

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2009

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INTRODUCTORY SECTION

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SOUTH WASHINGTON WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2009

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, 2009 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, 2009, 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 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 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

April 13, 2010

BASIC FINANCIAL STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2009

Statement 1

	Governmental Activities	
	2009	2008
Assets:		
Cash and investments	\$12,311,727	\$10,357,770
Cash and investments with escrow agent	2,820,175	2,905,202
Accrued interest receivable	45,874	45,874
Taxes receivable:		
Delinquent	24,431	19,123
Due from county	16,999	5,754
Stormwater utility fees receivable:		
Delinquent	109,978	100,223
Due from county	35,060	33,371
Prepaid items	10,402	1,420
Deferred charges	37,521	42,757
Capital assets - net:		
Depreciable	691,248	707,156
Nondepreciable	7,444,970	7,444,970
Total assets	<u>23,548,385</u>	<u>21,663,620</u>
Liabilities:		
Accounts payable	175,662	31,155
Salaries payable	3,727	1,432
Accrued interest payable	94,945	100,116
Unamortized bond premium	80,287	91,490
Compensated absences payable:		
Due within one year	5,200	4,373
Bonds payable:		
Due within one year	3,195,000	365,000
Due in more than one year	3,195,000	6,390,000
Total liabilities	<u>6,749,821</u>	<u>6,983,566</u>
Net assets:		
Invested in capital assets, net of related debt	4,460,931	4,100,636
Restricted for:		
Debt Service	41,384	118,517
Unrestricted	12,296,249	10,460,901
Total net assets	<u>\$16,798,564</u>	<u>\$14,680,054</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, 2009

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	
					2009	2008
Primary government:						
Governmental activities:						
General government	\$208,803	\$ -	\$ -	\$ -	(\$208,803)	(\$245,312)
Programs	84,091	-	-	-	(84,091)	(153,430)
Projects	402,833	2,298,197	-	-	1,895,364	2,095,108
Interest on long-term debt	276,217	-	-	-	(276,217)	(272,141)
Total governmental activities	<u>\$971,944</u>	<u>\$2,298,197</u>	<u>\$0</u>	<u>\$0</u>	<u>1,326,253</u>	<u>1,424,225</u>
General revenues:						
Property taxes					696,609	635,231
Grants and contributions not restricted to specific programs					25,057	22,352
Unrestricted investment earnings					59,985	376,639
Miscellaneous other					10,606	13,109
Total general revenues					<u>792,257</u>	<u>1,047,331</u>
Change in net assets					2,118,510	2,471,556
Net assets - January 1					<u>14,680,054</u>	<u>12,208,498</u>
Net assets - December 31					<u>\$16,798,564</u>	<u>\$14,680,054</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

Statement 3

Assets	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2009	2008
Cash and investments	\$307,622	\$11,976,346	\$27,759	\$12,311,727	\$10,357,770
Cash and investments with escrow agent	-	-	2,820,175	2,820,175	2,905,202
Accrued interest receivable	-	-	45,874	45,874	45,874
Taxes receivable:					
Delinquent	7,392	17,039	-	24,431	19,123
Due from county	5,493	11,506	-	16,999	5,754
Stormwater utility fees receivable:					
Delinquent	-	109,978	-	109,978	100,223
Due from county	-	35,060	-	35,060	33,371
Prepaid items	10,402	-	-	10,402	1,420
Total assets	<u>\$330,909</u>	<u>\$12,149,929</u>	<u>\$2,893,808</u>	<u>\$15,374,646</u>	<u>\$13,468,737</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$8,058	\$167,604	\$ -	\$175,662	\$31,155
Salaries payable	1,832	1,895	-	3,727	1,432
Deferred revenue	7,392	127,017	-	134,409	119,346
Total liabilities	<u>17,282</u>	<u>296,516</u>	<u>0</u>	<u>313,798</u>	<u>151,933</u>
Fund balance:					
Reserved for:					
Prepaid items	10,402	-	-	10,402	1,420
Debt service	-	-	2,893,808	2,893,808	2,970,876
Unreserved:					
Designated:					
General Fund	303,225	-	-	303,225	279,700
Special Revenue Fund	-	11,853,413	-	11,853,413	10,064,808
Total fund balance	<u>313,627</u>	<u>11,853,413</u>	<u>2,893,808</u>	<u>15,060,848</u>	<u>13,316,804</u>
Total liabilities and fund balance	<u>\$330,909</u>	<u>\$12,149,929</u>	<u>\$2,893,808</u>	<u>\$15,374,646</u>	<u>\$13,468,737</u>
Fund balance reported above				\$15,060,848	\$13,316,804
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.				8,136,218	8,152,126
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				134,409	119,346
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				(6,532,911)	(6,908,222)
Net assets of governmental activities				<u>\$16,798,564</u>	<u>\$14,680,054</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, 2009

