

**SOUTH WASHINGTON WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2010

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## **INTRODUCTORY SECTION**

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**SOUTH WASHINGTON WATERSHED DISTRICT**

**LIST OF APPOINTED OFFICIALS**

December 31, 2010

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**BOARD OF MANAGERS**

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

**APPOINTED OFFICIALS**

|               |            |
|---------------|------------|
| Administrator | Matt Moore |
|---------------|------------|

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of South Washington Watershed District as of and for the year ended December 31, 2010 which collectively comprise South Washington Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Washington Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from South Washington Watershed District's 2009 financial statements and, in our report dated April 13, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 South Washington Watershed District as of December 31, 2010, 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.

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. Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on pages 34 and 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an

essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Washington Watershed District's financial statements as a whole. The introductory section, individual fund financial statements, supplementary financial information and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements and supplementary financial information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 28, 2011

## **BASIC FINANCIAL STATEMENTS**

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

December 31, 2010

With Comparative Totals For December 31, 2009

|   | Governmental Activities |                     |
|---|-------------------------|---------------------|
|   | 2010                    | 2009                |
| <b>Assets:</b>                                  |                         |                     |
| Cash and investments                            | \$13,914,311            | \$12,311,727        |
| Cash and investments with escrow agent          | -                       | 2,820,175           |
| Accrued interest receivable                     | -                       | 45,874              |
| Taxes receivable:                               |                         |                     |
| Delinquent                                      | 20,839                  | 24,431              |
| Due from county                                 | 9,795                   | 16,999              |
| Stormwater utility fees receivable:             |                         |                     |
| Delinquent                                      | 81,831                  | 109,978             |
| Due from county                                 | 41,951                  | 35,060              |
| Prepaid items                                   | 10,250                  | 10,402              |
| Deferred charges                                | 32,285                  | 37,521              |
| Capital assets - net:                           |                         |                     |
| Depreciable                                     | 675,340                 | 691,248             |
| Nondepreciable                                  | 7,444,970               | 7,444,970           |
| Total assets                                    | <u>22,231,572</u>       | <u>23,548,385</u>   |
| <b>Liabilities:</b>                             |                         |                     |
| Accounts payable                                | 86,359                  | 175,662             |
| Salaries payable                                | 3,538                   | 3,727               |
| Accrued interest payable                        | 44,783                  | 94,945              |
| Unamortized bond premium                        | 69,084                  | 80,287              |
| Compensated absences payable:                   |                         |                     |
| Due within one year                             | 5,155                   | 5,200               |
| Bonds payable:                                  |                         |                     |
| Due within one year                             | 400,000                 | 3,195,000           |
| Due in more than one year                       | 2,795,000               | 3,195,000           |
| Total liabilities                               | <u>3,403,919</u>        | <u>6,749,821</u>    |
| <b>Net assets:</b>                              |                         |                     |
| Invested in capital assets, net of related debt | 4,856,226               | 4,460,931           |
| Restricted for:                                 |                         |                     |
| Debt service                                    | 33,031                  | 41,384              |
| Unrestricted                                    | 13,938,396              | 12,296,249          |
| Total net assets                                | <u>\$18,827,653</u>     | <u>\$16,798,564</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, 2010

With Comparative Totals For The Year Ended December 31, 2009

| Functions/Programs   | Expenses           | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets<br>Primary Government |                     |
|--|--------------------|-------------------------|--|--|--|---------------------|
|  |                    | Charges For<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Totals   |                     |
|  |                    |                         |  |  | 2010   | 2009                |
| Primary government:  |                    |                         |  |  |  |                     |
| Governmental activities:                                     |                    |                         |  |  |  |                     |
| General government   | \$234,450          | \$ -                    | \$ -                                     | \$ -                                   | (\$234,450)  | (\$208,803)         |
| Programs   | 160,403            | -                       | -  | -                                      | (160,403)  | (84,091)            |
| Projects   | 774,067            | 2,646,316               | -  | -                                      | 1,872,249  | 1,895,364           |
| Interest on long-term debt                                   | 148,654            | -                       | -  | -                                      | (148,654)  | (276,217)           |
| Total governmental activities                                | <u>\$1,317,574</u> | <u>\$2,646,316</u>      | <u>\$0</u>                               | <u>\$0</u>                             | 1,328,742  | 1,326,253           |
| General revenues:  |                    |                         |  |  |  |                     |
| Property taxes   |                    |                         |  |  | 656,181  | 696,609             |
| Grants and contributions not restricted to specific programs |                    |                         |  |  | 25,358   | 25,057              |
| Unrestricted investment earnings                             |                    |                         |  |  | 7,448  | 59,985              |
| Miscellaneous other  |                    |                         |  |  | 11,360   | 10,606              |
| Total general revenues                                       |                    |                         |  |  | <u>700,347</u>   | <u>792,257</u>      |
| Change in net assets   |                    |                         |  |  | 2,029,089  | 2,118,510           |
| Net assets - January 1                                       |                    |                         |  |  | <u>16,798,564</u>  | <u>14,680,054</u>   |
| Net assets - December 31                                     |                    |                         |  |  | <u>\$18,827,653</u>  | <u>\$16,798,564</u> |

