>
Expenditures:		
Current:		
General government	968,455	509,895
Programs	1,098,077	1,936,322
Capital outlay:		
General government	20,470	-
Programs	8,569	20,557
Total expenditures	<u>2,095,571</u>	<u>2,466,774</u>
Revenues over (under) expenditures	<u>1,096,333</u>	<u>107,782</u>
Fund balance - January 1	<u>3,086,854</u>	<u>2,979,072</u>
Fund balance - December 31	<u><u>\$4,183,187</u></u>	<u><u>\$3,086,854</u></u>

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2017
With Comparative Totals for The Year Ended December 31, 2016

Statement 5

	2017	2016
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)	\$1,096,333	\$107,782
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	29,039	20,557
Depreciation	(22,748)	(17,087)
In the Statement of Activities, the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, only the proceeds of a sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the disposed capital assets.	-	(15,286)
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	(12,491)	(6,053)
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	\$21,160	
Pension expense	(49,191)	(26,917)
In governmental funds, an expenditure is recognized only as amounts become due and payable in accordance with a lease contract. However, in the Statement of Net Position, expense is recognized during periods when the terms of the lease provide for a "rent holiday".	-	17,838
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	(266)	3,200
Change in net position of governmental activities (Statement 2)	\$1,061,836	\$84,034

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 fund:

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

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

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

D. BUDGETARY DATA

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

The Board of Managers annually adopts a tax levy for collection during the calendar year. The District's records are maintained on a calendar year ending December 31.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

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

E. CASH AND INVESTMENTS

Investments are stated at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date.

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.

H. PREPAIDS

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

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, intangibles, and infrastructure assets (e.g., storm sewers, manholes, control structures and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets (including intangible assets) are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective in 2004. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District has elected to implement the general provisions of GASB Statement No. 34 in the current year and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets from 2004 through 2017.

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 2017.

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

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

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and personal leave benefits. All vacation pay and personal leave that is payable at termination is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. FUND EQUITY

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the District's Board.

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

Unassigned – consists of negative residual amounts in the fund.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) assigned 2) committed, and 3) unassigned.

L. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

M. COMPARATIVE TOTALS

The basic financial statements and individual fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

N. RECLASSIFICATIONS

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

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. It is the pension related deferred outflows reported in the government-wide Statement of Net Position.

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

P. DEFINED BENEFIT PENSION PLANS

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

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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

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

At year end the carrying amount of the District's deposits were \$2,538,109 and the bank balance was \$2,541,045. 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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

- 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.

As of December 31, 2017, the District had the following investments and maturities:

Investment Type	Rating	Fair Value	Investment Maturities (In Years) Less Than 1
Brokered certificate of deposits	NR	\$1,480,129	\$1,480,129
Total investments			1,480,129
Deposits			2,538,109
Cash with broker-dealer			995,423
Total cash and investments			\$5,013,661

NR- Not Rated

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

The District has the following recurring fair value measurements as of December 31, 2017:

Investment Type	12/31/2017	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments at fair value:				
Brokered Certificates of Deposit	\$1,480,129	\$ -	\$1,480,129	\$ -

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. Investments in securities that are held by the District’s broker-dealer include \$500,000 that is insured through SIPC. The broker-dealer has provided additional protection by providing additional insurance. This insurance is subject to aggregate limits to all of the broker-dealer’s accounts.

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.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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:

Major Fund	Property Taxes
509 Plan Implementation Fund	\$20,556

Note 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$78,034	\$ -	\$ -	\$78,034
Construction-in-process	-	-	-	-
Total capital assets, not being depreciated	<u>78,034</u>	<u>0</u>	<u>0</u>	<u>78,034</u>
Capital assets, being depreciated:				
Building	50,856	-	-	50,856
Equipment, boats and vehicles	110,124	29,039	-	139,163
Intangibles	34,571	-	-	34,571
Total capital assets, being depreciated	<u>195,551</u>	<u>29,039</u>	<u>0</u>	<u>224,590</u>
Less accumulated depreciation for:				
Building	4,096	1,695	-	5,791
Equipment, boats and vehicles	26,414	17,596	-	44,010
Intangibles	1,729	3,457	-	5,186
Total accumulated depreciation	<u>32,239</u>	<u>22,748</u>	<u>0</u>	<u>54,987</u>
Total capital assets being depreciated - net	<u>163,312</u>	<u>6,291</u>	<u>-</u>	<u>169,603</u>
Governmental activities capital assets - net	<u>\$241,346</u>	<u>\$6,291</u>	<u>\$0</u>	<u>\$247,637</u>

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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

Governmental activities:	
General government	\$6,186
Programs	<u>16,562</u>
	<u>\$22,748</u>

Note 5 COMMITMENTS AND CONTINGENCIES

The District had \$228,954 of committed contracts at December 31, 2017.