Statement 4

	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2009	2008
Revenues:					
General property taxes	\$223,395	\$467,906	\$ -	\$691,301	\$609,763
Stormwater utility fees	-	2,288,442	-	2,288,442	2,294,358
Intergovernmental	8,098	16,959	-	25,057	22,352
Investment income	2,206	26,256	31,523	59,985	376,639
Other	1,548	9,058	-	10,606	13,109
Total revenues	<u>235,247</u>	<u>2,808,621</u>	<u>31,523</u>	<u>3,075,391</u>	<u>3,316,221</u>
Expenditures:					
Current:					
General government	202,740	-	-	202,740	238,672
Programs	-	84,091	-	84,091	153,430
Projects	-	386,925	-	386,925	182,946
Debt service:					
Principal retirement	-	-	365,000	365,000	350,000
Interest	-	-	292,591	292,591	278,473
Professional services	-	-	-	-	396
Total expenditures	<u>202,740</u>	<u>471,016</u>	<u>657,591</u>	<u>1,331,347</u>	<u>1,203,917</u>
Revenues over (under) expenditures	<u>32,507</u>	<u>2,337,605</u>	<u>(626,068)</u>	<u>1,744,044</u>	<u>2,112,304</u>
Other financing sources (uses):					
Transfers in	-	-	549,000	549,000	-
Transfers out	-	(549,000)	-	(549,000)	-
Total other financing sources (uses)	<u>0</u>	<u>(549,000)</u>	<u>549,000</u>	<u>0</u>	<u>0</u>
Net change in fund balance	32,507	1,788,605	(77,068)	1,744,044	2,112,304
Fund balance - January 1	<u>281,120</u>	<u>10,064,808</u>	<u>2,970,876</u>	<u>13,316,804</u>	<u>11,204,500</u>
Fund balance - December 31	<u><u>\$313,627</u></u>	<u><u>\$11,853,413</u></u>	<u><u>\$2,893,808</u></u>	<u><u>\$15,060,848</u></u>	<u><u>\$13,316,804</u></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, 2009

Statement 5

	<u>2009</u>	<u>2008</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)	\$1,744,044	\$2,112,304
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	15,063	25,468
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)	(15,908)
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:		
Principal retirement	365,000	350,000
Amortization of deferred charges	(5,236)	(5,236)
Amortization of bond premium	11,203	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>4,344</u>	<u>(6,275)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$2,118,510</u></u>	<u><u>\$2,471,556</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 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, 2009

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.

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.

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, 2009

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	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 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 between accounts payable and salaries payable and between taxes receivable and stormwater utility fees receivable were made to prior year amounts to conform to current year classification.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 (\$6,532,911) difference are as follows:

Bonds payable	(\$6,390,000)
Accrued interest payable	(94,945)
Compensated absences	(5,200)
Deferred charges	37,521
Unamortized bond premium	<u>(80,287)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>(\$6,532,911)</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 \$15,063 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2008	(\$19,123)
At December 31, 2009	24,431
Stormwater utility fees deferred revenue:	
At December 31, 2008	(100,223)
At December 31, 2009	<u>109,978</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>\$15,063</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:

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 \$4,344 difference are as follows:

Accrued interest payable:	
At December 31, 2008	\$100,116
At December 31, 2009	(94,945)
Compensated absences payable:	
At December 31, 2008	4,373
At December 31, 2009	<u>(5,200)</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>\$4,344</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;
- 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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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, 2009.

