

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2013

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INTRODUCTORY SECTION

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SOUTH WASHINGTON WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2013

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, 2013, and the related notes to the financial statements, which collectively comprise South Washington Watershed District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of South Washington Watershed District, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Implementation of GASB 65

As discussed in Note 13 to the financial statements, in 2013 the District adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited South Washington Watershed District's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated May 17, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 38 and 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information

for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Washington Watershed District's basic financial statements. The introductory section, individual fund financial statements, supplementary financial information, and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

N&B Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 23, 2014

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BASIC FINANCIAL STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT

STATEMENT OF NET POSITION

Statement 1

December 31, 2013

With Comparative Totals For December 31, 2012

	Governmental Activities	
	2013	2012
Assets:		
Cash and investments	\$13,782,534	\$17,463,046
Restricted cash and investments	1,513,039	1,509,943
Accrued interest receivable	-	1,435
Accounts receivable	4,095	-
Due from other governments	499,211	456,878
Taxes receivable:		
Delinquent	12,370	11,767
Due from county	4,818	6,816
Stormwater utility fees receivable:		
Delinquent	40,576	44,367
Due from county	22,414	36,298
Prepaid items	13,036	11,930
Capital assets - net:		
Depreciable	627,616	643,524
Nondepreciable	12,278,590	8,356,448
Total assets	<u>28,798,299</u>	<u>28,542,452</u>
Liabilities:		
Accounts payable	522,634	568,273
Due to other governments	103,620	-
Salaries payable	5,525	4,681
Contracts payable	367,592	1,064,007
Accrued interest payable	68,657	77,287
Unearned revenue	34,345	41,255
Unamortized bond premium	67,330	80,388
Compensated absences payable:		
Due within one year	10,525	8,987
Bonds payable:		
Due within one year	565,000	545,000
Due in more than one year	5,210,000	5,775,000
Total liabilities	<u>6,955,228</u>	<u>8,164,878</u>
Net position:		
Net investment in capital assets	8,559,721	3,237,281
Restricted for:		
Debt service	339,492	305,912
Unrestricted	12,943,858	16,834,381
Total net position	<u>\$21,843,071</u>	<u>\$20,377,574</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, 2013

With Comparative Totals For The Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2013	2012
Primary government:						
Governmental activities:						
General government	\$283,509	\$ -	\$ -	\$ -	(\$283,509)	(\$261,810)
Programs	424,959	-	-	-	(424,959)	(257,754)
Projects	1,825,831	2,808,112	658,387	-	1,640,668	280,060
Interest on long-term debt	194,082	-	-	-	(194,082)	(229,190)
Total governmental activities	<u>\$2,728,381</u>	<u>\$2,808,112</u>	<u>\$658,387</u>	<u>\$0</u>	<u>738,118</u>	<u>(468,694)</u>
General revenues:						
Property taxes					710,991	702,141
Grants and contributions not restricted to specific programs					351	347
Unrestricted investment earnings					3,974	9,533
Miscellaneous other					12,063	15,424
Total general revenues					<u>727,379</u>	<u>727,445</u>
Change in net position					<u>1,465,497</u>	<u>258,751</u>
Net position - January 1, as previously reported					20,377,574	20,214,313
Prior period adjustment					-	(95,490)
Net position - January 1, as restated					<u>20,377,574</u>	<u>20,118,823</u>
Net position - December 31					<u>\$21,843,071</u>	<u>\$20,377,574</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013
With Comparative Totals For December 31, 2012

