

**SOUTH WASHINGTON WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2012

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## **INTRODUCTORY SECTION**

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**SOUTH WASHINGTON WATERSHED DISTRICT**  
**LIST OF APPOINTED OFFICIALS**  
December 31, 2012

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**BOARD OF MANAGERS**

President	Jack Lavold
Vice-President	Dennis Hanna
Vice-President	Brian Johnson
Treasurer	Mike Madigan
Secretary	Don Pereira

**APPOINTED OFFICIALS**

Administrator	Matt Moore
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## **FINANCIAL SECTION**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers  
South Washington Watershed District  
Woodbury, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of South Washington Watershed District, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise South Washington 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 South Washington Watershed District, as of December 31, 2012, 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 South Washington Watershed District's 2011 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated April 20, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 36 and 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 South Washington Watershed District's basic financial statements. The introductory section, individual fund financial statements, supplementary financial information, and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements and supplementary financial information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and supplementary financial information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

May 17, 2013

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## **BASIC FINANCIAL STATEMENTS**

**SOUTH WASHINGTON WATERSHED DISTRICT****STATEMENT OF NET POSITION****Statement 1**

December 31, 2012

With Comparative Totals For December 31, 2011

	Governmental Activities	
	2012	2011
<b>Assets:</b>		
Cash and investments	\$17,463,046	\$15,646,218
Restricted cash and investments	1,509,943	2,775,419
Accrued interest receivable	1,435	1,435
Accounts receivable	-	7,904
Due from other governments	456,878	-
Taxes receivable:		
Delinquent	11,767	14,887
Due from county	6,816	3,238
Stormwater utility fees receivable:		
Delinquent	44,367	56,061
Due from county	36,298	14,237
Prepaid items	11,930	11,236
Deferred charges	86,684	95,490
Capital assets - net:		
Depreciable	643,524	659,432
Nondepreciable	8,356,448	8,356,448
Total assets	<u>28,629,136</u>	<u>27,642,005</u>
<b>Liabilities:</b>		
Accounts payable	568,273	470,754
Salaries payable	4,681	3,765
Contracts payable	1,064,007	-
Accrued interest payable	77,287	112,245
Unearned revenue	41,255	-
Unamortized bond premium	80,388	93,446
Compensated absences payable:		
Due within one year	8,987	7,482
Bonds payable:		
Due within one year	545,000	420,000
Due in more than one year	5,775,000	6,320,000
Total liabilities	<u>8,164,878</u>	<u>7,427,692</u>
<b>Net position:</b>		
Net investment in capital assets	3,237,281	4,949,115
Restricted for:		
Debt service	392,596	280,382
Unrestricted	16,834,381	14,984,816
Total net position	<u>\$20,464,258</u>	<u>\$20,214,313</u>

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



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended December 31, 2012  
With Comparative Totals For The Year Ended December 31, 2011

**Statement 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Primary Government</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Totals</u>	
					<u>2012</u>	<u>2011</u>
Primary government:						
Governmental activities:						
General government	\$261,810	\$ -	\$ -	\$ -	(\$261,810)	(\$213,143)
Programs	257,754	-	-	-	(257,754)	(257,349)
Projects	3,894,581	2,772,064	1,393,771	-	271,254	1,331,205
Interest on long-term debt	229,190	-	-	-	(229,190)	(188,512)
Total governmental activities	<u>\$4,643,335</u>	<u>\$2,772,064</u>	<u>\$1,393,771</u>	<u>\$0</u>	<u>(477,500)</u>	<u>672,201</u>
General revenues:						
Property taxes					702,141	655,268
Grants and contributions not restricted to specific programs					347	28,951
Unrestricted investment earnings					9,533	10,513
Miscellaneous other					15,424	19,727
Total general revenues					<u>727,445</u>	<u>714,459</u>
Change in net position					249,945	1,386,660
Net position - January 1					<u>20,214,313</u>	<u>18,827,653</u>
Net position - December 31					<u>\$20,464,258</u>	<u>\$20,214,313</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**

BALANCE SHEET

**Statement 3**

GOVERNMENTAL FUNDS

December 31, 2012

With Comparative Totals For December 31, 2011

Assets	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2012	2011
Cash and investments	\$548,248	\$16,565,491	\$349,307	\$17,463,046	\$15,646,218
Restricted cash and investments	-	1,501,205	8,738	1,509,943	2,775,419
Accrued interest receivable	-	1,435	-	1,435	1,435
Accounts receivable	-	-	-	-	7,904
Due from other governments	-	456,878	-	456,878	-
Taxes receivable:					
Delinquent	3,815	7,952	-	11,767	14,887
Due from county	2,534	4,282	-	6,816	3,238
Stormwater utility fees receivable:					
Delinquent	-	30,156	14,211	44,367	56,061
Due from county	-	26,072	10,226	36,298	14,237
Prepaid items	10,430	1,500	-	11,930	11,236
Total assets	<u>\$565,027</u>	<u>\$18,594,971</u>	<u>\$382,482</u>	<u>\$19,542,480</u>	<u>\$18,530,635</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$162,292	\$405,547	\$434	\$568,273	\$470,754
Salaries payable	2,518	2,163	-	4,681	3,765
Contracts payable	14,382	1,049,625	-	1,064,007	-
Deferred revenue	3,815	459,363	14,211	477,389	70,948
Total liabilities	<u>183,007</u>	<u>1,916,698</u>	<u>14,645</u>	<u>2,114,350</u>	<u>545,467</u>
Fund balance:					
Nonspendable	10,430	1,500	-	11,930	11,236
Restricted	-	637,697	367,837	1,005,534	3,048,456
Committed	-	16,005,878	-	16,005,878	14,561,112
Assigned	-	33,198	-	33,198	11,347
Unassigned	371,590	-	-	371,590	353,017
Total fund balance	<u>382,020</u>	<u>16,678,273</u>	<u>367,837</u>	<u>17,428,130</u>	<u>17,985,168</u>
Total liabilities and fund balance	<u>\$565,027</u>	<u>\$18,594,971</u>	<u>\$382,482</u>	<u>\$19,542,480</u>	<u>\$18,530,635</u>
Fund balance reported above				\$17,428,130	\$17,985,168
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.				8,999,972	9,015,880
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				436,134	70,948
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				<u>(6,399,978)</u>	<u>(6,857,683)</u>
Net position of governmental activities				<u>\$20,464,258</u>	<u>\$20,214,313</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2012  
With Comparative Totals For The Year Ended December 31, 2011