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, 2009

As of December 31, 2009, 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	\$200,970	\$200,970	\$ -	\$ -	\$ -
Federal National Mortgage Association	AAA	2,563,698	2,563,698	-	-	-
US Treasury State and Local Governments (SLGS)	N/A	55,507	55,507	-	-	-
External investment pool - 4M fund	N/A	12,311,727	12,311,727	-	-	-
Total		<u>\$15,131,902</u>	<u>\$15,131,902</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total investments						<u>\$15,131,902</u>

Following is a reconciliation of the District's cash and investment balances as of December 31, 2009:

Cash and investments	\$12,311,727
Cash and investments with escrow agent	<u>2,820,175</u>
	<u>\$15,131,902</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. 16.94% of the District's investments are in Federal National Mortgage Association (FNMA).

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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, 2009, \$12,311,727 of the District's \$15,131,902 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 \$2,820,175 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, 2009 are as follows:

	Major Planning and <u>Implementation</u>
Delinquent stormwater utility fees	<u>\$58,024</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)	\$7,392	\$ -
Delinquent property taxes receivable (Planning and Implementation Fund)	17,039	-
Delinquent stormwater utility fees (Planning and Implementation Fund)	<u>109,978</u>	<u>-</u>
Total	<u>\$134,409</u>	<u>\$0</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 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>85,914</u>	<u>15,908</u>	<u>-</u>	<u>101,822</u>
Total capital assets being depreciated - net	<u>707,156</u>	<u>(15,908)</u>	<u>-</u>	<u>691,248</u>
Governmental activities capital assets - net	<u><u>\$8,152,126</u></u>	<u><u>(\$15,908)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,136,218</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, 2009

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, 2009, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/09
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2011	\$5,875,000	\$3,595,000
\$2,795,000 Refunding Bonds 2007A	4.00%	12/27/2007	3/1/2017	<u>2,795,000</u>	<u>2,795,000</u>
Total general obligation bonds				8,670,000	6,390,000
Compensated absences payable					<u>5,200</u>
Total indebtedness - governmental activities				<u>\$8,670,000</u>	<u>\$6,395,200</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
2010	\$3,195,000	\$93,043	\$ -	\$116,550
2011	400,000	8,900	-	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>\$3,595,000</u>	<u>\$101,943</u>	<u>\$2,795,000</u>	<u>\$598,625</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	\$3,960,000	\$ -	\$365,000	\$3,595,000	\$3,195,000
\$2,795,000 Refunding Bonds 2007A	2,795,000	-	-	2,795,000	-
Total general obligation bonds	<u>\$6,755,000</u>	<u>\$0</u>	<u>\$365,000</u>	<u>\$6,390,000</u>	<u>\$3,195,000</u>
Compensated absences payable	<u>\$4,373</u>	<u>\$8,569</u>	<u>(\$7,742)</u>	<u>\$5,200</u>	<u>\$5,200</u>

All long-term bonded indebtedness outstanding at December 31, 2009 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 \$2,820,175 at December 31, 2009.

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, 2009

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 Bonds Total	Refunding Bonds Total	Debt Service Commitment	
			Escrow Account	District
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>\$3,696,943</u>	<u>\$3,393,625</u>	<u>\$2,868,275</u>	<u>\$4,222,293</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 insurance policies. The amount of these deductibles are considered immaterial to the financial statements.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

There were no significant reductions in insurance or settlements in excess of insurance coverage for 2009.

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, 2009

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 6.5%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7%, effective January 1, 2010. The District's contributions for the years ending December 31, 2009, 2008 and 2007 were \$9,872, \$6,742 and \$5,329, respectively, equal to the contractually required contributions for the years as set by state statute.

Note 8 INTERFUND TRANSFERS

During the year ended December 31, 2009, the Planning and Implementation Fund transferred \$549,000 to the Debt Service Fund to cover principal and interest payments on the outstanding debt. The transfer is considered routine and consistent with previous practices and policies.

