

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2008

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SOUTH WASHINGTON WATERSHED DISTRICT
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INTRODUCTORY SECTION

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SOUTH WASHINGTON WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2008

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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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

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 the South Washington Watershed District as of and for the year ended December 31, 2008 which collectively comprise the South Washington Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Washington Watershed District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the South Washington Watershed District as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The South Washington Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information on pages 34 and 35, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Washington Watershed District's basic financial statements. The introductory section, individual fund financial statements and supplementary financial information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and supplementary financial information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 4, 2009

BASIC FINANCIAL STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2008

Statement 1

	Governmental Activities	
	2008	2007
Assets:		
Cash and investments	\$10,357,770	\$8,374,304
Cash and investments with escrow agent	2,905,202	2,858,118
Accounts receivable - net	-	3,180
Accrued interest receivable	45,874	-
Taxes receivable:		
Delinquent	119,346	93,878
Due from county	39,125	52,163
Prepaid items	1,420	5,500
Deferred charges	42,757	47,993
Capital assets - net:		
Depreciable	707,156	723,064
Nondepreciable	7,444,970	7,444,970
Total assets	<u>21,663,620</u>	<u>19,603,170</u>
Liabilities:		
Accounts payable	32,587	88,765
Accrued interest payable	100,116	95,245
Unamortized bond premium	91,490	102,693
Compensated absences payable:		
Due within one year	4,373	2,969
Bonds payable:		
Due within one year	365,000	350,000
Due in more than one year	6,390,000	6,755,000
Total liabilities	<u>6,983,566</u>	<u>7,394,672</u>
Net assets:		
Invested in capital assets, net of related debt	4,100,636	3,755,341
Restricted for:		
Debt Service	118,517	34,989
Unrestricted	10,460,901	8,418,168
Total net assets	<u>\$14,680,054</u>	<u>\$12,208,498</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2008	2007
Primary government:						
Governmental activities:						
General government	\$245,312	\$ -	\$ -	\$ -	(\$245,312)	(\$225,830)
Programs	153,430	-	-	-	(153,430)	(276,447)
Projects	199,250	2,294,358	-	-	2,095,108	1,770,773
Interest on long-term debt	272,141	-	-	-	(272,141)	(229,671)
Total governmental activities	<u>\$870,133</u>	<u>\$2,294,358</u>	<u>\$0</u>	<u>\$0</u>	<u>1,424,225</u>	<u>1,038,825</u>
General revenues:						
Property taxes					635,231	548,128
Grants and contributions not restricted to specific programs					22,352	20,551
Unrestricted investment earnings					376,639	347,931
Miscellaneous other					13,109	11,714
Total general revenues					<u>1,047,331</u>	<u>928,324</u>
Change in net assets					2,471,556	1,967,149
Net assets - January 1, as previously reported					<u>12,208,498</u>	<u>10,241,349</u>
Net assets - December 31					<u>\$14,680,054</u>	<u>\$12,208,498</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008

Statement 3

Assets	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2008	2007
Cash and investments	\$289,096	\$10,048,874	\$19,800	\$10,357,770	\$8,374,304
Cash and investments with escrow agent	-	-	2,905,202	2,905,202	2,858,118
Accounts receivable - net	-	-	-	-	3,180
Accrued interest receivable	-	-	45,874	45,874	-
Taxes receivable:					
Delinquent	5,155	114,191	-	119,346	93,878
Due from county	3,012	36,113	-	39,125	52,163
Prepaid items	1,420	-	-	1,420	5,500
Total assets	<u>\$298,683</u>	<u>\$10,199,178</u>	<u>\$2,970,876</u>	<u>\$13,468,737</u>	<u>\$11,387,143</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$12,408	\$20,179	\$ -	\$32,587	\$88,765
Deferred revenue	5,155	114,191	-	119,346	93,878
Total liabilities	<u>17,563</u>	<u>134,370</u>	<u>0</u>	<u>151,933</u>	<u>182,643</u>
Fund balance:					
Reserved for:					
Prepaid items	1,420	-	-	1,420	5,500
Debt service	-	-	2,970,876	2,970,876	2,877,241
Unreserved:					
Designated:					
General Fund	279,700	-	-	279,700	271,228
Special Revenue Fund	-	10,064,808	-	10,064,808	8,050,531
Total fund balance	<u>281,120</u>	<u>10,064,808</u>	<u>2,970,876</u>	<u>13,316,804</u>	<u>11,204,500</u>
Total liabilities and fund balance	<u>\$298,683</u>	<u>\$10,199,178</u>	<u>\$2,970,876</u>	<u>\$13,468,737</u>	<u>\$11,387,143</u>
Fund balance reported above				\$13,316,804	\$11,204,500
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.					
				8,152,126	8,168,034
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					
				119,346	93,878
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					
				(6,908,222)	(7,257,914)
Net assets of governmental activities				<u>\$14,680,054</u>	<u>\$12,208,498</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, 2008