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

**SOUTH WASHINGTON WATERSHED DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS

**Statement 3**

December 31, 2010  
With Comparative Totals For December 31, 2009

| Assets   | General Fund     | Planning and<br>Implementation | Debt Service    | Total Governmental Funds |                     |
|--|------------------|--------------------------------|-----------------|--------------------------|---------------------|
|  |                  |                                |                 | 2010                     | 2009                |
| Cash and investments   | \$332,153        | \$13,554,186                   | \$27,972        | \$13,914,311             | \$12,311,727        |
| Cash and investments with escrow agent   | -                | -                              | -               | -                        | 2,820,175           |
| Accrued interest receivable  | -                | -                              | -               | -                        | 45,874              |
| Taxes receivable:  |                  |                                |                 |                          |                     |
| Delinquent   | 6,503            | 14,336                         | -               | 20,839                   | 24,431              |
| Due from county  | 3,304            | 6,491                          | -               | 9,795                    | 16,999              |
| Stormwater utility fees receivable:  |                  |                                |                 |                          |                     |
| Delinquent   | -                | 72,827                         | 9,004           | 81,831                   | 109,978             |
| Due from county  | -                | 33,398                         | 8,553           | 41,951                   | 35,060              |
| Prepaid items  | 10,250           | -                              | -               | 10,250                   | 10,402              |
| Total assets   | <u>\$352,210</u> | <u>\$13,681,238</u>            | <u>\$45,529</u> | <u>\$14,078,977</u>      | <u>\$15,374,646</u> |
|  |                  |                                |                 |                          |                     |
| Liabilities and Fund Balance   |                  |                                |                 |                          |                     |
| Liabilities:   |                  |                                |                 |                          |                     |
| Accounts payable   | \$13,231         | \$73,128                       | \$ -            | \$86,359                 | \$175,662           |
| Salaries payable   | 1,642            | 1,896                          | -               | 3,538                    | 3,727               |
| Deferred revenue   | 6,503            | 87,163                         | 9,004           | 102,670                  | 134,409             |
| Total liabilities  | <u>21,376</u>    | <u>162,187</u>                 | <u>9,004</u>    | <u>192,567</u>           | <u>313,798</u>      |
| Fund balance:  |                  |                                |                 |                          |                     |
| Reserved for:  |                  |                                |                 |                          |                     |
| Prepaid items  | 10,250           | -                              | -               | 10,250                   | 10,402              |
| Debt service   | -                | -                              | 36,525          | 36,525                   | 2,893,808           |
| Unreserved:  |                  |                                |                 |                          |                     |
| Designated:  |                  |                                |                 |                          |                     |
| General Fund   | 320,584          | -                              | -               | 320,584                  | 303,225             |
| Special Revenue Fund   | -                | 13,519,051                     | -               | 13,519,051               | 11,853,413          |
| Total fund balance   | <u>330,834</u>   | <u>13,519,051</u>              | <u>36,525</u>   | <u>13,886,410</u>        | <u>15,060,848</u>   |
| Total liabilities and fund balance   | <u>\$352,210</u> | <u>\$13,681,238</u>            | <u>\$45,529</u> | <u>\$14,078,977</u>      | <u>\$15,374,646</u> |
| Fund balance reported above  |                  |                                |                 | \$13,886,410             | \$15,060,848        |
| 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.                  |                  |                                |                 | 8,120,310                | 8,136,218           |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.                 |                  |                                |                 | 102,670                  | 134,409             |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. |                  |                                |                 | (3,281,737)              | (6,532,911)         |
| Net assets of governmental activities  |                  |                                |                 | <u>\$18,827,653</u>      | <u>\$16,798,564</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, 2010  
With Comparative Totals For The Year Ended December 31, 2009

**Statement 4**

|                                      | General Fund     | Planning and<br>Implementation | Debt Service       | Total Governmental Funds |                     |
|--------------------------------------|------------------|--------------------------------|--------------------|--------------------------|---------------------|
|                                      |                  |                                |                    | 2010                     | 2009                |
| Revenues:                            |                  |                                |                    |                          |                     |
| General property taxes               | \$223,651        | \$436,122                      | \$ -               | \$659,773                | \$691,301           |
| Stormwater utility fees              | -                | 2,129,797                      | 544,666            | 2,674,463                | 2,288,442           |
| Intergovernmental                    | 8,596            | 16,762                         | -                  | 25,358                   | 25,057              |
| Investment income                    | 367              | 4,011                          | 3,070              | 7,448                    | 59,985              |
| Other                                | 1,252            | 10,108                         | -                  | 11,360                   | 10,606              |
| Total revenues                       | <u>233,866</u>   | <u>2,596,800</u>               | <u>547,736</u>     | <u>3,378,402</u>         | <u>3,075,391</u>    |
| Expenditures:                        |                  |                                |                    |                          |                     |
| Current:                             |                  |                                |                    |                          |                     |
| General government                   | 229,259          | -                              | -                  | 229,259                  | 202,740             |
| Programs                             | -                | 162,033                        | -                  | 162,033                  | 84,091              |
| Projects                             | -                | 756,529                        | -                  | 756,529                  | 386,925             |
| Debt service:                        |                  |                                |                    |                          |                     |
| Principal retirement                 | -                | -                              | 3,195,000          | 3,195,000                | 365,000             |
| Interest                             | -                | -                              | 209,594            | 209,594                  | 292,591             |
| Fiscal agent fees and other charges  | -                | -                              | 425                | 425                      | -                   |
| Total expenditures                   | <u>229,259</u>   | <u>918,562</u>                 | <u>3,405,019</u>   | <u>4,552,840</u>         | <u>1,331,347</u>    |
| Revenues over (under) expenditures   | <u>4,607</u>     | <u>1,678,238</u>               | <u>(2,857,283)</u> | <u>(1,174,438)</u>       | <u>1,744,044</u>    |
| Other financing sources (uses):      |                  |                                |                    |                          |                     |
| Transfers in                         | 12,600           | -                              | -                  | 12,600                   | 549,000             |
| Transfers out                        | -                | (12,600)                       | -                  | (12,600)                 | (549,000)           |
| Total other financing sources (uses) | <u>12,600</u>    | <u>(12,600)</u>                | <u>0</u>           | <u>0</u>                 | <u>0</u>            |
| Net change in fund balance           | 17,207           | 1,665,638                      | (2,857,283)        | (1,174,438)              | 1,744,044           |
| Fund balance - January 1             | <u>313,627</u>   | <u>11,853,413</u>              | <u>2,893,808</u>   | <u>15,060,848</u>        | <u>13,316,804</u>   |
| Fund balance - December 31           | <u>\$330,834</u> | <u>\$13,519,051</u>            | <u>\$36,525</u>    | <u>\$13,886,410</u>      | <u>\$15,060,848</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, 2010  
With Comparative Amounts For The Year Ended December 31, 2009

**Statement 5**

|  | <u>2010</u>               | <u>2009</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)  | (\$1,174,438)             | \$1,744,044               |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   | (31,739)                  | 15,063                    |
| 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   | 3,195,000                 | 365,000                   |
| 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>50,207</u>             | <u>4,344</u>              |
| Change in net assets of governmental activities (Statement 2)  | <u><u>\$2,029,089</u></u> | <u><u>\$2,118,510</u></u> |

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the South Washington Watershed District (the District) conform to generally accepted accounting principles 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 District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The District reports the following major governmental funds:

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

Planning and Implementation Fund - is established to account for expenditures related to the preparation and implementation of the Watershed Management Plan.