Statement 3

Assets	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2013	2012
Cash and investments	\$601,127	\$12,801,719	\$379,688	\$13,782,534	\$17,463,046
Restricted cash and investments	-	1,504,301	8,738	1,513,039	1,509,943
Accrued interest receivable	-	-	-	-	1,435
Accounts receivable	1,455	2,640	-	4,095	-
Due from other governments	-	499,211	-	499,211	456,878
Taxes receivable:					
Delinquent	4,056	8,314	-	12,370	11,767
Due from county	1,802	3,016	-	4,818	6,816
Stormwater utility fees receivable:					
Delinquent	-	27,126	13,450	40,576	44,367
Due from county	-	16,141	6,273	22,414	36,298
Prepaid items	12,536	500	-	13,036	11,930
Total assets	<u>\$620,976</u>	<u>\$14,862,968</u>	<u>\$408,149</u>	<u>\$15,892,093</u>	<u>\$19,542,480</u>
Liabilities, deferred inflows of resources, and fund balance					
Liabilities:					
Accounts payable	\$219,397	\$303,237	\$ -	\$522,634	\$568,273
Due to other governments	-	103,620	-	103,620	-
Salaries payable	2,928	2,597	-	5,525	4,681
Contracts payable	-	367,592	-	367,592	1,064,007
Unearned revenue	-	34,345	-	34,345	41,255
Total liabilities	<u>222,325</u>	<u>811,391</u>	<u>0</u>	<u>1,033,716</u>	<u>1,678,216</u>
Deferred inflows of resources:					
Unavailable revenue	<u>4,056</u>	<u>395,440</u>	<u>13,450</u>	<u>412,946</u>	<u>436,134</u>
Fund balance:					
Nonspendable	12,536	500	-	13,036	11,930
Restricted	-	1,495,845	394,699	1,890,544	1,863,682
Committed	-	12,113,228	-	12,113,228	15,147,730
Assigned	-	46,564	-	46,564	33,198
Unassigned	382,059	-	-	382,059	371,590
Total fund balance	<u>394,595</u>	<u>13,656,137</u>	<u>394,699</u>	<u>14,445,431</u>	<u>17,428,130</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$620,976</u>	<u>\$14,862,968</u>	<u>\$408,149</u>	<u>\$15,892,093</u>	<u>\$19,542,480</u>
Fund balance reported above				\$14,445,431	\$17,428,130
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.				12,906,206	8,999,972
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.				412,946	436,134
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				<u>(5,921,512)</u>	<u>(6,486,662)</u>
Net position of governmental activities				<u>\$21,843,071</u>	<u>\$20,377,574</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, 2013
With Comparative Totals For The Year Ended December 31, 2012

Statement 4

	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2013	2012
Revenues:					
General property taxes	\$262,432	\$447,956	\$ -	\$710,388	\$705,261
Stormwater utility fees	-	2,024,362	787,541	2,811,903	2,783,758
Intergovernmental	131	678,607	-	678,738	1,014,118
Investment income	176	3,282	516	3,974	9,533
Other	1,979	10,084	-	12,063	15,424
Total revenues	<u>264,718</u>	<u>3,164,291</u>	<u>788,057</u>	<u>4,217,066</u>	<u>4,528,094</u>
Expenditures:					
Current:					
General government	252,143	29,828	-	281,971	258,124
Programs	-	424,959	-	424,959	260,223
Projects	-	5,731,640	-	5,731,640	3,869,579
Debt service:					
Principal retirement	-	-	545,000	545,000	420,000
Interest	-	-	215,770	215,770	276,770
Fiscal agent fees and other charges	-	-	425	425	436
Total expenditures	<u>252,143</u>	<u>6,186,427</u>	<u>761,195</u>	<u>7,199,765</u>	<u>5,085,132</u>
Revenues over (under) expenditures	12,575	(3,022,136)	26,862	(2,982,699)	(557,038)
Fund balance - January 1	<u>382,020</u>	<u>16,678,273</u>	<u>367,837</u>	<u>17,428,130</u>	<u>17,985,168</u>
Fund balance - December 31	<u>\$394,595</u>	<u>\$13,656,137</u>	<u>\$394,699</u>	<u>\$14,445,431</u>	<u>\$17,428,130</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, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 5

	<u>2013</u>	<u>2012</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	(\$2,982,699)	(\$557,038)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(23,188)	365,186
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.	3,906,234	(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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal retirement	545,000	420,000
Amortization of bond premium	13,058	13,058
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>7,092</u>	<u>33,453</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$1,465,497</u></u>	<u><u>\$258,751</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. There are no *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or *business-type activity*. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

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

D. BUDGETS

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

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

E. LEGAL COMPLIANCE – BUDGETS

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

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

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

F. CASH AND INVESTMENTS

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

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

G. 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 inflows of resources because they are not available to finance current expenditures.

H. 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.

I. PREPAID ITEMS

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

J. CAPITAL ASSETS

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

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

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

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

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

Infrastructure	48-50 years
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K. LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

L. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Board.