Statement 4

	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2008	2007
Revenues:					
General property taxes	\$223,604	\$386,159	\$ -	\$609,763	\$519,688
Stormwater utility fees	-	1,753,298	541,060	2,294,358	2,094,767
Intergovernmental	1,721	20,631	-	22,352	20,551
Investment income	15,029	180,166	181,444	376,639	347,931
Other	455	12,654	-	13,109	11,714
Total revenues	<u>240,809</u>	<u>2,352,908</u>	<u>722,504</u>	<u>3,316,221</u>	<u>2,994,651</u>
Expenditures:					
Current:					
General government	236,417	2,255	-	238,672	225,679
Programs	-	153,430	-	153,430	276,447
Projects	-	182,946	-	182,946	308,085
Debt service:					
Principal retirement	-	-	350,000	350,000	340,000
Interest	-	-	278,473	278,473	204,953
Professional services	-	-	396	396	47,993
Total expenditures	<u>236,417</u>	<u>338,631</u>	<u>628,869</u>	<u>1,203,917</u>	<u>1,403,157</u>
Revenues over expenditures	<u>4,392</u>	<u>2,014,277</u>	<u>93,635</u>	<u>2,112,304</u>	<u>1,591,494</u>
Other financing sources:					
Bond premium	-	-	-	-	102,693
Refunding bonds issued	-	-	-	-	2,795,000
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,897,693</u>
Net change in fund balance	4,392	2,014,277	93,635	2,112,304	4,489,187
Fund balance - January 1	<u>276,728</u>	<u>8,050,531</u>	<u>2,877,241</u>	<u>11,204,500</u>	<u>6,715,313</u>
Fund balance - December 31	<u>\$281,120</u>	<u>\$10,064,808</u>	<u>\$2,970,876</u>	<u>\$13,316,804</u>	<u>\$11,204,500</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, 2008

Statement 5

	<u>2008</u>	<u>2007</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)	\$2,112,304	\$4,489,187
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	25,468	28,440
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)	(15,909)
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 assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Issuance of refunding bonds	-	(2,795,000)
Premium on refunding bonds	-	(102,693)
Bond issuance costs	-	47,993
Principal retirement	350,000	340,000
Amortization of deferred charges	(5,236)	-
Amortization of bond premium	11,203	-
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>(6,275)</u>	<u>(24,869)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$2,471,556</u></u>	<u><u>\$1,967,149</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

The District was 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 purpose of the District is to promote public health, safety and welfare and enable its affected area to eventually come into compliance with Minnesota Statutes Section 103B.201 to 103B.255, also known as the Metropolitan Water Management Act. 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 generally accepted accounting principles, 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 assets 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 government 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 government.

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.

Debt Service Fund - is established to account for the accumulation of resources for, and the payment of principal, interest and related costs of the \$5,875,000 General Obligation Bonds of 2002 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, 2008

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 generally accepted accounting principles. 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 because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

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. 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. Investment income is accrued at the balance sheet date.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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.

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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

K. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government 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.

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

Infrastructure	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 assets. 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 EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

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 vacation and sick pay benefits. All vacation and sick pay 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.

P. USE OF ESTIMATES

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

Q. RECLASSIFICATIONS

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

R. 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 ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. 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 (\$6,908,222) difference are as follows:

Bonds payable	(\$6,755,000)
Accrued interest payable	(100,116)
Compensated absences	(4,373)
Deferred charges	42,757
Unamortized bond premium	<u>(91,490)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>(\$6,908,222)</u></u>

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 assets 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 \$25,468 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2007	(\$93,878)
At December 31, 2008	<u>119,346</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>\$25,468</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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:

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

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 (\$6,275) difference are as follows:

Accrued interest payable:	
At December 31, 2007	\$95,245
At December 31, 2008	(100,116)
Compensated absences payable:	
At December 31, 2007	2,969
At December 31, 2008	<u>(4,373)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>(\$6,275)</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;

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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

The District does not have deposits at December 31, 2008.