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, 2010

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

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

**D. BUDGETS**

Budgets are legally adopted on a basis consistent with 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, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

**G. MARKET VALUE HOMESTEAD CREDIT**

Property taxes and homestead property (as defined by State Statutes) are partially reduced by market value homestead credit. This credit is paid to the District by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The credit is recognized as revenue by the District at the time of collection.

**H. PROPERTY TAX REVENUE RECOGNITION**

The Board of Managers annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred revenue because they are not available to finance current expenditures.

**I. INVENTORIES**

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

**J. PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

**K. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets and intangible asset such as easements and computer software, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999 the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District did not acquire intangible assets in years prior to 2010 that required retroactive reporting. The District did not acquire any intangible assets for the year ended December 31, 2010.

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

|                |             |
|----------------|-------------|
| Infrastructure | 48-50 years |
|----------------|-------------|

**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.

**R. COMPARATIVE TOTALS**

The basic financial statements, required supplementary information, individual fund financial statements and supplementary financial information include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2009, from which the summarized information was derived.



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET 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 (\$3,281,737) difference are as follows:

|  |                             |
|--|-----------------------------|
| Bonds payable  | (\$3,195,000)               |
| Accrued interest payable   | (44,783)                    |
| Compensated absences   | (5,155)                     |
| Deferred charges   | 32,285                      |
| Unamortized bond premium   | <u>(69,084)</u>             |
| Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities | <u><u>(\$3,281,737)</u></u> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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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 (\$31,739) difference are as follows:

|  |                          |
|--|--------------------------|
| General property taxes deferred revenue:   |                          |
| At December 31, 2009   | (\$24,431)               |
| At December 31, 2010   | 20,839                   |
| Stormwater utility fees deferred revenue:  |                          |
| At December 31, 2009   | (109,978)                |
| At December 31, 2010   | <u>81,831</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>(\$31,739)</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, 2010

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 \$50,207 difference are as follows:

|  |                        |
|--|------------------------|
| Accrued interest payable:  |                        |
| At December 31, 2009   | \$94,945               |
| At December 31, 2010   | (44,783)               |
| Compensated absences payable:  |                        |
| At December 31, 2009   | 5,200                  |
| At December 31, 2010   | <u>(5,155)</u>         |
| Net adjustments to increase net changes in fund<br>balances - total governmental funds to arrive at<br>changes in net assets of governmental activities. | <u><u>\$50,207</u></u> |

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

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

Minnesota Statutes require that all of the District’s deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District’s Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

The District does not have deposits at December 31, 2010.

**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, 2010

As of December 31, 2010, the District had the following investments and maturities:

| Investment Type                    | Rating | Fair Value          | Investment Maturities (in Years) |            |            |                     |
|------------------------------------|--------|---------------------|----------------------------------|------------|------------|---------------------|
|                                    |        |                     | Less Than 1                      | 1-5        | 6-10       | Over 10 Years       |
| External investment pool - 4M fund | N/A    | \$13,914,311        | \$13,914,311                     | \$ -       | \$ -       | \$ -                |
| Total                              |        | <u>\$13,914,311</u> | <u>\$13,914,311</u>              | <u>\$0</u> | <u>\$0</u> | <u>\$0</u>          |
| Total investments                  |        |                     |                                  |            |            | <u>\$13,914,311</u> |

Following is a reconciliation of the District's cash and investment balances as of December 31, 2010:

|                      |                     |
|----------------------|---------------------|
| Cash and investments | <u>\$13,914,311</u> |
| Total                | <u>\$13,914,311</u> |

**C. INVESTMENT RISKS**

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. The District follows State Statutes in regards to credit risk of investments. The District does not have an investment policy which further limits its investment choices.

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

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

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

**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, 2010, all of the District's \$13,914,311 in 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.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**Note 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2010 are as follows:

|                                    | <u>Major<br/>Planning and<br/>Implementation</u> | <u>Debt<br/>Service</u> |
|------------------------------------|--|-------------------------|
| Delinquent stormwater utility fees | <u>\$39,460</u>                                  | <u>\$4,900</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)                     | \$6,503            | \$ -            |
| Delinquent property taxes receivable (Planning and Implementation Fund) | 14,336             | -               |
| Delinquent stormwater utility fees (Debt Service)                       | 9,004              | -               |
| Delinquent stormwater utility fees (Planning and Implementation Fund)   | <u>72,827</u>      | <u>-</u>        |
| Total   | <u>\$102,670</u>   | <u>\$0</u>      |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decrease</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|-------------------|-----------------|---------------------------|
| Governmental activities:                     |                              |                   |                 |                           |
| Capital assets, not being depreciated:       |                              |                   |                 |                           |
| Land   | \$7,444,970                  | \$ -              | \$ -            | \$7,444,970               |
| Capital assets, being depreciated:           |                              |                   |                 |                           |
| Infrastructure                               | 793,070                      | -                 | -               | 793,070                   |
| Less accumulated depreciation for:           |                              |                   |                 |                           |
| Infrastructure                               | 101,822                      | 15,908            | -               | 117,730                   |
| Total capital assets being depreciated - net | 691,248                      | (15,908)          | -               | 675,340                   |
| Governmental activities capital assets - net | <u>\$8,136,218</u>           | <u>(\$15,908)</u> | <u>\$0</u>      | <u>\$8,120,310</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>\$15,908</u> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**Note 5 LONG-TERM DEBT**

The District issued a general obligation bond in 2002 to provide funds for capital improvements. The District issued a general obligation crossover refunding bond in 2007 to partially refund the 2002 bond on March 1, 2010.