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

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

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

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

M. 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.

N. COMPENSATED ABSENCES

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

O. USE OF ESTIMATES

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

P. RECLASSIFICATIONS

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

Q. COMPARATIVE TOTALS

The basic financial statements, required supplementary information, individual fund financial statements and supplementary financial information include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

R. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from the following sources: property taxes, due from other governmental units, and storm water utility fees.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

S. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds”. The details of this (\$5,921,512) difference are as follows:

Bonds payable	(\$5,775,000)
Accrued interest payable	(68,657)
Compensated absences	(10,525)
Unamortized bond premium	<u>(67,330)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>(\$5,921,512)</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this (\$23,188) difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2012	(\$11,767)
At December 31, 2013	12,370
Unavailable revenue - stormwater utility fees:	
At December 31, 2012	(44,367)
At December 31, 2013	40,576
Unavailable revenue - intergovernmental revenue:	
At December 31, 2012	(380,000)
At December 31, 2013	<u>360,000</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>(\$23,188)</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 \$3,906,234 difference are as follows:

Capital outlay	\$3,922,142
Depreciation expense	<u>(15,908)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$3,906,234</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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 \$7,092 difference are as follows:

Accrued interest payable:	
At December 31, 2012	\$77,287
At December 31, 2013	(68,657)
Compensated absences payable:	
At December 31, 2012	8,987
At December 31, 2013	<u>(10,525)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	<u><u>\$7,092</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, 2013

- 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, 2013.

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, 2013

As of December 31, 2013, 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	*	\$13,782,534	\$13,782,534	\$ -	\$ -	\$ -
Money market	*	1,513,039	1,513,039	-	-	-
Total		<u>\$15,295,573</u>	<u>\$15,295,573</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
* Not Rated			Total investments			<u>\$15,295,573</u>

Following is a reconciliation of the District's cash and investment balances as of December 31, 2013:

Cash and investments	\$13,782,534
Restricted cash	<u>1,513,039</u>
Total	<u>\$15,295,573</u>

C. INVESTMENT RISKS

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

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

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

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, 2013, the District had \$13,782,534 in investments that were invested in an external investment pool and \$1,513,039 in a money market. Investments in external investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures.

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2013 are as follows:

	<u>General Fund</u>	<u>Planning and Implementation</u>	<u>Debt Service</u>	<u>Total</u>
Delinquent property taxes receivable	\$2,700	\$5,600	\$ -	\$8,300
Delinquent stormwater utility fees	-	12,000	6,000	18,000
Due from other governments	-	340,000	-	340,000
 Total	 <u>\$2,700</u>	 <u>\$357,600</u>	 <u>\$6,000</u>	 <u>\$366,300</u>

Note 4 UNAVAILABLE REVENUE

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue and reported in the governmental funds were as follows:

	<u>Property Taxes</u>	<u>Stormwater Utility Fees</u>	<u>Due from other Governmental Units</u>	<u>Total</u>
General Fund	\$4,056	\$ -	\$ -	\$4,056
Planning and Implementation	8,314	27,126	360,000	395,440
Debt Service	-	13,450	-	13,450
Total unavailable revenue	<u>\$12,370</u>	<u>\$40,576</u>	<u>\$360,000</u>	<u>\$412,946</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$8,356,448	\$ -	\$ -	\$8,356,448
Construction in process	-	3,922,142	-	3,922,142
Total	<u>8,356,448</u>	<u>3,922,142</u>	<u>0</u>	<u>12,278,590</u>
Capital assets, being depreciated:				
Infrastructure	<u>793,070</u>			<u>793,070</u>
Less accumulated depreciation for:				
Infrastructure	<u>149,546</u>	<u>15,908</u>		<u>165,454</u>
Total capital assets being depreciated - net	<u>643,524</u>	<u>(15,908)</u>	<u>-</u>	<u>627,616</u>
Governmental activities capital assets - net	<u><u>\$8,999,972</u></u>	<u><u>\$3,906,234</u></u>	<u><u>\$0</u></u>	<u><u>\$12,906,206</u></u>

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

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

Note 6 LONG-TERM DEBT

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

GOVERNMENTAL ACTIVITIES

As of December 31, 2013, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/13
General Obligation Bonds:					
\$2,795,000 Refunding Bonds 2007A	4.00%	12/27/2007	3/1/2017	\$2,795,000	\$1,940,000
\$3,945,000 G.O. Bonds 2011A	3.47%	5/1/2011	3/1/2031	3,945,000	3,835,000
Total General Obligation Bonds				<u>6,740,000</u>	<u>5,775,000</u>
Compensated absences payable				-	10,525
Total indebtedness - governmental activities				<u>\$6,740,000</u>	<u>\$5,785,525</u>