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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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.

As of December 31, 2008, 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
Federal Home Loan Bank	AAA	\$207,751	\$ -	\$207,751	\$ -	\$ -
Federal National Mortgage Association	AAA	2,654,680	-	2,654,680	-	-
US Treasury State and Local Governments (SLGS)	N/A	42,771	-	42,771	-	-
External investment pool - 4M fund	N/A	10,357,770	10,357,770	-	-	-
Total		<u>\$13,262,972</u>	<u>\$10,357,770</u>	<u>\$2,905,202</u>	<u>\$0</u>	<u>\$0</u>
Total investments						<u>\$13,262,972</u>

Following is a reconciliation of the District's cash and investment balances as of December 31, 2008:

Cash and investments	\$10,357,770
Cash and investments with escrow agent	<u>2,905,202</u>
	<u>\$13,262,972</u>

Credit Risk. 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. 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. The District does not have an investment policy which addresses the concentration of credit risk. More than 5% of the District's investments are in various holdings as follows:

Federal Home Loan Bank	1.57%
Federal National Mortgage Association	20.02%

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008, \$10,357,770 of the District's \$13,262,972 of investments were invested in an external investment pool. Investments in external investment pools are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The remaining investments of \$2,905,202 were held in the District's name in a trust account.

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2008 are as follows:

	<u>Major General Funds</u>	<u>Major Planning and Implementation</u>	<u>Total</u>
Delinquent property taxes	<u>\$2,914</u>	<u>\$64,541</u>	<u>\$67,455</u>

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)	\$5,155	\$ -
Delinquent property taxes receivable (Planning and Implementation Fund)	114,191	-
Total	<u>\$119,346</u>	<u>\$0</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 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>\$7,444,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,444,970</u>
Capital assets, being depreciated:				
Infrastructure	<u>793,070</u>	<u>-</u>	<u>-</u>	<u>793,070</u>
Less accumulated depreciation for:				
Infrastructure	<u>70,006</u>	<u>15,908</u>	<u>-</u>	<u>85,914</u>
Total capital assets being depreciated - net	<u>723,064</u>	<u>(15,908)</u>	<u>-</u>	<u>707,156</u>
Governmental activities capital assets - net	<u><u>\$8,168,034</u></u>	<u><u>(\$15,908)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,152,126</u></u>

Depreciation expense was charged to function/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, 2008

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 refund the 2002 bond on March 1, 2010.

GOVERNMENTAL ACTIVITIES

As of December 31, 2008, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/08
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2010	\$5,875,000	\$3,960,000
\$2,795,000 Refunding Bonds 2007A	4.00%	12/27/2007	3/1/2017	2,795,000	2,795,000
Total general obligation bonds				<u>8,670,000</u>	<u>6,755,000</u>
Compensated absences payable				-	4,373
Total indebtedness - governmental activities				<u>\$8,670,000</u>	<u>\$6,759,373</u>

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
2009	\$365,000	\$176,042	\$ -	\$116,550
2010	3,595,000	84,142	-	116,550
2011	-	-	-	116,550
2012	-	-	420,000	108,150
2013	-	-	435,000	91,050
2014	-	-	455,000	73,250
2015	-	-	475,000	52,275
2016	-	-	495,000	30,500
2017	-	-	515,000	10,300
Total	<u>\$3,960,000</u>	<u>\$260,184</u>	<u>\$2,795,000</u>	<u>\$715,175</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	\$4,310,000	\$ -	\$350,000	\$3,960,000	\$365,000
\$2,795,000 Refunding Bonds 2007A	2,795,000	-	-	2,795,000	-
Total general obligation bonds	<u>7,105,000</u>	<u>0</u>	<u>350,000</u>	<u>6,755,000</u>	<u>365,000</u>
Compensated absences payable	<u>\$2,969</u>	<u>\$7,351</u>	<u>(\$5,947)</u>	<u>\$4,373</u>	<u>\$4,373</u>

All long-term bonded indebtedness outstanding at December 31, 2008 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

CROSSOVER REFUNDING

Series 2007A – On December 27, 2007, the District issued \$2,795,000 in General Obligation Crossover Refunding Bonds, Series 2007A with an average interest rate of 4.18% to refund \$2,810,000 of outstanding 2002 Series Bonds with an average interest rate of 4.5%. The net proceeds of \$2,857,046 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the interest on the refunding bonds before the crossover date and called principal on the refunded bonds on March 1, 2010.