GOVERNMENTAL ACTIVITIES

As of December 31, 2010, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

|  | <u>Interest<br/>Rates</u> | <u>Date</u> | <u>Final<br/>Maturity<br/>Date</u> | <u>Original<br/>Issue</u> | <u>Payable<br/>12/31/10</u> |
|--|---------------------------|-------------|------------------------------------|---------------------------|-----------------------------|
| General Obligation Bonds:                    |                           |             |                                    |                           |                             |
| \$5,875,000 Bonds of 2002                    | 4.75%                     | 1/29/2002   | 3/1/2011                           | \$5,875,000               | \$400,000                   |
| \$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>3,195,000</u>            |
| Compensated absences payable                 |                           |             |                                    | -                         | 5,155                       |
| Total indebtedness - governmental activities |                           |             |                                    | <u><u>\$8,670,000</u></u> | <u><u>\$3,200,155</u></u>   |

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

| Year Ending<br>December 31 | General Obligation Bonds - Governmental Activities |                       |                           |                         |
|----------------------------|--|-----------------------|---------------------------|-------------------------|
|                            | G.O. Bonds   |                       | Refunding Bonds           |                         |
|                            | Principal  | Interest              | Principal                 | Interest                |
| 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><u>\$400,000</u></u>                            | <u><u>\$8,900</u></u> | <u><u>\$2,795,000</u></u> | <u><u>\$482,075</u></u> |



**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**CHANGE IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2010, was as follows:

|                                   | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>  | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|-----------------------------------|------------------------------|------------------|--------------------|---------------------------|--------------------------------|
| Governmental activities:          |                              |                  |                    |                           |                                |
| General Obligation Bonds:         |                              |                  |                    |                           |                                |
| \$5,875,000 Bonds of 2002         | \$3,595,000                  | \$ -             | \$3,195,000        | \$400,000                 | \$400,000                      |
| \$2,795,000 Refunding Bonds 2007A | 2,795,000                    | -                | -                  | 2,795,000                 | -                              |
| Total general obligation bonds    | <u>\$6,390,000</u>           | <u>\$0</u>       | <u>\$3,195,000</u> | <u>\$3,195,000</u>        | <u>\$400,000</u>               |
| Compensated absences payable      | <u>\$5,200</u>               | <u>\$9,636</u>   | <u>(\$9,681)</u>   | <u>\$5,155</u>            | <u>\$5,155</u>                 |

All long-term bonded indebtedness outstanding at December 31, 2010 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

**Note 6 CONTINGENCIES**

**A. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

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

There were no significant reductions in insurance or settlements in excess of insurance coverage for 2010.

**B. LITIGATION**

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

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

**A. PLAN DESCRIPTION**

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

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

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

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

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

**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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll in 2010: 11.78% for Basic Plan GERF members and 7.0% for Coordinated Plan GERF members. Employer contribution rates for the Coordinated Plan will increase to 7.25%, effective January 1, 2011. The District's contributions for the years

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

ending December 31, 2010, 2009 and 2008 were \$11,422, \$9,872 and \$6,742, 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, 2010, the Planning and Implementation Fund transferred \$12,600 to the General Fund to cover legal expenses. The transfer is considered reasonable and consistent with previous practices and policies.

**Note 9 DESIGNATIONS OF FUND EQUITY**

At December 31, 2010 and 2009, the District had the following fund equity reservations and designations:

|  | <u>December 31,</u> |                     |
|--|---------------------|---------------------|
|  | <u>2010</u>         | <u>2009</u>         |
| General Fund:                                |                     |                     |
| Reserved for prepaid items                   | \$10,250            | \$10,402            |
| Designated for cash flow                     | 320,584             | 303,225             |
| Special Revenue Fund:                        |                     |                     |
| Designated for Watershed plan implementation | 13,519,051          | 11,853,413          |
| Debt Service Fund:                           |                     |                     |
| Reserved for debt service                    | <u>36,525</u>       | <u>2,893,808</u>    |
| Total  | <u>\$13,886,410</u> | <u>\$15,060,848</u> |

**Note 10 STORMWATER UTILITY FEES**

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

**Note 11 SUBSEQUENT EVENT**

On April 12, 2011, the District Board approved issuance of \$3,990,000 of General Obligation debt.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended December 31, 2009

**Statement 6**

|  | Budgeted Amounts |                | 2010 Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive<br>(Negative) | 2009 Actual<br>Amounts |
|--|------------------|----------------|------------------------|---|------------------------|
|  | Original         | Final          |                        |   |                        |
| <b>Revenues:</b>                       |                  |                |                        |   |                        |
| General property taxes                 | \$224,407        | \$224,407      | \$223,651              | (\$756)   | \$223,395              |
| Intergovernmental - MVHC               | 8,596            | 8,596          | 8,596                  | -   | 8,098                  |
| Investment income                      | -                | -              | 367                    | 367   | 2,206                  |
| Other                                  | -                | -              | 1,252                  | 1,252   | 1,548                  |
| Total revenues                         | <u>233,003</u>   | <u>233,003</u> | <u>233,866</u>         | <u>863</u>  | <u>235,247</u>         |
| <b>Expenditures:</b>                   |                  |                |                        |   |                        |
| <b>Current:</b>                        |                  |                |                        |   |                        |
| Legal                                  | 7,980            | 7,980          | 19,858                 | (11,878)  | 14,627                 |
| Accounting and auditing                | 17,220           | 17,220         | 15,320                 | 1,900   | 15,079                 |
| Salary and benefits                    | 125,305          | 125,305        | 122,412                | 2,893   | 116,789                |
| Contracted services                    | -                | -              | -                      | -   | 1,390                  |
| Manager's per diem and expenses        | 30,200           | 30,200         | 16,587                 | 13,613  | 19,193                 |
| Insurance                              | 11,500           | 11,500         | 12,254                 | (754)   | 2,611                  |
| Dues                                   | 4,500            | 4,500          | 3,995                  | 505   | 4,937                  |
| Rent                                   | 22,643           | 22,643         | 20,422                 | 2,221   | 19,258                 |
| Equipment                              | 12,335           | 12,335         | 11,618                 | 717   | 5,683                  |
| Office supplies and other              | 1,320            | 1,320          | 6,793                  | (5,473)   | 3,173                  |
| Total expenditures                     | <u>233,003</u>   | <u>233,003</u> | <u>229,259</u>         | <u>3,744</u>  | <u>202,740</u>         |
| Revenues over expenditures             | 0                | 0              | 4,607                  | 4,607   | 32,507                 |
| <b>Other financing sources (uses):</b> |                  |                |                        |   |                        |
| Transfers in                           | -                | -              | 12,600                 | (12,600)  | -                      |
| Net change in fund balance             | <u>\$0</u>       | <u>\$0</u>     | 17,207                 | <u>(\$7,993)</u>  | 32,507                 |
| Fund balance - January 1               |                  |                | <u>313,627</u>         |   | <u>281,120</u>         |
| Fund balance - December 31             |                  |                | <u>\$330,834</u>       |   | <u>\$313,627</u>       |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2010