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

Year Ending December 31	General Obligation Bonds - Governmental Activities			
	G.O. Bonds		Refunding Bonds	
	Principal	Interest	Principal	Interest
2014	\$110,000	\$122,520	\$455,000	\$73,250
2015	130,000	120,120	475,000	52,275
2016	135,000	117,470	495,000	30,500
2017	155,000	114,570	515,000	10,300
2018	160,000	110,620	-	-
2019	175,000	105,595	-	-
2020	175,000	100,345	-	-
2021	200,000	94,970	-	-
2022	205,000	89,145	-	-
2023	235,000	82,545	-	-
2024	240,000	75,300	-	-
2025	250,000	67,518	-	-
2026	255,000	58,992	-	-
2027	265,000	49,760	-	-
2028	270,000	39,995	-	-
2029	280,000	29,400	-	-
2030	295,000	17,900	-	-
2031	300,000	6,000	-	-
Total	<u>\$3,835,000</u>	<u>\$1,402,765</u>	<u>\$1,940,000</u>	<u>\$166,325</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
\$2,795,000 Refunding Bonds 2007A	\$2,375,000	\$ -	\$435,000	\$1,940,000	\$455,000
\$3,945,000 G.O. Bonds 2011A	3,945,000	-	110,000	3,835,000	110,000
Subtotal	<u>6,320,000</u>	<u>0</u>	<u>545,000</u>	<u>5,775,000</u>	<u>\$565,000</u>
Unamortized premium on bonds	80,388	-	13,058	67,330	
Total General Obligation Bonds	<u>\$6,400,388</u>	<u>\$0</u>	<u>\$558,058</u>	<u>\$5,842,330</u>	
Compensated absences payable	<u>\$8,987</u>	<u>\$19,072</u>	<u>\$17,534</u>	<u>\$10,525</u>	<u>\$10,525</u>

All long-term bonded indebtedness outstanding at December 31, 2013 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

Note 7 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 2013.

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 8 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, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The District was required to contribute the following percentages of annual covered payroll in 2013: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan GERS members. The District's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$15,242, \$13,635 and \$12,153, respectively, equal to the contractually required contributions for the years as set by state statute.

Note 9 FUND BALANCE

CLASSIFICATIONS

At December 31, 2013, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Planning and Implementation</u>	<u>Debt Service</u>	<u>Total</u>
Nonspendable:				
Prepays	\$12,536	\$500	\$ -	\$13,036
Restricted for:				
Debt service	-	-	394,699	394,699
Water quality and drainage improvements	-	1,495,845	-	1,495,845
Committed for:				
Planning and implementation	-	12,113,228	-	12,113,228
Assigned to:				
Planning and implementation	-	46,564	-	46,564
Unassigned	<u>382,059</u>	<u>-</u>	<u>-</u>	<u>382,059</u>
 Total	 <u>\$394,595</u>	 <u>\$13,656,137</u>	 <u>\$394,699</u>	 <u>\$14,445,431</u>

Note 10 STORMWATER UTILITY FEES

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

Note 11 ACCOUNTS PAYABLE

At December 31, 2013, a summary of the components of accounts payable were as follows:

Accounts payable	\$75,637
Due to other governments	<u>446,997</u>
Total	<u>\$522,634</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Note 12 COMMITTED CONTRACTS

At December 31, 2013, the District had committed contracts totaling \$7,097,207 for construction/repair projects.

Note 13 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2013, the District implemented GASB Statements No. 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB No. 14 and No.34* modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (i.e. blending). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in accounts previously presented as liabilities being reclassified as deferred inflows of resources. In addition, GASB 65 results in the restatements of beginning net position to reflect the change in accounting for bond issuance costs. Prior to GASB 65, bond issuance costs were capitalized and amortized over the life of the bond. GASB 65 requires the expensing of issuance costs (excluding bond insurance) in the year of issuance.

The restatement of net position due to the elimination of deferred charges is summarized as follows:

	<u>Governmental Activities</u>
Net position January 1, 2012 - as previously reported	\$20,214,313
Restatement of deferred charges	<u>(95,490)</u>
Net position January 1, 2012 - as restated	<u><u>\$20,118,823</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