The District refunded the 2002 Series Bonds to reduce its total debt service payments over the next 10 years by \$100,995 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$82,263.

The District is responsible for the debt service of the refunded bonds through the crossover date (March 1, 2010) and the debt service of the refunding bonds after the crossover date. The District is also responsible for the September 1, 2010, March 1, 2011 and September 1, 2011 debt service of the refunded bonds. The debt service of the refunding bonds before the crossover date is payable from the escrow account. Assets held with the escrow agent total \$2,905,202 at December 31, 2008.

The financial statements present each bond issue and the escrow account assets pursuant to GASB No. 7. The effect on the financial statements is to report greater debt than, in substance, the District will be responsible for paying.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

The Refunding Bonds of 2007A are crossover refunding bonds whereby the District and the escrow agent are responsible for debt service payments as follows:

Payment Date	Refunded	Refunding	Debt Service Commitment	
	Bonds Total	Bonds Total	Escrow Account	District
3/1/2009	\$456,899	\$58,275	\$58,275	\$456,899
9/1/2009	84,142	58,275	58,275	84,142
3/1/2010	3,279,143	58,275	2,868,275	469,143
9/1/2010	8,900	58,275	-	67,175
3/1/2011	408,900	58,275	-	467,175
9/1/2011	-	58,275	-	58,275
3/1/2012	-	478,275	-	478,275
9/1/2012	-	49,875	-	49,875
3/1/2013	-	484,875	-	484,875
9/1/2013	-	41,175	-	41,175
3/1/2014	-	496,175	-	496,175
9/1/2014	-	32,075	-	32,075
3/1/2015	-	507,075	-	507,075
9/1/2015	-	20,200	-	20,200
3/1/2016	-	515,200	-	515,200
9/1/2016	-	10,300	-	10,300
3/1/2017	-	525,300	-	525,300
Total	<u>\$4,237,984</u>	<u>\$3,510,175</u>	<u>\$2,984,825</u>	<u>\$4,763,334</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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 2008.

B. LITIGATION

The District's attorney 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 Public Employees Retirement Fund (PERF) 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.

PERF 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 PERF and PEPFF. That report may be obtained on the internet at 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, 2008

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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.50% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.75%, effective January 1, 2009. The District's contributions for the years ending December 31, 2008, 2007 and 2006 were \$6,742, \$5,329 and \$4,481, respectively, equal to the contractually required contributions for the years as set by state statute.

Note 8 DESIGNATIONS OF FUND EQUITY

At December 31, 2008 and 2007, the District had the following fund equity reservations and designations:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
General Fund:		
Reserved for prepaid items	\$1,420	\$5,500
Designated for cash flow	279,700	271,228
Special Revenue Fund:		
Designated for Watershed plan implementation	10,064,808	8,050,531
Debt Service Fund:		
Reserved for debt service	<u>2,970,876</u>	<u>2,877,241</u>
Total	<u>\$13,316,804</u>	<u>\$11,204,500</u>

Note 9 STORMWATER UTILITY FEES

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

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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, 2008
 With Comparative Actual Amounts For The Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget - Positive (Negative)	2007 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$225,844	\$225,844	\$223,604	(\$2,240)	\$184,031
Intergovernmental - MVHC	1,721	1,721	1,721	-	1,249
Investment income	-	-	15,029	15,029	20,629
Other	-	-	455	455	712
Total revenues	<u>227,565</u>	<u>227,565</u>	<u>240,809</u>	<u>13,244</u>	<u>206,621</u>
Expenditures:					
Current:					
Legal	6,400	6,400	6,235	165	6,306
Accounting and auditing	20,800	20,800	26,613	(5,813)	19,890
Salary and benefits	112,009	112,009	119,680	(7,671)	97,263
Contracted services	24,916	24,916	24,916	-	43,901
Manager's per diem and expenses	18,000	18,000	23,127	(5,127)	14,747
Insurance	9,600	9,600	9,501	99	9,817
Dues	3,500	3,500	2,475	1,025	3,365
Rent	24,840	24,840	18,185	6,655	11,215
Equipment	5,000	5,000	-	5,000	3,328
Office supplies and other	2,500	2,500	5,685	(3,185)	2,908
Total expenditures	<u>227,565</u>	<u>227,565</u>	<u>236,417</u>	<u>(8,852)</u>	<u>212,740</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	4,392	<u>\$4,392</u>	(6,119)
Fund balance - January 1			<u>276,728</u>		<u>282,847</u>
Fund balance - December 31			<u>\$281,120</u>		<u>\$276,728</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2008

