



Executive Governance Summary

DRAFT

Riley Purgatory Bluff Creek Watershed District

Chanhasen, Minnesota

For the year ended December 31, 2023



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NEED DATE

Management and Board of Managers
Riley Purgatory Bluff Creek Watershed District
Chanassen, Minnesota

We have audited the financial statements of the governmental activities and major fund of the Riley Purgatory Bluff Creek Watershed District (the District), Chanassen, Minnesota, for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 7, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we identified one instance of deficiencies in internal controls that we consider to be a material weaknesses described below as finding 2023-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 statements. 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. The results of our tests disclosed one instance of noncompliance described below as finding 2023-001.

2023-001 Time Period for Payment

Condition: Auditing for legal compliance requires a review of the District's payment of claims. Our audit indicated five instances of non-compliance of invoices paid outside of 35 days out of our sample size of twenty-five.

Criteria: Minnesota statute section 471.425 requires that the District pay bills within 35 days from receipt. If the invoice is not paid within 35 days, interest at 1.5 percent per month is to be added to amount due.

Cause: This was due to invoices submitted and received after the internal cutoff date.

Effect: The District is out of compliance with this statute.

Recommendation: We recommend that the District develop policies and procedures related to the accounts payable cycle. These policies and procedures should include payment terms that are outlined within State statutes. We also recommend purchasing a date stamp to document when all invoices are received at the District. Implementing this recommendation will not result in any additional cost to the District.

Management Response:

The District's Board of Managers has adopted the auditor's recommendation that the District date stamp each invoice when it is received by the District in order to substantiate the beginning of the 35-day period. In addition, because the Board of Managers generally only meets once per month, the Board of Managers has adopted a policy that all contracts must include, and all vendors must agree to allow the District not less than 60 day after receipt of an invoice to process and pay such invoice as allowed by Minnesota statute section 471.425. Notwithstanding the foregoing, the District intends to process and pay all invoices as expeditiously as possible.



2023-002 Material Year-end Audit Adjustments

Condition: During our audit, an adjustment was needed to reclass surety payments made for the purchase of property from expense to cash held with fiscal agent as expense not yet recognized.

Criteria: Such adjustments were needed to correct year-end balances and reclassify expense to a balance sheet account.

Cause: The District staff and accountants did not prepared a year end trial balance reflecting all year-end adjustments without auditor assistance for a potential land purchase.

Effect: This indicates that it would be likely that a misstatement may occur and not be detected by the District's systems of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedure to ensure that future corrections are not needed.

Management Response:

The District will review each journal entry and work with the auditor to understand and prepare in the future.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies were not changed during the year ended December 31, 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are noted below:

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increase and form of annuity payment upon retirement.
- Management's estimate of its lease liability are based on several factors including, but not limited to, a discount rate based on the District's incremental borrowing rate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.



Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in aggregate, to each opinion unit's financial statements taken as a whole.

We assisted in preparing a number of year end accounting entries. These were necessary to adjust the District's records at year end to correct ending balances. The District should establish more detailed processes and procedures to reduce the total number of entries in each category. The District will receive better and timelier information if the preparation of year end entries is completed internally.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated NEED DATE.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedules of Employer's Shares of the Net Pension Liability, and the Schedules of Employer's Contributions) is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory section which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.



Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future District's financial statements:

GASB Statement No. 100 - *Accounting Changes and Error Corrections* *Effective: 12/31/2024*

GASB Statement No. 101 - *Compensated Absences* *Effective: 12/31/2024*

GASB Statement No. 102 - *Certain Risk Disclosures* *Effective: 12/31/2025*

Further information on upcoming [GASB pronouncements](#).

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Restriction on Use

This communication is intended solely for the information and use of Board of Managers, management and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Abdo
Minneapolis, Minnesota
NEED DATE

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