**Statement 4**

	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2012	2011
<b>Revenues:</b>					
General property taxes	\$251,297	\$453,964	\$ -	\$705,261	\$661,220
Stormwater utility fees	-	2,001,460	782,298	2,783,758	2,665,209
Intergovernmental	124	1,013,994	-	1,014,118	28,951
Investment income	181	8,818	534	9,533	10,513
Other	2,391	13,033	-	15,424	19,727
Total revenues	<u>253,993</u>	<u>3,491,269</u>	<u>782,832</u>	<u>4,528,094</u>	<u>3,385,620</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	234,726	23,398	-	258,124	210,816
Programs	-	260,223	-	260,223	257,475
Projects	-	3,869,579	-	3,869,579	1,292,200
<b>Capital outlay:</b>					
Land	-	-	-	-	911,478
<b>Debt service:</b>					
Principal retirement	-	-	420,000	420,000	400,000
Interest	-	-	276,770	276,770	125,875
Fiscal agent fees and other charges	-	436	-	436	70,820
Total expenditures	<u>234,726</u>	<u>4,153,636</u>	<u>696,770</u>	<u>5,085,132</u>	<u>3,268,664</u>
Revenues over (under) expenditures	<u>19,267</u>	<u>(662,367)</u>	<u>86,062</u>	<u>(557,038)</u>	<u>116,956</u>
<b>Other financing sources (uses):</b>					
Debt issued	-	-	-	-	3,945,000
Premium on debt issued	-	-	-	-	36,802
Transfers in	-	-	-	-	110,000
Transfers out	-	-	-	-	(110,000)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,981,802</u>
Net change in fund balance	19,267	(662,367)	86,062	(557,038)	4,098,758
Fund balance - January 1	<u>362,753</u>	<u>17,340,640</u>	<u>281,775</u>	<u>17,985,168</u>	<u>13,886,410</u>
Fund balance - December 31	<u>\$382,020</u>	<u>\$16,678,273</u>	<u>\$367,837</u>	<u>\$17,428,130</u>	<u>\$17,985,168</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2012  
With Comparative Amounts For The Year Ended December 31, 2011

**Statement 5**

	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	(\$557,038)	\$4,098,758
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	365,186	(31,722)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost 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.	(15,908)	895,570
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Issuance of debt	-	(3,945,000)
Principal retirement	420,000	400,000
Issuance costs deferred and amortized over the life of the debt	-	70,821
Premium capitalized and amortized over the life of the debt	-	(36,802)
Amortization of deferred charges	(8,806)	(7,616)
Amortization of bond premium	13,058	12,440
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.	<u>33,453</u>	<u>(69,789)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$249,945</u></u>	<u><u>\$1,386,660</u></u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the South Washington Watershed District (the District) conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

The District was originally created on August 25, 1993 under the name of Cottage Grove Ravine Watershed District by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota Statutes Chapter 103D. In July 1994, the District changed its name to South Washington Watershed District.

The District is operated by a five member Board of Managers originally appointed by the Board. Subsequent appointments will be made by Washington County.

In accordance with Governmental Accounting Standards Board (GASB) pronouncements and GAAP, the financial statements of the reporting entity include the primary government and its component units. Generally, component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District (primary government) does not have any component units nor is it a component unit of any other governmental unit.

**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 and its component units. 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*, which rely to a significant extent on fees and charges for support. 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 or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or *business-type activity*. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund - is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenditures.

Planning and Implementation Fund - is established to account for expenditures related to the preparation and implementation of the Watershed Management Plan. Property taxes and stormwater fees are committed for planning and implementation.

Debt Service Fund - is established to account for the accumulation of resources for, and the payment of principal, interest and related costs of the \$3,945,000 General Obligation Crossover Bonds of 2011 and the \$2,795,000 General Obligation Crossover Refunding Bonds of 2007.

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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

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

**D. BUDGETS**

Budgets are legally adopted on a basis consistent with GAAP. Annual appropriated budgets are legally adopted for the General Fund. Budgeted expenditure appropriations lapse at year end. Excess funds are rolled over each year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District.

**E. LEGAL COMPLIANCE – BUDGETS**

The District prepares annual revenue and expenditure budgets for the District's General Fund. The District monitors budget performance on the fund basis.

- The operating budget includes proposed expenditures and the means of financing them.
- A public comment hearing is held to obtain taxpayer comment.
- The budget is legally adopted by Board resolution.
- All amounts over budget have been approved by the Board through the budget extension process.

The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made. The District does not prepare an annual expenditure/appropriations budget for its Special Revenue Fund.

**F. CASH AND INVESTMENTS**

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

Investments are stated at fair value, based upon quoted market prices, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

**G. MARKET VALUE HOMESTEAD CREDIT**

Property taxes and homestead property (as defined by State Statutes) are partially reduced by market value homestead credit. This credit is paid to the District by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The credit is recognized as revenue by the District at the time of collection. Residential Market Value Homestead Credit aid is no longer available after calendar year 2011.