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 STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
GENERAL FUND
December 31, 2008
With Comparative Amounts For December 31, 2007

Statement 7

Assets	<u>2008</u>	<u>2007</u>
Cash and investments	\$289,096	\$282,155
Taxes receivable:		
Delinquent	5,155	3,154
Due from county	3,012	3,169
Prepaid items	<u>1,420</u>	<u>5,500</u>
 Total assets	 <u><u>\$298,683</u></u>	 <u><u>\$293,978</u></u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$12,408	\$14,096
Deferred revenue	5,155	3,154
Total liabilities	<u>17,563</u>	<u>17,250</u>
Fund balance:		
Reserved for prepaid item	1,420	5,500
Unreserved:		
Designated for cash flow	279,700	271,228
Total fund balance	<u>281,120</u>	<u>276,728</u>
 Total liabilities and fund balance	 <u><u>\$298,683</u></u>	 <u><u>\$293,978</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2008
With Comparative Amounts For The Year Ended December 31, 2007

Statement 8

	<u>2008</u>	<u>2007</u>
Revenues:		
General property taxes	\$223,604	\$184,031
Intergovernmental - MVHC	1,721	1,249
Investment income	15,029	20,629
Other	455	712
Total revenues	<u>240,809</u>	<u>206,621</u>
Expenditures:		
Current:		
Professional services:		
Legal	6,235	6,306
Accounting and auditing	26,613	19,890
Salary and benefits	119,680	97,263
Secretarial services	24,916	43,901
Manager's per diem and expenses	23,127	14,747
Insurance	9,501	9,817
Dues	2,475	3,365
Rent	18,185	11,215
Equipment	-	3,328
Office supplies and other	5,685	2,908
Total expenditures	<u>236,417</u>	<u>212,740</u>
Revenues over (under) expenditures	4,392	(6,119)
Fund balance - January 1	<u>276,728</u>	<u>282,847</u>
Fund balance - December 31	<u><u>\$281,120</u></u>	<u><u>\$276,728</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
PLANNING AND IMPLEMENTATION FUND
December 31, 2008
With Comparative Amounts For December 31, 2007

Statement 9

	<u>2008</u>	<u>2007</u>
Assets		
Cash and investments	\$10,048,874	\$8,073,026
Accounts receivable	-	3,180
Taxes receivable:		
Delinquent	114,191	90,724
Due from county	<u>36,113</u>	<u>48,994</u>
Total assets	<u><u>\$10,199,178</u></u>	<u><u>\$8,215,924</u></u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$20,179	\$74,669
Deferred revenue	<u>114,191</u>	<u>90,724</u>
Total liabilities	<u><u>\$134,370</u></u>	<u><u>\$165,393</u></u>
Fund balance:		
Unreserved:		
Designated for watershed plan implementation	<u>10,064,808</u>	<u>8,050,531</u>
Total fund balance	<u><u>10,064,808</u></u>	<u><u>8,050,531</u></u>
Total liabilities and fund balance	<u><u>\$10,199,178</u></u>	<u><u>\$8,215,924</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, 2008
With Comparative Amounts For The Year Ended December 31, 2007

Statement 10

	<u>2008</u>	<u>2007</u>
Revenues:		
General property taxes	\$386,159	\$335,657
Stormwater utility fee	1,753,298	1,549,814
Intergovernmental:		
Market value homestead credit	20,631	19,302
Investment income	180,166	318,884
Other	12,654	11,002
Total revenues	<u>2,352,908</u>	<u>2,234,659</u>
Expenditures:		
Current:		
Professional services:		
Legal	84	4,549
Engineering	107,084	215,966
Projects and studies	231,463	376,956
Total expenditures	<u>338,631</u>	<u>597,471</u>
Revenues over expenditures	2,014,277	1,637,188
Fund balance - January 1	<u>8,050,531</u>	<u>6,413,343</u>
Fund balance - December 31	<u><u>\$10,064,808</u></u>	<u><u>\$8,050,531</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
DEBT SERVICE FUND
December 31, 2008
With Comparative Amounts For December 31, 2007