Note 9 DESIGNATIONS OF FUND EQUITY

At December 31, 2009 and 2008, the District had the following fund equity reservations and designations:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
General Fund:		
Reserved for prepaid items	\$10,402	\$1,420
Designated for cash flow	303,225	279,700
Special Revenue Fund:		
Designated for Watershed plan implementation	11,853,413	10,064,808
Debt Service Fund:		
Reserved for debt service	<u>2,893,808</u>	<u>2,970,876</u>
Total	<u>\$15,060,848</u>	<u>\$13,316,804</u>

Note 10 STORMWATER UTILITY FEES

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

REQUIRED SUPPLEMENTARY INFORMATION

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

Statement 6

For The Year Ended December 31, 2009
 With Comparative Actual Amounts For The Year Ended December 31, 2008

	Budgeted Amounts		2009 Actual Amounts	Variance with Final Budget - Positive (Negative)	2008 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$225,289	\$225,289	\$223,395	(\$1,894)	\$223,604
Intergovernmental - MVHC	8,098	8,098	8,098	-	1,721
Investment income	-	-	2,206	2,206	15,029
Other	-	-	1,548	1,548	455
Total revenues	<u>233,387</u>	<u>233,387</u>	<u>235,247</u>	<u>1,860</u>	<u>240,809</u>
Expenditures:					
Current:					
Legal	7,121	7,121	14,627	(7,506)	6,235
Accounting and auditing	26,124	26,124	15,079	11,045	26,613
Salary and benefits	131,775	131,775	116,789	14,986	119,680
Contracted services	1,390	1,390	1,390	-	24,916
Manager's per diem and expenses	15,000	15,000	19,193	(4,193)	23,127
Insurance	9,888	9,888	2,611	7,277	9,501
Dues	3,675	3,675	4,937	(1,262)	2,475
Rent	27,914	27,914	19,258	8,656	18,185
Equipment	4,000	4,000	5,683	(1,683)	-
Office supplies and other	6,500	6,500	3,173	3,327	5,685
Total expenditures	<u>233,387</u>	<u>233,387</u>	<u>202,740</u>	<u>30,647</u>	<u>236,417</u>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	32,507	<u>\$32,507</u>	4,392
Fund balance - January 1			<u>281,120</u>		<u>276,728</u>
Fund balance - December 31			<u>\$313,627</u>		<u>\$281,120</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2009

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, 2009

Statement 7

Assets	<u>2009</u>	<u>2008</u>
Cash and investments	\$307,622	\$289,096
Taxes receivable:		
Delinquent	7,392	5,155
Due from county	5,493	3,012
Prepaid items	<u>10,402</u>	<u>1,420</u>
 Total assets	 <u><u>\$330,909</u></u>	 <u><u>\$298,683</u></u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$8,058	\$10,976
Salaries payable	1,832	1,432
Deferred revenue	7,392	5,155
Total liabilities	<u>17,282</u>	<u>17,563</u>
 Fund balance:		
Reserved for prepaid items	10,402	1,420
Unreserved:		
Designated for cash flow	303,225	279,700
Total fund balance	<u>313,627</u>	<u>281,120</u>
 Total liabilities and fund balance	 <u><u>\$330,909</u></u>	 <u><u>\$298,683</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2009
With Comparative Amounts For The Year Ended December 31, 2008

Statement 8

	<u>2009</u>	<u>2008</u>
Revenues:		
General property taxes	\$223,395	\$223,604
Intergovernmental - MVHC	8,098	1,721
Investment income	2,206	15,029
Other	1,548	455
Total revenues	<u>235,247</u>	<u>240,809</u>
Expenditures:		
Current:		
Professional services:		
Legal	14,627	6,235
Accounting and auditing	15,079	26,613
Salary and benefits	116,789	119,680
Consulting services	1,390	24,916
Manager's per diem and expenses	19,193	23,127
Insurance	2,611	9,501
Dues	4,937	2,475
Rent	19,258	18,185
Equipment	5,683	-
Office supplies and other	3,173	5,685
Total expenditures	<u>202,740</u>	<u>236,417</u>
Revenues over expenditures	32,507	4,392
Fund balance - January 1	<u>281,120</u>	<u>276,728</u>
Fund balance - December 31	<u><u>\$313,627</u></u>	<u><u>\$281,120</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
PLANNING AND IMPLEMENTATION FUND
December 31, 2009
With Comparative Amounts For December 31, 2008