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

Note 6 LONG-TERM DEBT

Changes in general long-term liabilities for the year ended December 31, 2017 is as follows:

	<u>Balance</u> 12/31/16	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/17	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated payable	<u>\$19,750</u>	<u>\$24,808</u>	<u>(\$12,317)</u>	<u>\$32,241</u>	<u>\$11,895</u>

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

Note 7 FUND BALANCE

At December 31, 2017, the District had the following fund balance:

	<u>509 Plan</u> <u>Implementation</u>
Nonspendable	<u>\$24,753</u>
Committed to:	
509 plan implementation	<u>4,115,581</u>
Assigned to:	
509 plan implementation	<u>42,853</u>
Total	<u>\$4,183,187</u>

Note 8 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 9 DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

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

General Employees Retirement Fund (GERF)

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

B. BENEFITS PROVIDED

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

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

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

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% 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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The District's contributions to the GERF for the year ended December 31, 2017, were \$21,160. The District's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

GERF Pension Costs

At December 31, 2017, the District reported a liability of \$217,054 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$2,731. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was .0034% which was an increase of .0006% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$49,191 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$79 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

At December 31, 2017, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$7,153	\$14,225
Changes in actuarial assumptions	36,036	21,760
Difference between projected and actual investment earnings	1,894	-
Changes in proportion	33,593	-
Contributions paid to PERA subsequent to the measurement date	11,878	-
Total	<u>\$90,554</u>	<u>\$35,985</u>

\$11,878 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2018	\$26,122
2019	21,128
2020	4,653
2021	(9,212)
Thereafter	-

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study on the GERF was completed in 2015.

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and employers will be made at rates set in Minnesota Statutes. Based on that assumption, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY SENSITIVITY

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability	\$336,667	\$217,054	\$119,129

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

H. PENSION PLAN FIDUCIARY NET POSITION

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

Note 10 OPERATING LEASE

Starting in July of 2014, the District entered into a new lease with required base monthly payments that vary from year to year and an initial estimated monthly operating charge of \$1,496. The District received 12 months of \$0 monthly base payments that began on September 1, 2014. Total rent paid relating to this lease for the year ended December 31, 2017 was \$0. Total rent expense for the year ended December 31, 2017 was \$4,083.

On January 10, 2017, the District entered into an operating lease agreement and terminated their old operating agreement. The new agreement has an initial term of 122 calendar months beginning March 1, 2017. The new lease has required base monthly payments that vary from year to year. Total rent expense for this new lease for the year ended December 31, 2017 was \$39,998.

Future minimum lease payments are as follows:

	<u>Payment</u>
2018	\$58,185
2019	59,333
2020	60,533
2021	61,744
2022	62,955
2023-2027	<u>287,709</u>
Total	<u><u>\$590,459</u></u>

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

Note 11 RECENTLY ISSUED ACCOUNTING STANDARDS

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

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

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

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

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

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

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

The effect these standards may have on future financial statements is not determinable at this time, but it is expected that Statement No. 87 may have a material impact.

REQUIRED SUPPLEMENTARY INFORMATION

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - 509 PLAN IMPLEMENTATION
 For The Year Ended December 31, 2017
 With Comparative Actual Amounts For The Year Ended December 31, 2016

Statement 6

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$2,859,000	\$2,859,000	\$2,842,119	(\$16,881)	\$2,451,397
Permit income	15,000	15,000	47,400	32,400	29,108
Intergovernmental	-	-	257,695	257,695	34,001
Investment income	-	-	15,240	15,240	232
Other income	-	-	29,450	29,450	59,818
Total revenues	<u>2,874,000</u>	<u>2,874,000</u>	<u>3,191,904</u>	<u>317,904</u>	<u>2,574,556</u>
Expenditures:					
Current:					
General government	1,045,000	1,020,000	968,455	51,545	509,895
Programs	1,814,000	1,839,000	1,098,077	740,923	1,936,322
Capital outlay:					
General government	-	-	20,470	(20,470)	-
Programs	-	-	8,569	(8,569)	20,557
Total expenditures	<u>2,859,000</u>	<u>2,859,000</u>	<u>2,095,571</u>	<u>763,429</u>	<u>2,466,774</u>
Revenues over (under) expenditures	<u>\$15,000</u>	<u>\$15,000</u>	1,096,333	<u>\$1,081,333</u>	107,782
Fund balance - January 1			<u>3,086,854</u>		<u>2,979,072</u>
Fund balance - December 31			<u>\$4,183,187</u>		<u>\$3,086,854</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, 2017