Statement 6

For The Year Ended December 31, 2013

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

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$256,196	\$256,196	\$262,432	\$6,236	\$251,297
Intergovernmental - MVHC	131	131	131	-	124
Investment income	-	-	176	176	181
Other	-	-	1,979	1,979	2,391
Total revenues	<u>256,327</u>	<u>256,327</u>	<u>264,718</u>	<u>8,391</u>	<u>253,993</u>
Expenditures:					
Current:					
Legal	9,414	9,414	6,990	2,424	7,101
Accounting and auditing	17,129	17,129	18,307	(1,178)	16,528
Other consulting	2,400	2,400	1,792	608	-
Salary and benefits	140,048	140,048	151,168	(11,120)	141,635
Manager's per diem and expenses	26,250	26,250	19,386	6,864	16,279
Insurance	11,800	11,800	13,259	(1,459)	12,207
Dues	6,180	6,180	3,500	2,680	3,500
Rent	22,606	22,606	22,578	28	22,136
Equipment	9,000	9,000	4,325	4,675	3,932
Office supplies and other	11,500	11,500	10,838	662	11,408
Total expenditures	<u>256,327</u>	<u>256,327</u>	<u>252,143</u>	<u>4,184</u>	<u>234,726</u>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	12,575	<u>\$12,575</u>	19,267
Fund balance - January 1			<u>382,020</u>		<u>362,753</u>
Fund balance - December 31			<u>\$394,595</u>		<u>\$382,020</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2013

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, 2013
With Comparative Amounts For December 31, 2012

Statement 7

Assets	2013	2012
Cash and investments	\$601,127	\$548,248
Accounts receivable	1,455	-
Taxes receivable:		
Delinquent	4,056	3,815
Due from county	1,802	2,534
Prepaid items	12,536	10,430
Total assets	\$620,976	\$565,027
Liabilities, deferred inflows of resources, and fund balance		
Liabilities:		
Accounts payable	\$219,397	\$162,292
Salaries payable	2,928	2,518
Contracts payable	-	14,382
Total liabilities	222,325	179,192
Deferred inflows of resources:		
Unavailable revenue	4,056	3,815
Fund balance:		
Nonspendable	12,536	10,430
Unassigned	382,059	371,590
Total fund balance	394,595	382,020
Total liabilities, deferred inflows of resources, and fund balance	\$620,976	\$565,027

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 8

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$262,432	\$251,297
Intergovernmental - MVHC	131	124
Investment income	176	181
Other	1,979	2,391
Total revenues	<u>264,718</u>	<u>253,993</u>
Expenditures:		
Current:		
Professional services:		
Legal	6,990	7,101
Accounting and auditing	18,307	16,528
Other consulting	1,792	-
Salary and benefits	151,168	141,635
Manager's per diem and expenses	19,386	16,279
Insurance	13,259	12,207
Dues	3,500	3,500
Rent	22,578	22,136
Equipment	4,325	3,932
Office supplies and other	10,838	11,408
Total expenditures	<u>252,143</u>	<u>234,726</u>
Revenues over expenditures	12,575	19,267
Fund balance - January 1	<u>382,020</u>	<u>362,753</u>
Fund balance - December 31	<u><u>\$394,595</u></u>	<u><u>\$382,020</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
PLANNING AND IMPLEMENTATION FUND
December 31, 2013
With Comparative Amounts For December 31, 2012

Statement 9

	2013	2012
Assets		
Cash and investments	\$12,801,719	\$16,565,491
Restricted cash and investments	1,504,301	1,501,205
Accrued interest receivable	-	1,435
Accounts receivable	2,640	-
Due from other governments	499,211	456,878
Taxes receivable:		
Delinquent	8,314	7,952
Due from county	3,016	4,282
Stormwater utility fees receivable:		
Delinquent	27,126	30,156
Due from county	16,141	26,072
Prepaid items	500	1,500
 Total assets	 \$14,862,968	 \$18,594,971
 Liabilities, deferred inflows of resources, and fund balance		
Liabilities:		
Accounts payable	\$303,237	\$405,547
Due to other governments	103,620	-
Salaries payable	2,597	2,163
Contracts payable	367,592	1,049,625
Unearned revenue	34,345	41,255
Total liabilities	811,391	1,498,590
 Deferred inflows of resources:		
Unavailable revenue	395,440	418,108
 Fund balance:		
Nonspendable	500	1,500
Restricted	1,495,845	637,697
Committed	12,113,228	16,005,878
Assigned	46,564	33,198
Total fund balance	13,656,137	16,678,273
 Total liabilities, deferred inflows of resources, and fund balance	 \$14,862,968	 \$18,594,971

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
PLANNING AND IMPLEMENTATION FUND
For The Year Ended December 31, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 10