**H. PROPERTY TAX REVENUE RECOGNITION**

The Board of Managers annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, 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 County 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 County possesses 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 County 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 revenue because they are not available to finance current expenditures.

**I. INVENTORIES**

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. These funds do not maintain material amounts of inventories.

**J. PREPAID ITEMS**

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.



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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**K. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets and intangible asset such as easements and computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. 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 implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. 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 did not acquire intangible assets in years prior to 2010 that required retroactive reporting. The District did not acquire any intangible assets since the implementation of GASB No. 51.

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

Infrastructure	48-50 years
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**L. LONG-TERM OBLIGATIONS**

In the government-wide financial statements long-term debt is reported as a liability in the applicable governmental activities fund type statement of net position. Material bond premiums and discounts, as well as issuance costs, are amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. FUND BALANCE CLASSIFICATIONS**

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 Board.

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

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

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

**N. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**O. COMPENSATED ABSENCES**

It is the District's policy to permit employees to accumulate earned but unused paid time off (PTO) benefits. All PTO benefits that are vested as severance pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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**P. USE OF ESTIMATES**

The preparation of financial statements in accordance with 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.

**Q. RECLASSIFICATIONS**

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

**R. COMPARATIVE TOTALS**

The basic financial statements, required supplementary information, individual fund financial statements and supplementary financial information include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District’s financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**S. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds”. The details of this (\$6,399,978) difference are as follows:

Bonds payable	(\$6,320,000)
Accrued interest payable	(77,287)
Compensated absences	(8,987)
Deferred charges	86,684
Unamortized bond premium	<u>(80,388)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>(\$6,399,978)</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this (\$365,186) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2011	(\$14,887)
At December 31, 2012	11,767
Stormwater utility fees deferred revenue:	
At December 31, 2011	(56,061)
At December 31, 2012	44,367
Intergovernmental revenue deferred revenue:	
At December 31, 2011	-
At December 31, 2012	<u>380,000</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$365,186</u></u>

Another element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this (\$15,908) difference are as follows:

Capital outlay	\$ -
Depreciation expense	<u>(15,908)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>(\$15,908)</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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Another element of that reconciliation states that “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”. The details of this (\$33,453) difference are as follows:

Accrued interest payable:	
At December 31, 2011	\$112,245
At December 31, 2012	(77,287)
Compensated absences payable:	
At December 31, 2011	7,482
At December 31, 2012	<u>(8,987)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$33,453</u></u>

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District’s Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all of the District’s 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’s Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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- 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.

The District does not have deposits at December 31, 2012.

**B. INVESTMENTS**

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

As of December 31, 2012, the District had the following investments and maturities:

Investment Type	Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Over 10 Years
External investment pool - 4M Fund	*	\$17,463,046	\$17,463,046	\$ -	\$ -	\$ -
Money market	*	910,753	910,753	-	-	-
Brokered certificates of deposit	*	599,190	599,190	-	-	-
Total		<u>\$18,972,989</u>	<u>\$18,972,989</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
* Not Rated			Total investments			<u>\$18,972,989</u>

Following is a reconciliation of the District's cash and investment balances as of December 31, 2012:

Cash and investments	\$17,463,046
Restricted cash	<u>1,509,943</u>
Total	<u>\$18,972,989</u>

**C. INVESTMENT RISKS**

**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.

The District's external investment pool investment is with the 4M Fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated 2a7-like pool and the fair value of the positions in the pool is the same as the value of pool shares.

**Interest Rate Risk.** Interest rate risk is the risk that changes in the interest rates of debt investments could adversely affect the fair value of an investment. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the District's investment in a single issuer. The District does not have an investment policy which addresses the concentration of credit risk.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**Custodial Credit Risk.** For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments securities that are in the possession of an outside party. As of December 31, 2012, the District had \$17,463,046 in investments that were invested in an external investment pool and \$910,753 in a money market. Investments in external investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. Investments in brokered certificates of deposit are held with a broker-dealer which provides \$500,000 of SIPC insurance. Additional protection is provided by the broker-dealer's insurance policy which is subject to aggregate limits provided to all of the broker-dealer's accounts.

**Note 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2012 are as follows:

	<u>General Fund</u>	<u>Planning and Implementation</u>	<u>Debt Service</u>
Delinquent property taxes receivable	\$2,300	\$5,000	\$ -
Delinquent stormwater utility fees	-	13,400	6,300
<b>Total</b>	<b><u>\$2,300</u></b>	<b><u>\$18,400</u></b>	<b><u>\$6,300</u></b>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$3,815	\$ -
Delinquent property taxes receivable (Planning and Implementation Fund)	7,952	-
Delinquent stormwater utility fees (Debt Service)	14,211	-
Delinquent stormwater utility fees (Planning and Implementation Fund)	30,156	-
Unavailable intergovernmental revenue (Planning and Implementation Fund)	380,000	-
Unearned grant (Planning and Implementation Fund)	-	41,255
<b>Total</b>	<b><u>\$436,134</u></b>	<b><u>\$41,255</u></b>



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$8,356,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,356,448</u>
Capital assets, being depreciated:				
Infrastructure	<u>793,070</u>	<u>-</u>	<u>-</u>	<u>793,070</u>
Less accumulated depreciation for:				
Infrastructure	<u>133,638</u>	<u>15,908</u>	<u>-</u>	<u>149,546</u>
Total capital assets being depreciated - net	<u>659,432</u>	<u>(15,908)</u>	<u>-</u>	<u>643,524</u>
Governmental activities capital assets - net	<u><u>\$9,015,880</u></u>	<u><u>(\$15,908)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,999,972</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Projects	<u>\$15,908</u>
Total depreciation expense - governmental activities	<u><u>\$15,908</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**Note 5 LONG-TERM DEBT**

The District issued a general obligation bond in 2002 to provide funds for capital improvements. The District issued a general obligation crossover refunding bond in 2007 to partially refund the 2002 bond on March 1, 2010. The District issued its Series 2011A General Obligation Bonds in 2011 to finance a portion of the water quality improvement projects related to the City of Cottage Grove, drainage improvements related to the City of Newport and the Grey Cloud Island Slough Crossing Project.