Statement 7

Measurement Date June 30	Fiscal Year Ending December 31	District's Proportionate Share (Percentage) of the Net Pension Liability	District's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with District (a+b)	Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2015	0.0028%	\$145,111	\$ -	\$145,111	\$177,271	81.9%	78.2%
2016	2016	0.0028%	227,346	2,931	230,277	174,027	132.3%	68.9%
2017	2017	0.0034%	217,054	2,731	219,785	220,453	99.7%	75.9%

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

RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS* - GENERAL EMPLOYEES RETIREMENT FUND
 For The Year Ended December 31, 2017

Statement 8

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$12,742	\$12,742	\$0	\$170,252	7.5%
December 31, 2016	13,813	13,813	0	184,173	7.5%
December 31, 2017	21,160	21,160	0	282,133	7.5%

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

**RILEY PURGATORY BLUFF CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
December 31, 2017**

Note A BUDGETS

The 509 Plan Implementation Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

Note B PENSION INFORMATION

PERA – General Employees Retirement Fund

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

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

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OTHER INFORMATION - UNAUDITED

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

Exhibit 1

	For Taxes Payable in 2017	Proposed For Taxes Payable in 2018
Estimate market value:		
Personal	\$92,269,700	\$70,328,300
Real	10,286,396,100	10,699,078,300
Total	<u>\$10,378,665,800</u>	<u>\$10,769,406,600</u>
Taxable market value:		
Personal	\$93,269,700	\$70,328,300
Real	10,050,139,702	10,480,267,856
Total	<u>\$10,143,409,402</u>	<u>\$10,550,596,156</u>
Referendum market value:		
Personal	\$93,269,700	\$70,328,300
Real	10,229,415,975	10,636,602,825
Total	<u>\$10,322,685,675</u>	<u>\$10,706,931,125</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
Chanhasen, 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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Riley Purgatory Bluff Creek Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Riley Purgatory Bluff Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Riley Purgatory Bluff Creek Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control presented in the accompanying Schedule of Findings and Responses as item 2017-001 to be material weaknesses.

Riley Purgatory Bluff Creek Watershed District's written response to the material weakness identified in our audit has not been subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 14, 2018



MINNESOTA LEGAL COMPLIANCE REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of Riley Purgatory Bluff Creek Watershed District, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Riley Purgatory Bluff Creek Watershed District's basic financial statements, and have issued our report thereon dated March 14, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor Pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because it is not applicable to the 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 2017-002. 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 those charged with governance and management of Riley Purgatory Bluff Creek Watershed District and the State Auditor, and is not intended to be, and should not be, used by anyone other than these specified parties.

Redpath and Company, Ltd.
REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

March 14, 2018

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Riley Purgatory Bluff Creek Watershed District
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2017-001 Audit Adjustments

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

Condition: During the course of our audit, we identified and proposed a journal entry to correct one material misstatement relating to grant revenue being overstated by \$84,458. In addition, we also identified and proposed a journal entry to record an expenditure for the forfeited security deposit relating to the old lease totaling \$2,500.

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

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

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

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

Finding 2017-002 Broker Certification

Condition: The District did not obtain a Broker Certification form for 2017 from its broker.

Criteria: Minnesota Statute 118A.04.9 requires a government entity to provide annually to the broker, a written statement of investment restrictions and the broker must in return provide the written agreement acknowledging the acceptance before the government entity may transfer, purchase, sell or obtain securities on behalf of the government entity.

118A.04.9 Broker; statement and receipt

- (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.
- (b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.
- (c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.
- (d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

Context: The District did not obtain a Broker Certification form from its one broker during 2017.

Cause: Unknown.

Effect: Not Determinable.

Recommendation: We recommend the District obtain and retain annually a signed Broker Certification form from their broker acknowledging the broker's receipt of the statement of investment restrictions and acceptance of handling the District's account in accordance with the investment restrictions.

Management Response: Administrator will obtain and retain annually a signed Broker Certification form from their broker acknowledging the broker's receipt of the statement of investment restrictions and acceptance of handling the District's account in accordance with the investment restrictions.