Statement 9

	<u>2009</u>	<u>2008</u>
Assets		
Cash and investments	\$11,976,346	\$10,048,874
Taxes receivable:		
Delinquent	17,039	13,968
Due from county	11,506	2,742
Stormwater utility fees receivable:		
Delinquent	109,978	100,223
Due from county	<u>35,060</u>	<u>33,371</u>
 Total assets	 <u><u>\$12,149,929</u></u>	 <u><u>\$10,199,178</u></u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$167,604	\$20,179
Salaries payable	1,895	-
Deferred revenue	<u>127,017</u>	<u>114,191</u>
Total liabilities	<u><u>\$296,516</u></u>	<u><u>\$134,370</u></u>
 Fund balance:		
Unreserved:		
Designated for watershed plan implementation	<u>11,853,413</u>	<u>10,064,808</u>
 Total liabilities and fund balance	 <u><u>\$12,149,929</u></u>	 <u><u>\$10,199,178</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, 2009
With Comparative Amounts For The Year Ended December 31, 2008

Statement 10

	<u>2009</u>	<u>2008</u>
Revenues:		
General property taxes	\$467,906	\$386,159
Stormwater utility fees	2,288,442	1,753,298
Intergovernmental:		
Market value homestead credit	16,959	20,631
Investment income	26,256	180,166
Other	9,058	12,654
Total revenues	<u>2,808,621</u>	<u>2,352,908</u>
Expenditures:		
Current:		
Professional services:		
Legal	-	84
Engineering	84,091	107,084
Projects and studies	386,925	231,463
Total expenditures	<u>471,016</u>	<u>338,631</u>
Revenues over expenditures	2,337,605	2,014,277
Other financing sources (uses):		
Transfers out	<u>(549,000)</u>	<u>-</u>
Net change in fund balance	1,788,605	2,014,277
Fund balance - January 1	<u>10,064,808</u>	<u>8,050,531</u>
Fund balance - December 31	<u><u>\$11,853,413</u></u>	<u><u>\$10,064,808</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
DEBT SERVICE FUND
December 31, 2009
With Comparative Amounts For December 31, 2008

Statement 11

	<u>2009</u>	<u>2008</u>
Assets		
Cash and investments	\$27,759	\$19,800
Cash and investments with escrow agent	2,820,175	2,905,202
Accrued interest receivable	<u>45,874</u>	<u>45,874</u>
Total assets	<u><u>\$2,893,808</u></u>	<u><u>\$2,970,876</u></u>
Liabilities and Fund Balance		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balance:		
Reserved for debt service	<u>2,893,808</u>	<u>2,970,876</u>
Total liabilities and fund balance	<u><u>\$2,893,808</u></u>	<u><u>\$2,970,876</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, 2009
With Comparative Amounts For The Year Ended December 31, 2008

Statement 12

	<u>2009</u>	<u>2008</u>
Revenues:		
Stormwater utility fees	\$ -	\$541,060
Investment income	31,523	181,444
Total revenues	<u>31,523</u>	<u>722,504</u>
Expenditures:		
Debt service:		
Principal	365,000	350,000
Interest	292,591	278,473
Professional services	-	396
Total expenditures	<u>657,591</u>	<u>628,869</u>
Revenues over (under) expenditures	(626,068)	93,635
Other financing sources:		
Transfers in	<u>549,000</u>	<u>-</u>
Net change in fund balance	(77,068)	93,635
Fund balance - January 1	<u>2,970,876</u>	<u>2,877,241</u>
Fund balance - December 31	<u><u>\$2,893,808</u></u>	<u><u>\$2,970,876</u></u>

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SUPPLEMENTARY FINANCIAL INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINED SCHEDULE OF INDEBTEDNESS
December 31, 2009

	<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	3/1/2011
Crossover Refunding Bonds of 2007A	4.00%	12/27/2007	3/1/2017