GOVERNMENTAL ACTIVITIES

As of December 31, 2012, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/12
General Obligation Bonds:					
\$2,795,000 Refunding Bonds 2007A	4.00%	12/27/2007	3/1/2017	\$2,795,000	\$2,375,000
\$3,945,000 G.O. Bonds 2011A	3.47%	5/1/2011	3/1/2031	3,945,000	3,945,000
Total General Obligation Bonds				6,740,000	6,320,000
Compensated absences payable				-	8,987
Total indebtedness - governmental activities				\$6,740,000	\$6,328,987

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	General Obligation Bonds - Governmental Activities			
	G.O. Bonds		Refunding Bonds	
	Principal	Interest	Principal	Interest
2013	\$110,000	\$124,720	\$435,000	\$91,050
2014	110,000	122,520	455,000	73,250
2015	130,000	120,120	475,000	52,275
2016	135,000	117,470	495,000	30,500
2017	155,000	114,570	515,000	10,300
2018	160,000	110,620	-	-
2019	175,000	105,595	-	-
2020	175,000	100,345	-	-
2021	200,000	94,970	-	-
2022	205,000	89,145	-	-
2023	235,000	82,545	-	-
2024	240,000	75,300	-	-
2025	250,000	67,518	-	-
2026	255,000	58,992	-	-
2027	265,000	49,760	-	-
2028	270,000	39,995	-	-
2029	280,000	29,400	-	-
2030	295,000	17,900	-	-
2031	300,000	6,000	-	-
Total	\$3,945,000	\$1,527,485	\$2,375,000	\$257,375

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**CHANGE IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
\$2,795,000 Refunding Bonds 2007A	\$2,795,000	\$ -	\$420,000	\$2,375,000	\$435,000
\$3,945,000 G.O. Bonds 2011A	3,945,000	-	-	3,945,000	110,000
Subtotal	6,740,000	\$0	\$420,000	6,320,000	\$545,000
Unamortized premium on bonds	93,446	\$ -	\$13,058	80,388	
Total General Obligation Bonds	<u>\$6,833,446</u>			<u>\$6,400,388</u>	
Compensated absences payable	\$7,482	\$16,225	\$14,720	\$8,987	\$8,987

All long-term bonded indebtedness outstanding at December 31, 2012 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

**Note 6 CONTINGENCIES**

**A. 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; injuries to employees; and natural disasters.

Workers compensation coverage for District employees is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The District pays an annual premium to LMCIT. The District is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the District is not subject to a deductible. The District workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Other insurance coverage is provided through a pooled self-insurance program through the LMCIT. The District pays an annual premium to the LMCIT. The District is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess various amounts. The District retains risk for the deductible portions of the insurance policies. The amount of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance or settlements in excess of insurance coverage for 2012.

**B. LITIGATION**

The District's management has indicated that there are no pending litigation's in which the District is involved that would have a material effect upon the District's financial statements.

**Note 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. PLAN DESCRIPTION**

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

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

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2012

**B. FUNDING POLICY**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. The District was required to contribute the following percentages of annual covered payroll in 2012: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members, and 14.4% for PEPFF members. The District's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$13,635, \$12,153 and \$11,422, respectively, equal to the contractually required contributions for the years as set by state statute.

**Note 8 FUND BALANCE**

**CLASSIFICATIONS**

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Planning and Implementation</u>	<u>Debt Service</u>	<u>Total</u>
Nonspendable:				
Prepays	\$10,430	\$1,500	\$ -	\$11,930
Restricted for:				
Debt service	-	-	367,837	367,837
Water quality and drainage improvements	-	637,697	-	637,697
Committed for:				
Planning and implementation	-	16,005,878	-	16,005,878
Assigned to:				
Planning and implementation	-	33,198	-	33,198
Unassigned	<u>371,590</u>	<u>-</u>	<u>-</u>	<u>371,590</u>
 Total	 <u>\$382,020</u>	 <u>\$16,678,273</u>	 <u>\$367,837</u>	 <u>\$17,428,130</u>

**Note 9 STORMWATER UTILITY FEES**

In 2004, the District implemented a stormwater utility fee pursuant to Minnesota Statutes Chapter 444.

**Note 10 ACCOUNTS PAYABLE**

At December 31, 2012, a summary of the components of accounts payable were as follows:

Accounts payable	\$231,132
Due to other governments	<u>337,141</u>
 Total	 <u>\$568,273</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**Statement 6**