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**Note A**    **BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General Fund.

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**GENERAL FUND**  
December 31, 2010  
With Comparative Amounts For December 31, 2009

**Statement 7**

| Assets  | 2010                 | 2009                 |
|---|----------------------|----------------------|
| Cash and investments                          | \$332,153            | \$307,622            |
| Taxes receivable:                             |                      |                      |
| Delinquent                                    | 6,503                | 7,392                |
| Due from county                               | 3,304                | 5,493                |
| Prepaid items                                 | 10,250               | 10,402               |
| <b>Total assets</b>                           | <b>\$352,210</b>     | <b>\$330,909</b>     |
| <br><b>Liabilities and Fund Balance</b>       |                      |                      |
| <b>Liabilities:</b>                           |                      |                      |
| Accounts payable                              | \$13,231             | \$8,058              |
| Salaries payable                              | 1,642                | 1,832                |
| Deferred revenue                              | 6,503                | 7,392                |
| <b>Total liabilities</b>                      | <b>21,376</b>        | <b>17,282</b>        |
| <br><b>Fund balance:</b>                      |                      |                      |
| Reserved for prepaid items                    | 10,250               | 10,402               |
| <b>Unreserved:</b>                            |                      |                      |
| Designated for cash flow                      | 320,584              | 303,225              |
| <b>Total fund balance</b>                     | <b>330,834</b>       | <b>313,627</b>       |
| <br><b>Total liabilities and fund balance</b> | <br><b>\$352,210</b> | <br><b>\$330,909</b> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
For The Year Ended December 31, 2010  
With Comparative Amounts For The Year Ended December 31, 2009

**Statement 8**

|                                 | <u>2010</u>             | <u>2009</u>             |
|---------------------------------|-------------------------|-------------------------|
| Revenues:                       |                         |                         |
| General property taxes          | \$223,651               | \$223,395               |
| Intergovernmental - MVHC        | 8,596                   | 8,098                   |
| Investment income               | 367                     | 2,206                   |
| Other                           | 1,252                   | 1,548                   |
| Total revenues                  | <u>233,866</u>          | <u>235,247</u>          |
| Expenditures:                   |                         |                         |
| Current:                        |                         |                         |
| Professional services:          |                         |                         |
| Legal                           | 19,858                  | 14,627                  |
| Accounting and auditing         | 15,320                  | 15,079                  |
| Salary and benefits             | 122,412                 | 116,789                 |
| Consulting services             | -                       | 1,390                   |
| Manager's per diem and expenses | 16,587                  | 19,193                  |
| Insurance                       | 12,254                  | 2,611                   |
| Dues                            | 3,995                   | 4,937                   |
| Rent                            | 20,422                  | 19,258                  |
| Equipment                       | 11,618                  | 5,683                   |
| Office supplies and other       | 6,793                   | 3,173                   |
| Total expenditures              | <u>229,259</u>          | <u>202,740</u>          |
| Revenues over expenditures      | 4,607                   | 32,507                  |
| Other financing sources:        |                         |                         |
| Transfers in                    | <u>12,600</u>           | <u>-</u>                |
| Net change in fund balance      | 17,207                  | 32,507                  |
| Fund balance - January 1        | <u>313,627</u>          | <u>281,120</u>          |
| Fund balance - December 31      | <u><u>\$330,834</u></u> | <u><u>\$313,627</u></u> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**PLANNING AND IMPLEMENTATION FUND**  
December 31, 2010  
With Comparative Amounts For December 31, 2009

**Statement 9**

|  | <u>2010</u>                    | <u>2009</u>                    |
|--|--------------------------------|--------------------------------|
| <b>Assets</b>                                |                                |                                |
| Cash and investments                         | \$13,554,186                   | \$11,976,346                   |
| Taxes receivable:                            |                                |                                |
| Delinquent                                   | 14,336                         | 17,039                         |
| Due from county                              | 6,491                          | 11,506                         |
| Stormwater utility fees receivable:          |                                |                                |
| Delinquent                                   | 72,827                         | 109,978                        |
| Due from county                              | <u>33,398</u>                  | <u>35,060</u>                  |
| <br>Total assets                             | <br><u><u>\$13,681,238</u></u> | <br><u><u>\$12,149,929</u></u> |
| <br><b>Liabilities and Fund Balance</b>      |                                |                                |
| <b>Liabilities:</b>                          |                                |                                |
| Accounts payable                             | \$73,128                       | \$167,604                      |
| Salaries payable                             | 1,896                          | 1,895                          |
| Deferred revenue                             | <u>87,163</u>                  | <u>127,017</u>                 |
| Total liabilities                            | <u><u>\$162,187</u></u>        | <u><u>\$296,516</u></u>        |
| <br><b>Fund balance:</b>                     |                                |                                |
| <b>Unreserved:</b>                           |                                |                                |
| Designated for watershed plan implementation | <u>13,519,051</u>              | <u>11,853,413</u>              |
| <br>Total liabilities and fund balance       | <br><u><u>\$13,681,238</u></u> | <br><u><u>\$12,149,929</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, 2010**  
**With Comparative Amounts For The Year Ended December 31, 2009**