	<u>2013</u>	<u>2012</u>
Revenues:		
General property taxes	\$447,956	\$453,964
Stormwater utility fees	2,024,362	2,001,460
Intergovernmental:		
Market value homestead credit	220	223
Other	678,387	1,013,771
Investment income	3,282	8,818
Other	10,084	13,033
Total revenues	<u>3,164,291</u>	<u>3,491,269</u>
Expenditures:		
Current:		
Professional services:		
Legal	19,744	7,842
Engineering	413,668	256,949
Salaries and benefits	21,375	17,793
Projects and studies	5,731,640	3,870,616
Fiscal agent fees	-	436
Total expenditures	<u>6,186,427</u>	<u>4,153,636</u>
Revenues over (under) expenditures	(3,022,136)	(662,367)
Fund balance - January 1	<u>16,678,273</u>	<u>17,340,640</u>
Fund balance - December 31	<u><u>\$13,656,137</u></u>	<u><u>\$16,678,273</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
DEBT SERVICE FUND
December 31, 2013
With Comparative Amounts For December 31, 2012

Statement 11

	<u>2013</u>	<u>2012</u>
Assets		
Cash and investments	\$379,688	\$349,307
Restricted cash and investments	8,738	8,738
Stormwater utility fees receivable:		
Delinquent	13,450	14,211
Due from county	<u>6,273</u>	<u>10,226</u>
Total assets	<u><u>\$408,149</u></u>	<u><u>\$382,482</u></u>
Liabilities, deferred inflows of resources, and fund balance		
Liabilities:		
Accounts payable	<u>\$ -</u>	<u>\$434</u>
Deferred inflows of resources:		
Unavailable revenue	<u>13,450</u>	<u>14,211</u>
Fund balance:		
Restricted	<u>394,699</u>	<u>367,837</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$408,149</u></u>	<u><u>\$382,482</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DEBT SERVICE FUND
For The Year Ended December 31, 2013
With Comparative Amounts For The Year Ended December 31, 2012

Statement 12

	<u>2013</u>	<u>2012</u>
Revenues:		
Stormwater utility fees	\$787,541	\$782,298
Investment income	516	534
Total revenues	<u>788,057</u>	<u>782,832</u>
Expenditures:		
Debt service:		
Principal	545,000	420,000
Interest	215,770	276,770
Fiscal agent fees	425	-
Total expenditures	<u>761,195</u>	<u>696,770</u>
Revenues over expenditures	26,862	86,062
Fund balance - January 1	<u>367,837</u>	<u>281,775</u>
Fund balance - December 31	<u><u>\$394,699</u></u>	<u><u>\$367,837</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, 2013
With Comparative Totals For December 31, 2012

Assets	1.0 Floodplain Management	2.0 Stormwater Management	3.0 Water Quality	4.0 Wetlands	5.0 Natural Resources
Cash and investments	\$215,394	\$7,247,350	\$1,395,338	\$211,135	\$562,400
Restricted cash and investments	-	1,504,301	-	-	-
Interest receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	2,640
Due from other governments	-	380,000	119,211	-	-
Taxes receivable:					
Delinquent	-	-	-	-	-
Due from county	-	155	1,116	-	16
Stormwater utility fees receivable:					
Delinquent	-	-	-	-	-
Due from county	110	8,919	1,629	-	323
Prepaid expense	-	-	-	-	-
Total assets	\$215,504	\$9,140,725	\$1,517,294	\$211,135	\$565,379
Liabilities, inflow of resources, and fund balance					
Liabilities:					
Accounts payable	\$ -	\$16,159	\$4,242	\$ -	\$ -
Due to other governments	-	-	103,620	-	-
Contracts payable	-	367,592	-	-	-
Salaries payable	-	-	1,149	-	154
Unearned revenue	-	34,345	-	-	-
Total liabilities	0	418,096	109,011	0	154
Deferred inflows of resources:					
Unavailable revenue	-	360,000	-	-	-
Fund balance:					
Nonspendable	-	-	-	-	-
Restricted	-	1,495,845	-	-	-
Committed	215,449	6,851,247	1,407,594	211,125	541,753
Assigned	55	15,537	689	10	23,472
Total fund balance	215,504	8,362,629	1,408,283	211,135	565,225
Total liabilities, inflow of resources, and fund balance	\$215,504	\$9,140,725	\$1,517,294	\$211,135	\$565,379