For The Year Ended December 31, 2012  
 With Comparative Actual Amounts For The Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes	\$253,233	\$253,233	\$251,297	(\$1,936)	\$230,762
Intergovernmental - MVHC	124	124	124	-	10,104
Investment income	-	-	181	181	154
Other	-	-	2,391	2,391	1,715
<b>Total revenues</b>	<b>253,357</b>	<b>253,357</b>	<b>253,993</b>	<b>636</b>	<b>242,735</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Legal	11,048	11,048	7,101	3,947	6,832
Accounting and auditing	18,271	18,271	16,528	1,743	15,658
Other consulting	3,600	3,600	-	3,600	-
Salary and benefits	128,273	128,273	141,635	(13,363)	121,870
Contracted services	-	-	-	-	1,770
Manager's per diem and expenses	28,500	28,500	16,279	12,221	16,670
Insurance	12,000	12,000	12,207	(207)	10,083
Dues	5,000	5,000	3,500	1,500	5,978
Rent	21,476	21,476	22,136	(660)	20,896
Equipment	14,189	14,189	3,932	10,257	3,511
Office supplies and other	11,000	11,000	11,408	(408)	7,548
<b>Total expenditures</b>	<b>253,357</b>	<b>253,357</b>	<b>234,726</b>	<b>18,631</b>	<b>210,816</b>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	19,267	<u>\$19,267</u>	31,919
Fund balance - January 1			<u>362,753</u>		<u>330,834</u>
Fund balance - December 31			<u>\$382,020</u>		<u>\$362,753</u>



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2012

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**Note A**    **BUDGETS**

The General 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 for the General Fund.

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**GENERAL FUND**  
December 31, 2012  
With Comparative Amounts For December 31, 2011

**Statement 7**

Assets	2012	2011
Cash and investments	\$548,248	\$359,422
Taxes receivable:		
Delinquent	3,815	4,835
Due from county	2,534	1,130
Prepaid items	10,430	9,736
 Total assets	 \$565,027	 \$375,123
 Liabilities and Fund Balance		
 Liabilities:		
Accounts payable	\$162,292	\$5,769
Salaries payable	2,518	1,766
Contracts payable	14,382	-
Deferred revenue	3,815	4,835
Total liabilities	183,007	12,370
 Fund balance:		
Nonspendable	10,430	9,736
Unassigned	371,590	353,017
Total fund balance	382,020	362,753
 Total liabilities and fund balance	 \$565,027	 \$375,123

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
For The Year Ended December 31, 2012  
With Comparative Amounts For The Year Ended December 31, 2011

**Statement 8**

	<u>2012</u>	<u>2011</u>
Revenues:		
General property taxes	\$251,297	\$230,762
Intergovernmental - MVHC	124	10,104
Investment income	181	154
Other	2,391	1,715
Total revenues	<u>253,993</u>	<u>242,735</u>
Expenditures:		
Current:		
Professional services:		
Legal	7,101	6,832
Accounting and auditing	16,528	15,658
Salary and benefits	141,635	121,870
Consulting services	-	1,770
Manager's per diem and expenses	16,279	16,670
Insurance	12,207	10,083
Dues	3,500	5,978
Rent	22,136	20,896
Equipment	3,932	3,511
Office supplies and other	11,408	7,548
Total expenditures	<u>234,726</u>	<u>210,816</u>
Revenues over expenditures	19,267	31,919
Fund balance - January 1	<u>362,753</u>	<u>330,834</u>
Fund balance - December 31	<u><u>\$382,020</u></u>	<u><u>\$362,753</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**PLANNING AND IMPLEMENTATION FUND**  
December 31, 2012  
With Comparative Amounts For December 31, 2011

**Statement 9**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and investments	\$16,565,491	\$15,017,242
Restricted cash and investments	1,501,205	2,766,681
Accrued interest receivable	1,435	1,435
Accounts receivable	-	7,904
Due from other governments	456,878	-
Taxes receivable:		
Delinquent	7,952	10,052
Due from county	4,282	2,108
Stormwater utility fees receivable:		
Delinquent	30,156	40,699
Due from county	26,072	10,754
Prepaid items	<u>1,500</u>	<u>1,500</u>
 Total assets	 <u><u>\$18,594,971</u></u>	 <u><u>\$17,858,375</u></u>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$405,547	\$464,985
Salaries payable	2,163	1,999
Contracts payable	1,049,625	-
Deferred revenue	459,363	50,751
Total liabilities	<u>1,916,698</u>	<u>517,735</u>
 <b>Fund balance:</b>		
Nonspendable	1,500	1,500
Restricted	637,697	2,766,681
Committed	16,005,878	14,561,112
Assigned	<u>33,198</u>	<u>11,347</u>
Total fund balance	<u>16,678,273</u>	<u>17,340,640</u>
 Total liabilities and fund balance	 <u><u>\$18,594,971</u></u>	 <u><u>\$17,858,375</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**PLANNING AND IMPLEMENTATION FUND**  
For The Year Ended December 31, 2012  
With Comparative Amounts For The Year Ended December 31, 2011

**Statement 10**

	<u>2012</u>	<u>2011</u>
Revenues:		
General property taxes	\$453,964	\$430,458
Stormwater utility fees	2,001,460	2,013,204
Intergovernmental:		
Market value homestead credit	223	18,847
Other	1,013,771	-
Investment income	8,818	1,239
Other	13,033	18,012
Total revenues	<u>3,491,269</u>	<u>2,481,760</u>
Expenditures:		
Current:		
Professional services:		
Legal	7,842	33,751
Engineering	256,949	223,598
Salaries and benefits	17,793	-
Projects and studies	3,870,616	1,292,326
Capital outlay	-	911,478
Fiscal agent fees	436	70,820
Total expenditures	<u>4,153,636</u>	<u>2,531,973</u>
Revenues over (under) expenditures	<u>(662,367)</u>	<u>(50,213)</u>
Other financing sources (uses):		
Debt issued	-	3,945,000
Premium on debt issued	-	36,802
Transfers out	-	(110,000)
Total other financing sources (uses)	<u>0</u>	<u>3,871,802</u>
Net change in fund balance	(662,367)	3,821,589
Fund balance - January 1	<u>17,340,640</u>	<u>13,519,051</u>
Fund balance - December 31	<u><u>\$16,678,273</u></u>	<u><u>\$17,340,640</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**DEBT SERVICE FUND**  
December 31, 2012  
With Comparative Amounts For December 31, 2011