**Statement 10**

|                                 | <u>2010</u>                | <u>2009</u>                |
|---------------------------------|----------------------------|----------------------------|
| Revenues:                       |                            |                            |
| General property taxes          | \$436,122                  | \$467,906                  |
| Stormwater utility fees         | 2,129,797                  | 2,288,442                  |
| Intergovernmental:              |                            |                            |
| Market value homestead credit   | 16,762                     | 16,959                     |
| Investment income               | 4,011                      | 26,256                     |
| Other                           | 10,108                     | 9,058                      |
| Total revenues                  | <u>2,596,800</u>           | <u>2,808,621</u>           |
| Expenditures:                   |                            |                            |
| Current:                        |                            |                            |
| Professional services:          |                            |                            |
| Legal                           | 2,029                      | -                          |
| Engineering                     | 158,374                    | 84,091                     |
| Projects and studies            | 758,159                    | 386,925                    |
| Total expenditures              | <u>918,562</u>             | <u>471,016</u>             |
| Revenues over expenditures      | 1,678,238                  | 2,337,605                  |
| Other financing sources (uses): |                            |                            |
| Transfers out                   | <u>(12,600)</u>            | <u>(549,000)</u>           |
| Net change in fund balance      | 1,665,638                  | 1,788,605                  |
| Fund balance - January 1        | <u>11,853,413</u>          | <u>10,064,808</u>          |
| Fund balance - December 31      | <u><u>\$13,519,051</u></u> | <u><u>\$11,853,413</u></u> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE BALANCE SHEET**  
**DEBT SERVICE FUND**  
December 31, 2010  
With Comparative Amounts For December 31, 2009

**Statement 11**

|   | <u>2010</u>                   | <u>2009</u>                      |
|---|-------------------------------|----------------------------------|
| <b>Assets</b>                             |                               |                                  |
| Cash and investments                      | \$27,972                      | \$27,759                         |
| Cash and investments with escrow agent    | -                             | 2,820,175                        |
| Accrued interest receivable               | -                             | 45,874                           |
| Stormwater utility fees receivable:       |                               |                                  |
| Delinquent                                | 9,004                         | -                                |
| Due from county                           | <u>8,553</u>                  | <u>-</u>                         |
| <b>Total assets</b>                       | <b><u><u>\$45,529</u></u></b> | <b><u><u>\$2,893,808</u></u></b> |
| <b>Liabilities and Fund Balance</b>       |                               |                                  |
| <b>Liabilities</b>                        |                               |                                  |
| Deferred revenue                          | <u>\$9,004</u>                | <u>\$127,017</u>                 |
| <b>Fund balance:</b>                      |                               |                                  |
| Reserved for debt service                 | <u>36,525</u>                 | <u>2,893,808</u>                 |
| <b>Total liabilities and fund balance</b> | <b><u><u>\$45,529</u></u></b> | <b><u><u>\$2,893,808</u></u></b> |

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**DEBT SERVICE FUND**  
For The Year Ended December 31, 2010  
With Comparative Amounts For The Year Ended December 31, 2009

**Statement 12**

|                                     | <u>2010</u>            | <u>2009</u>               |
|-------------------------------------|------------------------|---------------------------|
| Revenues:                           |                        |                           |
| Stormwater utility fees             | \$544,666              | \$ -                      |
| Investment income                   | 3,070                  | 31,523                    |
| Total revenues                      | <u>547,736</u>         | <u>31,523</u>             |
| Expenditures:                       |                        |                           |
| Debt service:                       |                        |                           |
| Principal                           | 3,195,000              | 365,000                   |
| Interest                            | 209,594                | 292,591                   |
| Fiscal agent fees and other charges | 425                    | -                         |
| Total expenditures                  | <u>3,405,019</u>       | <u>657,591</u>            |
| Revenues over (under) expenditures  | (2,857,283)            | (626,068)                 |
| Other financing sources:            |                        |                           |
| Transfers in                        | <u>-</u>               | <u>549,000</u>            |
| Net change in fund balance          | (2,857,283)            | (77,068)                  |
| Fund balance - January 1            | <u>2,893,808</u>       | <u>2,970,876</u>          |
| Fund balance - December 31          | <u><u>\$36,525</u></u> | <u><u>\$2,893,808</u></u> |

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## **SUPPLEMENTARY FINANCIAL INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND**  
December 31, 2010  
With Comparative Totals For December 31, 2009

