

**BEAR VALLEY WATERSHED
DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Bear Valley Watershed District
Goodhue, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Bear Valley Watershed District, Goodhue, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the general fund of the Bear Valley Watershed District as of December 31, 2016, and the respective changes in financial position for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the budgetary comparison and 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. Although not a part of the basic financial statements, such missing information 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, on our consideration of the Bear Valley Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bear Valley Watershed District's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

October 10, 2017

BEAR VALLEY WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	<u>\$ 70,093</u>
Total Assets	<u>\$ 70,093</u>
Liabilities:	
Accounts Payable	<u>\$ 2,694</u>
Total Liabilities	<u>\$ 2,694</u>
Net Position:	
Unrestricted	<u>\$ 67,399</u>
Total Net Position	<u>\$ 67,399</u>

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

**BEAR VALLEY WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenues and Net Position	
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities 2016
Governmental activities:					
General government	\$ 5,561	\$ -	\$ 9,634	\$ -	\$ 4,073
Programs	822	-	-	-	(822)
Total governmental activities	\$ 6,383	\$ -	\$ 9,634	\$ -	\$ 3,251
General Revenues:					
Unrestricted investment earnings					\$ 128
Total general revenues					\$ 128
Change in net position					\$ 3,379
Net position - January 1					\$ 64,020
Net position - December 31					\$ 67,399

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

BEAR VALLEY WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2016

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 70,093
Total Assets	<u>\$ 70,093</u>
Liabilities	
Accounts Payable	\$ 2,694
Total Liabilities	<u>\$ 2,694</u>
Fund balance:	
Unassigned	\$ 67,399
Total fund balance	<u>67,399</u>
Total liabilities and fund balance	<u>\$ 70,093</u>
Fund balance reported above	\$ 67,399
Net position of governmental activities	<u>\$ 67,399</u>

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

BEAR VALLEY WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund
Revenues:	
Intergovernmental	\$ 9,634
Interest income	128
Total Revenues	9,762
Expenditures:	
Current:	
General government:	
Administrative	5,061
Insurance	100
Professional fees	400
Program expenditures	822
Total Expenditures	6,383
Revenues over (under) expenditures	3,379
Fund balance - January 1	64,020
Fund balance - December 31	\$ 67,399
Revenues over (under) expenditures reported above	\$ 3,379
Change in net position of governmental activities	\$ 3,379

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

**BEAR VALLEY WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 1 - Summary of Significant Accounting Policies

Bear Valley Watershed District was established on April 27, 1961 between the counties of Wabasha and Goodhue. The District was formed to meet the requirements of Minnesota Statutes 103D.

The purpose of the District is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitat and water recreational facilities.
- Secure the other benefits associated with the proper management of surface and groundwater.

The District comprises 29,326 acres, of which, 20,821 acres are in Wabasha County and 8,505 acres are in Goodhue County. The original cost of the land is unknown and no value has been assigned to the land owned by the District.

The District is governed by a three member Board of Managers. The Board consists of three representatives of the District, two from Wabasha County and one from Goodhue County. They are elected to a three year term. Once the three year term has been met the County Commissioners shall appoint a new Board of Managers.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Fund Financial Statements

The government-wide fund financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District.

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

**BEAR VALLEY WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general government revenues.

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 timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Basis of Accounting and Financial Statement Presentation

The District reports the General Fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

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.

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.

Assets and Net Position

Assets

Cash and cash equivalents are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis and short-term money market investments, which are stated at amortized cost.

Classification of Net Position

Net position in the government-wide financial statements are classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

**BEAR VALLEY WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purposes unless the District removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District or the District Administrator who has been delegated that authority by District resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect: the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**BEAR VALLEY WATERSHED DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 2 - Detailed Notes

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, the market value of collateral pledged shall be at least ten percent more than the amount on deposit (plus accrued interest) at the close of the financial institution's banking day.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, the District's deposits were not exposed to custodial credit risk.

Note 3 - Risk Management

The District is exposed to various risks of loss for which the District carries commercial insurance policies.

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

Note 4 - Commitments and Contingencies

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

MINNESOTA LEGAL COMPLIANCE REPORT

Board of Supervisors
Bear Valley Watershed District
Goodhue, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* (issued by the Comptroller General of the United States), the financial statements of Bear Valley Watershed District of Goodhue, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Bear Valley Watershed District's basic financial statements, and have issued our report thereon dated October 10, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Bear Valley 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 the knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Bear Valley Watershed District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

October 10, 2017

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Supervisors
Bear Valley Watershed District
Goodhue, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Bear Valley Watershed District, Goodhue, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Bear Valley Watershed District's basic financial statements, and have issued our report thereon dated October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bear Valley Watershed District's internal control over financial reporting to determine the 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 Bear Valley Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bear Valley Watershed District's internal control over financial reporting.

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control over financial reporting, 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. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bear Valley Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

October 10, 2017