Prior Years		Payable 01/01/09	2009		Payable 12/31/09	Principal Due In 2010	Interest Due In 2010	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$1,915,000	\$3,960,000	\$ -	\$365,000	\$3,595,000	\$3,195,000	\$93,043	\$101,943
2,795,000	-	2,795,000	-	-	2,795,000	-	116,550	598,625

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

Exhibit 2

	Tax Capacity Values <u>2009/2010</u>	Tax Capacity Values <u>2008/2009</u>	Tax Capacity Values <u>2007/2008</u>
Taxable valuations:			
Real estate	unavailable	\$108,848,402	\$105,135,946
Personal property	from county	<u>1,097,318</u>	<u>1,077,831</u>
Total		109,945,720	106,213,777
Tax increment captured		(2,315,179)	(1,938,319)
Fiscal disparities:			
Distribution		12,452,678	10,816,723
Contribution		<u>(8,030,181)</u>	<u>(7,105,726)</u>
Total		<u>\$112,053,038</u>	<u>\$107,986,455</u>
	2009/2010	2008/2009	2007/2008
	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>
Taxes levied:			
Administration levy	\$233,003	\$233,387	\$227,565
Management plan implementation levy	<u>454,358</u>	<u>488,835</u>	<u>393,000</u>
Total	<u>\$687,361</u>	<u>\$722,222</u>	<u>\$620,565</u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
December 31, 2009
With Comparative Totals For December 31, 2008

	<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	\$184,480	\$8,760,088	\$938,728	\$99,878	\$497,004
Taxes receivable:					
Delinquent	-	-	-	-	-
Due from county	-	-	2,567	-	-
Stormwater utility fees receivable:					
Delinquent	-	-	-	-	-
Due from county	1,302	28,627	1,761	306	1,532
Total assets	<u><u>\$185,782</u></u>	<u><u>\$8,788,715</u></u>	<u><u>\$943,056</u></u>	<u><u>\$100,184</u></u>	<u><u>\$498,536</u></u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ -	\$41,306	\$31,373	\$ -	\$ -
Salaries payable	-	-	417	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u><u>0</u></u>	<u><u>41,306</u></u>	<u><u>31,790</u></u>	<u><u>0</u></u>	<u><u>0</u></u>
Fund balance:					
Unreserved:					
Designated	185,782	8,747,409	911,266	100,184	498,536
Total liabilities and fund balance	<u><u>\$185,782</u></u>	<u><u>\$8,788,715</u></u>	<u><u>\$943,056</u></u>	<u><u>\$100,184</u></u>	<u><u>\$498,536</u></u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2009	2008
					\$624,607	\$126,231
-	-	-	-	17,039	17,039	13,968
-	544	1,132	695	6,568	11,506	2,742
-	-	-	-	109,978	109,978	100,223
1,532	-	-	-	-	35,060	33,371
<u>\$626,139</u>	<u>\$126,775</u>	<u>\$212,216</u>	<u>\$125,406</u>	<u>\$543,120</u>	<u>\$12,149,929</u>	<u>\$10,199,178</u>
\$51,452	\$1,407	\$5,000	\$ -	\$37,066	\$167,604	\$20,179
-	95	189	114	1,080	1,895	-
-	-	-	-	127,017	127,017	114,191
<u>51,452</u>	<u>1,502</u>	<u>5,189</u>	<u>114</u>	<u>165,163</u>	<u>296,516</u>	<u>134,370</u>
<u>574,687</u>	<u>125,273</u>	<u>207,027</u>	<u>125,292</u>	<u>377,957</u>	<u>11,853,413</u>	<u>10,064,808</u>
<u>\$626,139</u>	<u>\$126,775</u>	<u>\$212,216</u>	<u>\$125,406</u>	<u>\$543,120</u>	<u>\$12,149,929</u>	<u>\$10,199,178</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, 2009
With Comparative Totals For The Year Ended December 31, 2008