|   | <u>1.0 Floodplain<br/>Management</u> | <u>2.0 Stormwater<br/>Management</u> | <u>3.0 Water<br/>Quality</u> | <u>4.0 Wetlands</u>     | <u>5.0 Natural<br/>Resources</u> |
|---|--------------------------------------|--------------------------------------|------------------------------|-------------------------|----------------------------------|
| <b>Assets</b>                             |                                      |                                      |                              |                         |                                  |
| Cash and investments                      | \$262,319                            | \$9,625,193                          | \$1,016,644                  | \$185,497               | \$525,972                        |
| Taxes receivable:                         |                                      |                                      |                              |                         |                                  |
| Delinquent                                | -                                    | -                                    | -                            | -                       | -                                |
| Due from county                           | -                                    | -                                    | 1,548                        | -                       | -                                |
| Stormwater utility fees receivable:       |                                      |                                      |                              |                         |                                  |
| Delinquent                                | -                                    | -                                    | -                            | -                       | -                                |
| Due from county                           | 1,357                                | 20,323                               | 2,554                        | 1,357                   | 326                              |
| <b>Total assets</b>                       | <u><u>\$263,676</u></u>              | <u><u>\$9,645,516</u></u>            | <u><u>\$1,020,746</u></u>    | <u><u>\$186,854</u></u> | <u><u>\$526,298</u></u>          |
| <b>Liabilities and Fund Balance</b>       |                                      |                                      |                              |                         |                                  |
| <b>Liabilities:</b>                       |                                      |                                      |                              |                         |                                  |
| Accounts payable                          | \$ -                                 | \$26,122                             | \$4,808                      | \$ -                    | \$ -                             |
| Salaries payable                          | -                                    | -                                    | 417                          | -                       | -                                |
| Deferred revenue                          | -                                    | -                                    | -                            | -                       | -                                |
| <b>Total liabilities</b>                  | <u>0</u>                             | <u>26,122</u>                        | <u>5,225</u>                 | <u>0</u>                | <u>0</u>                         |
| <b>Fund balance:</b>                      |                                      |                                      |                              |                         |                                  |
| <b>Unreserved:</b>                        |                                      |                                      |                              |                         |                                  |
| Designated                                | <u>263,676</u>                       | <u>9,619,394</u>                     | <u>1,015,521</u>             | <u>186,854</u>          | <u>526,298</u>                   |
| <b>Total liabilities and fund balance</b> | <u><u>\$263,676</u></u>              | <u><u>\$9,645,516</u></u>            | <u><u>\$1,020,746</u></u>    | <u><u>\$186,854</u></u> | <u><u>\$526,298</u></u>          |

| 6.0<br>Groundwater | 7.0 Erosion<br>Sediment<br>Control | 8.0 Education    | 9.0 Long Range<br>Workplan | 10.0 Data<br>Management | Totals              |                     |
|--------------------|------------------------------------|------------------|----------------------------|-------------------------|---------------------|---------------------|
|                    |                                    |                  |                            |                         | 2010                | 2009                |
| \$679,573          | \$135,198                          | \$233,771        | \$426,708                  | \$463,311               | \$13,554,186        | \$11,976,346        |
| -                  | -                                  | -                | -                          | 14,336                  | 14,336              | 17,039              |
| -                  | 194                                | 788              | 420                        | 3,541                   | 6,491               | 11,506              |
| -                  | -                                  | -                | -                          | 72,827                  | 72,827              | 109,978             |
| 1,676              | -                                  | -                | 5,805                      | -                       | 33,398              | 35,060              |
| <u>\$681,249</u>   | <u>\$135,392</u>                   | <u>\$234,559</u> | <u>\$432,933</u>           | <u>\$554,015</u>        | <u>\$13,681,238</u> | <u>\$12,149,929</u> |
| \$ -               | \$ -                               | \$5,175          | \$ -                       | \$37,023                | \$73,128            | \$167,604           |
| -                  | 95                                 | 190              | 113                        | 1,081                   | 1,896               | 1,895               |
| -                  | -                                  | -                | -                          | 87,163                  | 87,163              | 127,017             |
| <u>0</u>           | <u>95</u>                          | <u>5,365</u>     | <u>113</u>                 | <u>125,267</u>          | <u>162,187</u>      | <u>296,516</u>      |
| <u>681,249</u>     | <u>135,297</u>                     | <u>229,194</u>   | <u>432,820</u>             | <u>428,748</u>          | <u>13,519,051</u>   | <u>11,853,413</u>   |
| <u>\$681,249</u>   | <u>\$135,392</u>                   | <u>\$234,559</u> | <u>\$432,933</u>           | <u>\$554,015</u>        | <u>\$13,681,238</u> | <u>\$12,149,929</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, 2010**  
**With Comparative Totals For The Year Ended December 31, 2009**

|  | <u>1.0 Floodplain<br/>Management</u> | <u>2.0 Stormwater<br/>Management</u> | <u>3.0 Water<br/>Quality</u> | <u>4.0 Wetlands</u> | <u>5.0 Natural<br/>Resources</u> |
|--|--------------------------------------|--------------------------------------|------------------------------|---------------------|----------------------------------|
| <b>Revenues:</b>                       |                                      |                                      |                              |                     |                                  |
| Property taxes                         | \$ -                                 | \$ -                                 | \$104,003                    | \$ -                | \$ -                             |
| Stormwater utility fees                | 86,536                               | 1,295,999                            | 162,891                      | 86,536              | 20,769                           |
| <b>Intergovernmental:</b>              |                                      |                                      |                              |                     |                                  |
| Market value homestead credit          | -                                    | -                                    | 3,997                        | -                   | -                                |
| Investment income                      | 134                                  | 2,006                                | 423                          | 134                 | 32                               |
| Miscellaneous                          | -                                    | -                                    | -                            | -                   | 10,108                           |
| Total revenues                         | <u>86,670</u>                        | <u>1,298,005</u>                     | <u>271,314</u>               | <u>86,670</u>       | <u>30,909</u>                    |
| <b>Expenditures:</b>                   |                                      |                                      |                              |                     |                                  |
| <b>Current:</b>                        |                                      |                                      |                              |                     |                                  |
| Legal                                  | -                                    | 2,029                                | -                            | -                   | -                                |
| Engineering                            | 8,776                                | 85,263                               | -                            | -                   | -                                |
| Projects and studies                   | -                                    | 338,728                              | 163,459                      | -                   | 3,147                            |
| Total expenditures                     | <u>8,776</u>                         | <u>426,020</u>                       | <u>163,459</u>               | <u>0</u>            | <u>3,147</u>                     |
| Revenues over expenditures             | 77,894                               | 871,985                              | 107,855                      | 86,670              | 27,762                           |
| <b>Other financing sources (uses):</b> |                                      |                                      |                              |                     |                                  |
| Transfers out                          | -                                    | -                                    | (3,600)                      | -                   | -                                |
| Net change in fund balance             | 77,894                               | 871,985                              | 104,255                      | 86,670              | 27,762                           |
| Fund balance - January 1               | <u>185,782</u>                       | <u>8,747,409</u>                     | <u>911,266</u>               | <u>100,184</u>      | <u>498,536</u>                   |
| Fund balance - December 31             | <u>\$263,676</u>                     | <u>\$9,619,394</u>                   | <u>\$1,015,521</u>           | <u>\$186,854</u>    | <u>\$526,298</u>                 |