Statement 11

	<u>2008</u>	<u>2007</u>
Assets		
Cash and investments	\$19,800	\$19,123
Cash and investments with escrow agent	2,905,202	2,858,118
Accrued interest receivable	<u>45,874</u>	<u>-</u>
Total assets	<u><u>\$2,970,876</u></u>	<u><u>\$2,877,241</u></u>
Liabilities and Fund Balance		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balance:		
Reserved for debt service	<u>2,970,876</u>	<u>2,877,241</u>
Total liabilities and fund balance	<u><u>\$2,970,876</u></u>	<u><u>\$2,877,241</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, 2008
With Comparative Amounts For The Year Ended December 31, 2007

Statement 12

	<u>2008</u>	<u>2007</u>
Revenues:		
Stormwater utility fee	\$541,060	\$544,953
Investment income	181,444	8,418
Total revenues	<u>722,504</u>	<u>553,371</u>
Expenditures:		
Debt service:		
Principal	350,000	340,000
Interest	278,473	204,953
Professional services	396	47,993
Total expenditures	<u>628,869</u>	<u>592,946</u>
Revenues over (under) expenditures	<u>93,635</u>	<u>(39,575)</u>
Other financing sources:		
Refunding bonds issued	-	2,795,000
Bond premium	-	102,693
Total other financing sources	<u>0</u>	<u>2,897,693</u>
Net change in fund balance	93,635	2,858,118
Fund balance - January 1	<u>2,877,241</u>	<u>19,123</u>
Fund balance - December 31	<u><u>\$2,970,876</u></u>	<u><u>\$2,877,241</u></u>

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SUPPLEMENTARY FINANCIAL INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT

COMBINED SCHEDULE OF INDEBTEDNESS

December 31, 2008

	<u>Interest Rates</u>	<u>Date</u>	<u>Final Maturity Date</u>
General Obligation Bonds:			
G.O. Bonds of 2002	4.75%	1/29/2002	3/1/2010
Crossover Refunding Bonds of 2007A	4.00%	12/27/2007	3/1/2017

Prior Years		Payable 01/01/08	2008		Payable 12/31/08	Principal Due In 2009	Interest Due In 2009	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$1,565,000	\$4,310,000	\$ -	\$350,000	\$3,960,000	\$365,000	\$176,042	\$260,184
2,795,000	-	2,795,000	-	-	2,795,000	-	116,550	715,175

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

Exhibit 2

	Tax Capacity Values <u>2008/2009</u>	Tax Capacity Values <u>2007/2008</u>	Tax Capacity Values <u>2006/2007</u>
Taxable valuations:			
Real estate	\$108,921,442	\$105,135,946	\$98,369,959
Personal property	1,097,462	1,077,831	1,116,847
Total	<u>110,018,904</u>	<u>106,213,777</u>	<u>99,486,806</u>
Tax increment captured	(2,315,511)	(1,938,319)	(1,928,993)
Fiscal disparities:			
Distribution	12,452,678	10,816,723	9,316,156
Contribution	<u>(8,035,111)</u>	<u>(7,105,726)</u>	<u>(5,514,753)</u>
Total	<u>\$112,120,960</u>	<u>\$107,986,455</u>	<u>\$101,359,216</u>
	2008/2009	2007/2008	2006/2007
	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>
Taxes levied:			
Administration levy	\$233,387	\$227,565	\$182,108
Management plan implementation levy	<u>488,835</u>	<u>393,000</u>	<u>361,390</u>
Total	<u>\$722,222</u>	<u>\$620,565</u>	<u>\$543,498</u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
December 31, 2008
With Comparative Amounts For December 31, 2007