	<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	\$ -	\$ -	\$104,389	\$ -	\$ -
Stormwater utility fees	84,979	1,868,544	114,972	19,995	99,976
Intergovernmental:					
Market value homestead credit	-	-	3,784	-	-
Investment income	803	17,666	2,118	189	945
Miscellaneous	-	9,058	-	-	-
Total revenues	<u>85,782</u>	<u>1,895,268</u>	<u>225,263</u>	<u>20,184</u>	<u>100,921</u>
Expenditures:					
Current:					
Legal	-	-	-	-	-
Engineering	-	71,296	-	-	-
Projects and studies	-	40,000	65,016	-	2,220
Total expenditures	<u>0</u>	<u>111,296</u>	<u>65,016</u>	<u>0</u>	<u>2,220</u>
Revenues over expenditures	<u>85,782</u>	<u>1,783,972</u>	<u>160,247</u>	<u>20,184</u>	<u>98,701</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	(549,000)	-	-	-
Total other financing sources (uses)	<u>0</u>	<u>(549,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	85,782	1,234,972	160,247	20,184	98,701
Fund balance - January 1	<u>100,000</u>	<u>7,512,437</u>	<u>751,019</u>	<u>80,000</u>	<u>399,835</u>
Fund balance - December 31	<u><u>\$185,782</u></u>	<u><u>\$8,747,409</u></u>	<u><u>\$911,266</u></u>	<u><u>\$100,184</u></u>	<u><u>\$498,536</u></u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2009	2008
					\$ -	\$22,105
99,976	-	-	-	-	2,288,442	1,753,298
-	801	1,669	1,024	9,681	16,959	20,631
945	218	455	279	2,638	26,256	180,166
-	-	-	-	-	9,058	12,654
<u>100,921</u>	<u>23,124</u>	<u>48,178</u>	<u>29,550</u>	<u>279,430</u>	<u>2,808,621</u>	<u>2,352,908</u>
-	-	-	-	-	-	84
-	-	-	-	12,795	84,091	107,084
51,952	4,206	31,160	3,416	188,955	386,925	231,463
<u>51,952</u>	<u>4,206</u>	<u>31,160</u>	<u>3,416</u>	<u>201,750</u>	<u>471,016</u>	<u>338,631</u>
<u>48,969</u>	<u>18,918</u>	<u>17,018</u>	<u>26,134</u>	<u>77,680</u>	<u>2,337,605</u>	<u>2,014,277</u>
-	-	-	-	-	-	410,890
-	-	-	-	-	(549,000)	(410,890)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(549,000)</u>	<u>0</u>
48,969	18,918	17,018	26,134	77,680	1,788,605	2,014,277
525,718	106,355	190,009	99,158	300,277	10,064,808	8,050,531
<u>\$574,687</u>	<u>\$125,273</u>	<u>\$207,027</u>	<u>\$125,292</u>	<u>\$377,957</u>	<u>\$11,853,413</u>	<u>\$10,064,808</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 the South Washington Watershed District as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies in the South Washington Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as items 2009-1 through 2009-3 to be significant deficiencies.

South Washington Watershed District
Report on Internal Control

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

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

April 13, 2010

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

2009-1 Audit Adjustment

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

Condition: Three audit adjustments were detected during the audit including:

- Adjustment to reverse prepaid expenditures in the amount of \$2,544 made in error.
- Adjustment to record prepaid expenditures in the amount of \$8,982.
- Adjustment to allocate market value homestead credit between the General Fund and the Planning and Implementation Fund in the amount of \$6,156.

Cause: Unknown.

Effect: By not detecting such adjustments during the year-end closing process, there is an increased risk that financial statement misstatements may occur.

Recommendation: In our viewpoint, the guidance provided by audit standards regarding financial statement adjustments combined with the complexity of governmental accounting will result in most local governments receiving a finding in this regard. We recommend that the District continue efforts to assure that all adjustments are identified during its year-end closing process.

Management Response: The District will continue efforts to assure that all adjustments are identified during its year-end closing process.

2009-2 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 staff does not perform sufficient procedures to detect if there were misstatements or omission of disclosures to the financial statements.

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

Effect: By not having such controls, there is an increased risk that errors or omissions in 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 the condition, 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

2009-3 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.

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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, 2009 and have issued our report thereon dated April 13, 2010.

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

April 13, 2010

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