| 6.0 Groundwater  | 7.0 Erosion<br>Sediment<br>Control | 8.0 Education    | 9.0 Long Range<br>Workplan | 10.0 Data<br>Management | Totals              |                     |
|------------------|------------------------------------|------------------|----------------------------|-------------------------|---------------------|---------------------|
|                  |                                    |                  |                            |                         | 2010                | 2009                |
|                  |                                    |                  |                            |                         |                     |                     |
| \$ -             | \$13,031                           | \$52,967         | \$28,233                   | \$237,888               | \$436,122           | \$467,906           |
| 106,897          | -                                  | -                | 370,169                    | -                       | 2,129,797           | 2,288,442           |
| -                | 501                                | 2,036            | 1,085                      | 9,143                   | 16,762              | 16,959              |
| 165              | 21                                 | 87               | 619                        | 390                     | 4,011               | 26,256              |
| -                | -                                  | -                | -                          | -                       | 10,108              | 9,058               |
| <u>107,062</u>   | <u>13,553</u>                      | <u>55,090</u>    | <u>400,106</u>             | <u>247,421</u>          | <u>2,596,800</u>    | <u>2,808,621</u>    |
| -                | -                                  | -                | -                          | -                       | 2,029               | -                   |
| -                | -                                  | -                | -                          | -                       | 94,039              | 84,091              |
| 500              | 3,529                              | 32,923           | 85,378                     | 194,830                 | 822,494             | 386,925             |
| <u>500</u>       | <u>3,529</u>                       | <u>32,923</u>    | <u>85,378</u>              | <u>194,830</u>          | <u>918,562</u>      | <u>471,016</u>      |
| 106,562          | 10,024                             | 22,167           | 314,728                    | 52,591                  | 1,678,238           | 2,337,605           |
| -                | -                                  | -                | (7,200)                    | (1,800)                 | (12,600)            | (549,000)           |
| 106,562          | 10,024                             | 22,167           | 307,528                    | 50,791                  | 1,665,638           | 1,788,605           |
| <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>\$681,249</u> | <u>\$135,297</u>                   | <u>\$229,194</u> | <u>\$432,820</u>           | <u>\$428,748</u>        | <u>\$13,519,051</u> | <u>\$11,853,413</u> |

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**OTHER INFORMATION - UNAUDITED**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMBINED SCHEDULE OF INDEBTEDNESS**  
December 31, 2010

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|                                    | <u>Interest<br/>Rates</u> | <u>Date</u> | <u>Final<br/>Maturity<br/>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                           |



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| Prior Years       |             | Payable<br>01/01/10 | 2010   |             | Payable<br>12/31/10 | Principal<br>Due<br>In 2011 | Interest<br>Due<br>In 2011 | Interest<br>Payable<br>to Maturity |
|-------------------|-------------|---------------------|--------|-------------|---------------------|-----------------------------|----------------------------|------------------------------------|
| Original<br>Issue | Payments    |                     | Issued | Payments    |                     |                             |                            |                                    |
| \$5,875,000       | \$2,280,000 | \$3,595,000         | \$ -   | \$3,195,000 | \$400,000           | \$400,000                   | \$8,900                    | \$8,900                            |
| 2,795,000         | -           | 2,795,000           | -      | -           | 2,795,000           | -                           | 116,550                    | 482,075                            |

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

**Exhibit 2**

|                                     | Tax Capacity<br>Values<br><u>2010/2011</u> | Tax Capacity<br>Values<br><u>2009/2010</u> | Tax Capacity<br>Values<br><u>2008/2009</u> |
|-------------------------------------|--|--|--|
| <b>Taxable valuations:</b>          |  |  |  |
| Real estate                         | \$96,742,840                               | \$108,945,124                              | \$108,848,402                              |
| Personal property                   | 1,770,113                                  | 1,631,473                                  | 1,097,318                                  |
| Total                               | <u>98,512,953</u>                          | <u>110,576,597</u>                         | <u>109,945,720</u>                         |
| Tax increment captured              | (1,487,755)                                | (2,290,266)                                | (2,315,179)                                |
| <b>Fiscal disparities:</b>          |  |  |  |
| Distribution                        | 13,581,898                                 | 13,419,857                                 | 12,452,678                                 |
| Contribution                        | <u>(8,965,457)</u>                         | <u>(9,312,661)</u>                         | <u>(8,030,181)</u>                         |
| Total                               | <u><u>\$101,641,639</u></u>                | <u><u>\$112,393,527</u></u>                | <u><u>\$112,053,038</u></u>                |
|                                     | 2010/2011                                  | 2009/2010                                  | 2008/2009                                  |
|                                     | Certified<br>Levy<br><u>          </u>     | Certified<br>Levy<br><u>          </u>     | Certified<br>Levy<br><u>          </u>     |
| <b>Taxes levied:</b>                |  |  |  |
| Administration levy                 | \$239,856                                  | \$233,003                                  | \$233,387                                  |
| Management plan implementation levy | <u>447,423</u>                             | <u>454,358</u>                             | <u>488,835</u>                             |
| Total                               | <u><u>\$687,279</u></u>                    | <u><u>\$687,361</u></u>                    | <u><u>\$722,222</u></u>                    |

## **OTHER REPORTS**

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## 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, 2010, 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 2010-1 and 2010-2 to be significant deficiencies.

South Washington Watershed District  
Report on Internal Control

South Washington Watershed District's written response to the significant deficiencies 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 them.

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

April 28, 2011

## **2010-1 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 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 3<sup>rd</sup> 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

**2010-2 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.





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

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

We have audited the basic financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2010 and have issued our report thereon dated April 28, 2011.

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

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

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

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

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 28, 2011

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