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2013	2012
					\$947,020	\$146,997
-	-	-	-	-	1,504,301	1,501,205
-	-	-	-	-	-	1,435
-	-	-	-	-	2,640	-
-	-	-	-	-	499,211	456,878
-	-	-	-	8,314	8,314	7,952
32	22	291	181	1,203	3,016	4,282
-	-	-	-	27,126	27,126	30,156
695	-	-	4,465	-	16,141	26,072
-	-	500	-	-	500	1,500
<u>\$947,747</u>	<u>\$147,019</u>	<u>\$258,837</u>	<u>\$1,319,335</u>	<u>\$539,993</u>	<u>\$14,862,968</u>	<u>\$18,594,971</u>
\$ -	\$ -	\$ -	\$239,192	\$43,644	\$303,237	\$405,547
-	-	-	-	-	103,620	-
-	-	-	-	-	367,592	1,049,625
66	88	157	453	530	2,597	2,163
-	-	-	-	-	34,345	38,108
<u>66</u>	<u>88</u>	<u>157</u>	<u>239,645</u>	<u>44,174</u>	<u>811,391</u>	<u>1,495,443</u>
-	-	-	-	35,440	395,440	421,255
-	-	500	-	-	500	1,500
-	-	-	-	-	1,495,845	1,495,845
947,497	146,918	258,090	1,078,613	454,942	12,113,228	15,147,730
184	13	90	1,077	5,437	46,564	33,198
<u>947,681</u>	<u>146,931</u>	<u>258,680</u>	<u>1,079,690</u>	<u>460,379</u>	<u>13,656,137</u>	<u>16,678,273</u>
<u>\$947,747</u>	<u>\$147,019</u>	<u>\$258,837</u>	<u>\$1,319,335</u>	<u>\$539,993</u>	<u>\$14,862,968</u>	<u>\$18,594,971</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, 2013
With Comparative Totals For The Year Ended December 31, 2012

	<u>1.0 Floodplain Management</u>	<u>2.0 Stormwater Management</u>	<u>3.0 Water Quality</u>	<u>4.0 Wetlands</u>	<u>5.0 Natural Resources</u>
Revenues:					
Property taxes	\$2,374	\$22,744	\$163,960	\$4,721	\$2,374
Stormwater utility fees	13,797	1,119,721	204,499	-	40,539
Intergovernmental:					
Market value homestead credit	-	11	81	-	3
Other	-	213,268	465,119	-	-
Investment income	9	2,408	243	-	32
Miscellaneous	-	4,805	-	-	5,279
Total revenues	<u>16,180</u>	<u>1,362,957</u>	<u>833,902</u>	<u>4,721</u>	<u>48,227</u>
Expenditures:					
Current:					
Legal	-	19,609	-	-	-
Engineering	53,638	310,801	-	-	-
Salaries and benefits	-	14,093	-	-	5,481
Projects and studies	-	4,705,749	603,581	-	50,828
Total expenditures	<u>53,638</u>	<u>5,050,252</u>	<u>603,581</u>	<u>0</u>	<u>56,309</u>
Revenues over (under) expenditures	(37,458)	(3,687,295)	230,321	4,721	(8,082)
Fund balance - January 1	<u>252,962</u>	<u>12,049,924</u>	<u>1,177,962</u>	<u>206,414</u>	<u>573,307</u>
Fund balance - December 31	<u>\$215,504</u>	<u>\$8,362,629</u>	<u>\$1,408,283</u>	<u>\$211,135</u>	<u>\$565,225</u>

6.0 Groundwater	7.0 Erosion Sediment Control	8.0 Education	9.0 Long Range Workplan	10.0 Data Management	Totals	
					2013	2012
					\$2,374	\$3,165
85,291	-	-	560,515	-	2,024,362	2,001,460
1	2	21	13	88	220	223
-	-	-	-	-	678,387	1,013,771
58	2	28	385	117	3,282	8,818
-	-	-	-	-	10,084	13,033
<u>87,724</u>	<u>3,169</u>	<u>42,877</u>	<u>587,524</u>	<u>177,010</u>	<u>3,164,291</u>	<u>3,491,269</u>
-	-	-	-	-	19,609	7,842
-	-	-	-	-	364,439	157,809
3,104	-	-	-	-	22,678	18,892
1,581	3,132	37,994	178,399	198,437	5,779,701	3,969,093
<u>4,685</u>	<u>3,132</u>	<u>37,994</u>	<u>178,399</u>	<u>198,437</u>	<u>6,186,427</u>	<u>4,153,636</u>
83,039	37	4,883	409,125	(21,427)	(3,022,136)	(662,367)
<u>864,642</u>	<u>146,894</u>	<u>253,797</u>	<u>670,565</u>	<u>481,806</u>	<u>16,678,273</u>	<u>17,340,640</u>
<u>\$947,681</u>	<u>\$146,931</u>	<u>\$258,680</u>	<u>\$1,079,690</u>	<u>\$460,379</u>	<u>\$13,656,137</u>	<u>\$16,678,273</u>

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OTHER INFORMATION - UNAUDITED

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINED SCHEDULE OF INDEBTEDNESS
December 31, 2013