	<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>
Assets					
Cash and investments	\$100,000	\$7,486,689	\$756,410	\$80,000	\$398,511
Accounts receivable	-	-	-	-	-
Taxes receivable:					
Delinquent	-	-	-	-	-
Due from county	-	25,748	3,209	-	1,324
Total assets	<u>\$100,000</u>	<u>\$7,512,437</u>	<u>\$759,619</u>	<u>\$80,000</u>	<u>\$399,835</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ -	\$ -	\$8,600	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Total liabilities	<u>0</u>	<u>0</u>	<u>8,600</u>	<u>0</u>	<u>0</u>
Fund balance:					
Unreserved:					
Designated	<u>100,000</u>	<u>7,512,437</u>	<u>751,019</u>	<u>80,000</u>	<u>399,835</u>
Total liabilities and fund balance	<u>\$100,000</u>	<u>\$7,512,437</u>	<u>\$759,619</u>	<u>\$80,000</u>	<u>\$399,835</u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2008	2007
					\$524,593	\$106,025
-	-	-	-	-	-	3,180
-	-	-	-	114,191	114,191	90,724
1,125	330	826	248	3,303	36,113	48,994
<u>\$525,718</u>	<u>\$106,355</u>	<u>\$195,009</u>	<u>\$99,158</u>	<u>\$421,047</u>	<u>\$10,199,178</u>	<u>\$8,215,924</u>
\$ -	\$ -	\$5,000	\$ -	\$6,579	\$20,179	\$74,669
-	-	-	-	114,191	114,191	90,724
<u>0</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>120,770</u>	<u>134,370</u>	<u>165,393</u>
<u>525,718</u>	<u>106,355</u>	<u>190,009</u>	<u>99,158</u>	<u>300,277</u>	<u>10,064,808</u>	<u>8,050,531</u>
<u>\$525,718</u>	<u>\$106,355</u>	<u>\$195,009</u>	<u>\$99,158</u>	<u>\$421,047</u>	<u>\$10,199,178</u>	<u>\$8,215,924</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, 2008
With Comparative Amounts For The Year Ended December 31, 2007

	<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>
Revenues:					
Property taxes	\$ -	\$ -	\$36,777	\$ -	\$ -
Stormwater utility fee	-	1,370,086	201,432	-	98,259
Intergovernmental:					
Market value homestead credit	-	14,709	1,833	-	756
Investment income	-	128,454	16,011	-	6,604
Miscellaneous	-	9,058	-	-	3,596
Total revenues	<u>0</u>	<u>1,522,307</u>	<u>256,053</u>	<u>0</u>	<u>109,215</u>
Expenditures:					
Current:					
Legal	-	84	-	-	-
Engineering	-	21,048	-	-	-
Projects and studies	-	813	50,007	-	2,255
Total expenditures	<u>0</u>	<u>21,945</u>	<u>50,007</u>	<u>0</u>	<u>2,255</u>
Revenues over (under) expenditures	<u>0</u>	<u>1,500,362</u>	<u>206,046</u>	<u>0</u>	<u>106,960</u>
Other financing sources (uses):					
Transfers in	100,000	-	-	80,000	-
Transfers out	-	(410,890)	-	-	-
Total other financing sources (uses)	<u>100,000</u>	<u>(410,890)</u>	<u>0</u>	<u>80,000</u>	<u>0</u>
Net change in fund balance	100,000	1,089,472	206,046	80,000	106,960
Fund balance - January 1	<u>-</u>	<u>6,422,965</u>	<u>544,973</u>	<u>-</u>	<u>292,875</u>
Fund balance - December 31	<u><u>\$100,000</u></u>	<u><u>\$7,512,437</u></u>	<u><u>\$751,019</u></u>	<u><u>\$80,000</u></u>	<u><u>\$399,835</u></u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2008	2007
					\$ -	\$24,518
83,521	-	-	-	-	1,753,298	1,549,814
643	189	472	142	1,887	20,631	19,302
5,614	1,648	4,120	1,236	16,479	180,166	318,884
-	-	-	-	-	12,654	11,002
<u>89,778</u>	<u>26,355</u>	<u>65,886</u>	<u>19,767</u>	<u>263,547</u>	<u>2,352,908</u>	<u>2,234,659</u>
-	-	-	-	-	84	4,549
-	-	-	22,768	63,268	107,084	215,966
-	-	29,715	-	148,673	231,463	376,956
<u>0</u>	<u>0</u>	<u>29,715</u>	<u>22,768</u>	<u>211,941</u>	<u>338,631</u>	<u>597,471</u>
<u>89,778</u>	<u>26,355</u>	<u>36,171</u>	<u>(3,001)</u>	<u>51,606</u>	<u>2,014,277</u>	<u>1,637,188</u>
-	80,000	-	-	150,890	410,890	-
-	-	-	-	-	(410,890)	-
<u>0</u>	<u>80,000</u>	<u>0</u>	<u>0</u>	<u>150,890</u>	<u>0</u>	<u>0</u>
89,778	106,355	36,171	(3,001)	202,496	2,014,277	1,637,188
435,940	-	153,838	102,159	97,781	8,050,531	6,413,343
<u>\$525,718</u>	<u>\$106,355</u>	<u>\$190,009</u>	<u>\$99,158</u>	<u>\$300,277</u>	<u>\$10,064,808</u>	<u>\$8,050,531</u>