**Statement 11**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and investments	\$349,307	\$269,554
Restricted cash and investments	8,738	8,738
Stormwater utility fees receivable:		
Delinquent	14,211	15,362
Due from county	<u>10,226</u>	<u>3,483</u>
<b>Total assets</b>	<u><u>\$382,482</u></u>	<u><u>\$297,137</u></u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$434	\$ -
Deferred revenue	<u>14,211</u>	<u>15,362</u>
<b>Total liabilities</b>	<u><u>14,645</u></u>	<u><u>15,362</u></u>
<b>Fund balance:</b>		
Restricted	<u>367,837</u>	<u>281,775</u>
<b>Total liabilities and fund balance</b>	<u><u>\$382,482</u></u>	<u><u>\$297,137</u></u>



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**DEBT SERVICE FUND**  
For The Year Ended December 31, 2012  
With Comparative Amounts For The Year Ended December 31, 2011

**Statement 12**

	<u>2012</u>	<u>2011</u>
Revenues:		
Stormwater utility fees	\$782,298	\$652,005
Investment income	534	9,120
Total revenues	<u>782,832</u>	<u>661,125</u>
Expenditures:		
Debt service:		
Principal	420,000	400,000
Interest	276,770	125,875
Total expenditures	<u>696,770</u>	<u>525,875</u>
Revenues over expenditures	86,062	135,250
Other financing sources:		
Transfers in	<u>-</u>	<u>110,000</u>
Net change in fund balance	86,062	245,250
Fund balance - January 1	<u>281,775</u>	<u>36,525</u>
Fund balance - December 31	<u><u>\$367,837</u></u>	<u><u>\$281,775</u></u>

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## **SUPPLEMENTARY FINANCIAL INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND**  
December 31, 2012  
With Comparative Totals For December 31, 2011

	<u>1.0 Floodplain Management</u>	<u>2.0 Stormwater Management</u>	<u>3.0 Water Quality</u>	<u>4.0 Wetlands</u>	<u>5.0 Natural Resources</u>
<b>Assets</b>					
Cash and investments	\$252,534	\$11,643,761	\$1,181,304	\$206,414	\$573,102
Restricted cash and investments	-	1,501,205	-	-	-
Interest receivable	-	1,435	-	-	-
Accounts receivable	-	-	-	-	-
Due from other governments	-	451,853	-	-	-
Taxes receivable:					
Delinquent	-	-	-	-	-
Due from county	-	217	1,506	-	23
Stormwater utility fees receivable:					
Delinquent	-	-	-	-	-
Due from county	428	14,315	2,632	-	532
Prepaid expense	-	-	-	-	-
<b>Total assets</b>	<b><u>\$252,962</u></b>	<b><u>\$13,612,786</u></b>	<b><u>\$1,185,442</u></b>	<b><u>\$206,414</u></b>	<b><u>\$573,657</u></b>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$91,982	\$6,524	\$ -	\$221
Contracts payable	-	1,049,625	-	-	-
Salaries payable	-	-	956	-	129
Deferred revenue	-	421,255	-	-	-
<b>Total liabilities</b>	<b><u>0</u></b>	<b><u>1,562,862</u></b>	<b><u>7,480</u></b>	<b><u>0</u></b>	<b><u>350</u></b>
<b>Fund balance:</b>					
Nonspendable	-	-	-	-	-
Restricted	-	637,697	-	-	-
Committed	252,916	11,403,903	1,177,516	206,404	555,146
Assigned	46	8,324	446	10	18,161
<b>Total fund balance</b>	<b><u>252,962</u></b>	<b><u>12,049,924</u></b>	<b><u>1,177,962</u></b>	<b><u>206,414</u></b>	<b><u>573,307</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$252,962</u></b>	<b><u>\$13,612,786</u></b>	<b><u>\$1,185,442</u></b>	<b><u>\$206,414</u></b>	<b><u>\$573,657</u></b>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2012	2011
\$863,525	\$146,938	\$257,591	\$922,272	\$518,050	\$16,565,491	\$15,017,242
-	-	-	-	-	1,501,205	2,766,681
-	-	-	-	-	1,435	1,435
-	-	-	-	-	-	7,904
-	-	-	-	5,025	456,878	-
-	-	-	-	7,952	7,952	10,052
30	30	381	254	1,841	4,282	2,108
-	-	-	-	30,156	30,156	40,699
1,142	-	-	7,023	-	26,072	10,754
-	-	1,500	-	-	1,500	1,500
<u>\$864,697</u>	<u>\$146,968</u>	<u>\$259,472</u>	<u>\$929,549</u>	<u>\$563,024</u>	<u>\$18,594,971</u>	<u>\$17,858,375</u>
\$ -	\$ -	\$5,544	\$258,607	\$42,669	\$405,547	\$464,985
-	-	-	-	-	1,049,625	-
55	74	131	377	441	2,163	1,999
-	-	-	-	38,108	459,363	50,751
<u>55</u>	<u>74</u>	<u>5,675</u>	<u>258,984</u>	<u>81,218</u>	<u>1,916,698</u>	<u>517,735</u>
-	-	1,500	-	-	1,500	1,500
-	-	-	-	-	637,697	2,766,681
864,516	146,883	252,235	669,873	476,486	16,005,878	14,561,112
126	11	62	692	5,320	33,198	11,347
<u>864,642</u>	<u>146,894</u>	<u>253,797</u>	<u>670,565</u>	<u>481,806</u>	<u>16,678,273</u>	<u>17,340,640</u>
<u>\$864,697</u>	<u>\$146,968</u>	<u>\$259,472</u>	<u>\$929,549</u>	<u>\$563,024</u>	<u>\$18,594,971</u>	<u>\$17,858,375</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND**  
**For The Year Ended December 31, 2012**  
**With Comparative Totals For The Year Ended December 31, 2011**