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

Prior Years		Payable 01/01/13	2013		Payable 12/31/13	Principal Due In 2014	Interest Due In 2014	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$2,795,000	\$ -	\$2,375,000		\$435,000	\$1,940,000	\$455,000	\$73,250	\$166,325
3,945,000	-	3,945,000		110,000	3,835,000	110,000	122,520	1,402,765
<u>\$6,740,000</u>	<u>\$0</u>	<u>\$6,320,000</u>	<u>\$0</u>	<u>\$545,000</u>	<u>\$5,775,000</u>	<u>\$565,000</u>	<u>\$195,770</u>	<u>\$1,569,090</u>

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

Exhibit 2

	Tax Capacity Values <u>2013/2014</u>	Tax Capacity Values <u>2012/2013</u>	Tax Capacity Values <u>2011/2012</u>	Tax Capacity Values <u>2010/2011</u>
Taxable valuations:				
Real estate	\$92,671,717	\$88,701,090	\$93,765,826	\$96,742,840
Personal property	2,031,095	2,003,137	1,860,021	1,770,113
Total	<u>94,702,812</u>	<u>90,704,227</u>	<u>95,625,847</u>	<u>98,512,953</u>
Tax increment captured	(758,479)	(1,127,089)	(1,271,066)	(1,487,755)
Fiscal disparities:				
Distribution	11,929,117	11,981,051	13,296,859	13,581,898
Contribution	<u>(8,105,430)</u>	<u>(8,488,654)</u>	<u>(8,322,319)</u>	<u>(8,965,457)</u>
Total	<u>\$97,768,020</u>	<u>\$93,069,535</u>	<u>\$99,329,321</u>	<u>\$101,641,639</u>
	2013/2014	2012/2013	2011/2012	2010/2011
	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>
Taxes levied:				
Administration levy	\$250,000	\$250,000	\$250,000	\$239,856
Management plan implementation levy	<u>496,293</u>	<u>468,025</u>	<u>461,044</u>	<u>447,423</u>
Total	<u>\$746,293</u>	<u>\$718,025</u>	<u>\$711,044</u>	<u>\$687,279</u>

OTHER REPORTS

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REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of the governmental activities and each major fund of South Washington Watershed District as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered South Washington Watershed District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Washington Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Washington Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in the South Washington Watershed District's internal control as described in the accompanying Schedule of Findings and Responses, as item 2013-2 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the South Washington Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as item 2013-1 to be a significant deficiency.

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

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

April 23, 2014

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

2013-1 Lack of Segregation of Duties

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

Condition: Substantially all accounting procedures are performed one person.

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

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

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

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

2013-2 Audit Adjustments

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

Condition: During the course of our audit, we identified an unrecorded contract and retainage payable in the amount of \$236,438.

Cause: The District's closing and review procedures were not effective in identifying and correcting this misstatement.

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

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

Management's Response: The District has internal control policies and procedures in place to adequately address corrections of financial statements. Management understands that the finding is material due to the amount and that the Audit does not serve as an internal control. The District recorded the contract payable in 2014, when electronic payment was processed. The project and work performed under this contract were performed in 2013. This resulted in the District accounting of the 2013 Minnesota Native Landscape work and invoice recorded in 2014.



MINNESOTA LEGAL COMPLIANCE REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of South Washington Watershed District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor Pursuant to Minn. Stat. § 6.65, contains 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 considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that South Washington Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in finding 2013-3. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the South Washington Watershed District's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads "HLB Tautges Redpath, Ltd." in a cursive style.

HLB TAUTGES REDPATH, LTD.

April 23, 2014

2013-3 Out-of-State Travel Policy

Criteria: Minnesota Statute 471.661 reads as follows:

471.661 Out-of-State Travel

The governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must have on record a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government. The policy must be approved by a recorded vote and specify:

- (1) when travel outside the state is appropriate;
- (2) applicable expense limits; and
- (3) procedures for approval of the travel.

The policy must be made available for public inspection upon request and reviewed annually. Subsequent changes to the policy must be approved by a recorded vote.

Condition: The Watershed has not adopted an out-of-state travel policy.

Cause: Unknown.

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

Recommendation: We recommend the Watershed adopt an out-of-state travel policy in accordance with Minnesota Statute 471.661.

Views of Responsible Officials and Planned Corrective Action: The District maintains an Employee Handbook and Accounting Policy and Procedure handbook cataloging and documenting District policies. The handbook identifies expense reimbursement policies. The District will develop a 2014 Out-of-State travel policy in 2014 and present it to the District Board of Managers for adoption.