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OTHER REPORTS

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of South Washington Watershed District as of and for the year ended December 31, 2008, 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 our audit procedures 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 South Washington Watershed District's internal control.

A control deficiency 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 misstatements on a timely basis. *A significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the South Washington Watershed District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the South Washington Watershed District's financial statements that is more than inconsequential will not be prevented or detected by the South Washington Watershed District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the South Washington Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings and responses as items 2008-1 through 2008-2.

South Washington Watershed District
Report on Internal Control

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.
White Bear Lake, Minnesota

May 4, 2009

2008-1 Oversight of Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation of the financial statements in accordance with generally accepted accounting principles.

Condition: Like many similarly sized organizations, the District has requested assistance from us, the auditors, with drafting financial statements and related notes. This is a common practice and an allowable nonaudit service under the AICPA Ethics Interpretation 101-3. However, other than relying on the auditors, the District's staff does not perform sufficient procedures to detect if there were misstatements or omission of disclosures to the financial statements. Statement on Auditing Standards (SAS) No. 112 specifies that an organization may not rely exclusively on its auditors to perform the financial statement process. In our viewpoint, SAS 112 will result in many, if not most, small to mid-size organizations receiving a finding regarding financial statement preparation.

Cause: The District has not established procedures to detect misstatements or omissions of disclosures in the draft financial statements prepared by the auditors.

Effect: By not having such controls, there is an increased risk that errors or omissions in draft financial statements prepared by the auditors would not be detected by District management.

Recommendation: We recommend the District remain aware of this. Any change would need to be viewed from a cost/benefit perspective. Options for the District include:

1. Remain aware of the situation, however due to the increased cost, make the choice to make no changes to current procedures.
2. Implement internal procedures as determined practical. Such procedures could include:
 - a. Complete a disclosure checklist to ensure propriety and completeness of disclosures.
 - b. Trace various trial balance accounts to the draft financial statements to ensure all accounts are included in the financial statements.
 - c. Review GASB 34 conversion entries to ensure that the draft government-wide financial statements are free of misstatement.
3. Hiring additional internal or 3rd party resources to assist with the financial statement process.

Management Response: The District is aware of SAS 112, but a cost/benefit analysis of the issue does not support the allocation of additional employees or resources at this time. Certain other safeguards are successfully maintained (Board oversight and review of the draft financial statements) which provide satisfactory mitigation of the issue.

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

2008-2 Inadequate Documentation of the Components of Internal Control

Criteria: SAS 112 specified that inadequate documentation of the components of internal control is considered a significant deficiency in the design of internal controls.

Condition: The District has established policies regarding the design and operation of internal accounting controls, such as payroll, receipts and capital assets. However, during the year these policies were not in writing and therefore, under the definition of SAS 112, a finding exists. In November 2008, the District created an accounting policies manual.

Cause: There may be an assumption that because the District's accounting system is not complex, there is no need for internal control/accounting manual.

Effect: An implied or verbal policy is subject to greater variation of its meaning and the likelihood of misinterpretation increases when a policy is not written.

Recommendation: We recommend the District continues to review and update the policy manual when changes are needed.

Management Response: In November 2008, the District created an accounting policies manual which adequately documents the components of internal control. The District will continue to review and update this manual on a regular basis.



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

**REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE
AUDIT GUIDE FOR LOCAL GOVERNMENT**

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, 2008 and have issued our report thereon dated May 4, 2009.

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 Local Government* 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 Local Government* 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.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 4, 2009

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