	<u>1.0 Floodplain Management</u>	<u>2.0 Stormwater Management</u>	<u>3.0 Water Quality</u>	<u>4.0 Wetlands</u>	<u>5.0 Natural Resources</u>
<b>Revenues:</b>					
Property taxes	\$2,380	\$22,808	\$157,906	\$3,174	\$2,380
Stormwater utility fees	41,532	1,095,071	201,364	-	40,675
<b>Intergovernmental:</b>					
Market value homestead credit	-	11	78	-	3
Other	-	935,448	78,323	-	-
Investment income	22	7,917	244	-	32
Miscellaneous	-	-	-	-	8,008
Total revenues	<u>43,934</u>	<u>2,061,255</u>	<u>437,915</u>	<u>3,174</u>	<u>51,098</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Legal	-	7,842	-	-	-
Engineering	36,857	120,952	-	-	-
Salaries and benefits	-	11,919	-	-	4,636
Projects and studies	-	3,018,993	380,086	-	7,866
<b>Capital outlay:</b>					
Land	-	-	-	-	-
Total expenditures	<u>36,857</u>	<u>3,159,706</u>	<u>380,086</u>	<u>0</u>	<u>12,502</u>
Revenues over (under) expenditures	<u>7,077</u>	<u>(1,098,451)</u>	<u>57,829</u>	<u>3,174</u>	<u>38,596</u>
<b>Other financing sources (uses):</b>					
Debt issued	-	-	-	-	-
Premium on debt issued	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	7,077	(1,098,451)	57,829	3,174	38,596
Fund balance - January 1	<u>245,885</u>	<u>13,148,375</u>	<u>1,120,133</u>	<u>203,240</u>	<u>534,711</u>
Fund balance - December 31	<u>\$252,962</u>	<u>\$12,049,924</u>	<u>\$1,177,962</u>	<u>\$206,414</u>	<u>\$573,307</u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2012	2011
					\$2,380	\$3,174
85,580	-	-	537,238	-	2,001,460	2,013,204
1	2	20	13	95	223	18,847
-	-	-	-	-	1,013,771	-
60	2	27	381	133	8,818	1,239
-	-	-	-	5,025	13,033	18,012
<u>88,021</u>	<u>3,178</u>	<u>40,019</u>	<u>564,318</u>	<u>198,357</u>	<u>3,491,269</u>	<u>2,481,760</u>
-	-	-	-	-	7,842	33,659
-	-	-	-	-	157,809	205,140
2,337	-	-	-	-	18,892	-
150	2,638	32,051	335,170	192,139	3,969,093	1,381,696
-	-	-	-	-	-	911,478
<u>2,487</u>	<u>2,638</u>	<u>32,051</u>	<u>335,170</u>	<u>192,139</u>	<u>4,153,636</u>	<u>2,531,973</u>
<u>85,534</u>	<u>540</u>	<u>7,968</u>	<u>229,148</u>	<u>6,218</u>	<u>(662,367)</u>	<u>(50,213)</u>
-	-	-	-	-	-	3,945,000
-	-	-	-	-	-	36,802
-	-	-	-	-	-	(110,000)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,871,802</u>
85,534	540	7,968	229,148	6,218	(662,367)	3,821,589
779,108	146,354	245,829	441,417	475,588	17,340,640	13,519,051
<u>\$864,642</u>	<u>\$146,894</u>	<u>\$253,797</u>	<u>\$670,565</u>	<u>\$481,806</u>	<u>\$16,678,273</u>	<u>\$17,340,640</u>

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**OTHER INFORMATION - UNAUDITED**

**SOUTH WASHINGTON WATERSHED DISTRICT**

**COMBINED SCHEDULE OF INDEBTEDNESS**

December 31, 2012

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	<u>Interest Rates</u>	<u>Date</u>	<u>Final Maturity Date</u>
General Obligation Bonds:			
Crossover Refunding Bonds of 2007A	4.00%	12/27/2007	3/1/2017
G.O. Bonds of 2011A	3.47%	5/1/2011	3/1/2031
 Total			

Prior Years		Payable 01/01/12	2012		Payable 12/31/12	Principal Due In 2013	Interest Due In 2013	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$2,795,000	\$ -	\$2,795,000	\$ -	\$420,000	\$2,375,000	\$435,000	\$91,050	\$257,375
3,945,000	-	3,945,000	-	-	3,945,000	110,000	124,720	1,527,485
<u>\$6,740,000</u>	<u>\$0</u>	<u>\$6,740,000</u>	<u>\$0</u>	<u>\$420,000</u>	<u>\$6,320,000</u>	<u>\$545,000</u>	<u>\$215,770</u>	<u>\$1,784,860</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**TAXABLE VALUATIONS, TAX LEVIES AND TAX RATES**

**Exhibit 2**

	Tax Capacity Values <u>2012/2013</u>	Tax Capacity Values <u>2011/2012</u>	Tax Capacity Values <u>2010/2011</u>	Tax Capacity Values <u>2009/2010</u>
<b>Taxable valuations:</b>				
Real estate	\$88,701,090	\$93,765,826	\$96,742,840	\$108,945,124
Personal property	2,003,137	1,860,021	1,770,113	1,631,473
Total	<u>90,704,227</u>	<u>95,625,847</u>	<u>98,512,953</u>	<u>110,576,597</u>
Tax increment captured	(1,127,089)	(1,271,066)	(1,487,755)	(2,290,266)
<b>Fiscal disparities:</b>				
Distribution	11,981,051	13,296,859	13,581,898	13,419,857
Contribution	<u>(8,488,654)</u>	<u>(8,322,319)</u>	<u>(8,965,457)</u>	<u>(9,312,661)</u>
Total	<u>\$93,069,535</u>	<u>\$99,329,321</u>	<u>\$101,641,639</u>	<u>\$112,393,527</u>
	2012/2013	2011/2012	2010/2011	2009/2010
	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>
<b>Taxes levied:</b>				
Administration levy	\$250,000	\$250,000	\$239,856	\$233,003
Management plan implementation levy	<u>468,025</u>	<u>461,044</u>	<u>447,423</u>	<u>454,358</u>
Total	<u>\$718,025</u>	<u>\$711,044</u>	<u>\$687,279</u>	<u>\$687,361</u>

## **OTHER REPORTS**

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## REPORT ON INTERNAL CONTROL

To the Board of Managers and Management  
South Washington Watershed District  
Woodbury, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of South Washington Watershed District as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered South Washington 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 South Washington Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Washington 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 and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency in the South Washington Watershed District's internal control as described in the accompanying Schedule of Findings and Responses, as item 2012-2 to be a material weakness.

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. We consider the deficiency in the South Washington Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as item 2012-1 to be a significant deficiency.

South Washington Watershed District  
Report on Internal Control

South Washington Watershed District's written response to the significant deficiency identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the South Washington Watershed District's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the South Washington Watershed District's management, members of the Board, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

May 17, 2013



South Washington Watershed District  
Report on Internal Control  
Schedule of Findings and Responses

**2012-1 Lack of Segregation of Duties**

*Criteria:* Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, has physical access to the related assets, and has responsibility or authority to record the transaction.

*Condition:* Substantially all accounting procedures are performed one person.

*Cause:* This condition is common to organizations of this size due to a limited number of staff.

*Effect:* The lack of ideal segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner.

*Recommendation:* Any modification of internal controls in this area needs to be viewed from a cost/benefit perspective.

*Management Response:* The District has internal control policies and procedures in place to adequately compensate for the lack of segregation of duties, such as having all disbursements reviewed and approved by staff, administration, and the Board. Any modifications will be viewed from a cost/benefit perspective.

South Washington Watershed District  
Report on Internal Control  
Schedule of Findings and Responses

## **2012-2 Audit Adjustments**

*Criteria:* Audit standards specify that a correction of the financial statements that could occur and not be detected by the District's controls be considered a deficiency in internal control.

*Condition:* During the course of our audit, we identified an unrecorded receivable in the amount of \$380,000. We also identified \$41,255 of recognized grant revenue that had not been earned in 2012. Both of these misstatements were corrected.

*Cause:* The District's closing and review procedures were not effective in identifying and correcting these misstatements.

*Effect:* By not having effective closing and review controls, there is an increased risk that financial statement misstatements could occur.

*Recommendation:* We recommend the District staff continue efforts to assure that all adjustments are identified in the year end closing process.

*Management's Response:* The District has internal control policies and procedures in place to adequately address corrections of financial statements. Management understands that the finding is material due to the amount and that the Audit does not serve as an internal control. Through the 2012 Audit process the District has gained a more clear understanding to intergovernmental, deferred, earned and unearned revenue. The District consulted with HLB Tautges Redpath, Ltd. during 2012 regarding classification of grant funds and intergovernmental payments. This resulted in the District accounting of 2012 Newport payment of \$20,000 as revenue and not for \$380,000 in deferred revenue. Grant funds of \$41,255 were accounted as revenue but not unearned revenue.

Each item placed on the monthly Board agenda includes a budget analysis, funding recommendation and financial implications. The District will adjust its internal controls to more clearly define financial implications for Board action between accounts receivable and accounts payable.



REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE  
AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

To the Board of Managers  
South Washington Watershed District  
Woodbury, Minnesota

We have audited the basic financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2012 and have issued our report thereon dated May 17, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the South Washington Watershed District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the South Washington Watershed District's management, members of the Board and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*A & B Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

May 17, 2013

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## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Managers  
South Washington Watershed District  
Woodbury, Minnesota

We have audited the financial statements of the governmental activities and each major fund of South Washington Watershed District (the District) as of and for the year ended December 31, 2012, and have issued our report thereon dated May 17, 2013. 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 January 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Results**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The District does not have any particularly sensitive disclosures in its financial statements. The financial statement disclosures are neutral, consistent and clear.

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

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole. The following misstatements detected is a result of audit procedures were corrected by management:

- A grant receivable in the amount of \$41,255 was recorded to deferred revenue.
- A receivable and deferred revenue in the amount of \$380,000 was recorded.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 17, 2013.

### **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 to our retention.

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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. With respect to other information accompanying the financial statements, we evaluated the form, content, and methods of preparing it has not changed from the prior period and the information is appropriate.

**Other Reports**

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

**Closing**

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

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

May 17, 2013

The following table lists audit differences exceeding: \$ 1,000

Description (Nature) of Audit Difference	Known (K) or Likely (L)	W/P Ref.	Financial Statement Effect - Amount of Over (Under) Statement of:						
			Total Assets	Total Liabilities	Equity	Working Capital	Income Before Taxes	Revenues	Expenditures
Payables recorded for 2013 items	Known	5100.02	\$ -	\$5,394	(\$5,394)	\$ -	\$ -	\$ -	\$5,394
Total Unadjusted Audit Differences - Current Year			-	5,394	(5,394)	-	-	-	5,394
Effect of Unadjusted Audit Differences - Prior Year									(3,070)
Net Audit Differences			\$ -	\$5,394	(\$5,394)	\$ -	\$ -	\$ -	\$2,324