



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

April 18, 2008

Matt Moore
South Washington Watershed District
c/o City of Woodbury
8301 Valley Creek Road
Woodbury, MN 55125

Dear Matt:

Enclosed are the following reports of the South Washington Watershed District for the year ended December 31, 2007:

- Annual Financial Report (8 copies) - includes the State of Minnesota Legal Compliance Report.
- Audit Management Letter (8 copies)

We have not forwarded copies of the Annual Financial Report and Legal Compliance Report directly to the Office of the State Auditor and the Board of Water and Soil Resources to fulfill the audit reporting requirements of the District. Please inform us when they have been approved and we will send the copies at that time.

Thank you for the opportunity to be of service. If you or the Board would like to discuss any topics in these reports, we are available at your convenience.

Sincerely,

HLB TAUTGES REDPATH, LTD.

A handwritten signature in black ink, appearing to read "Debra Jezierski", written in a cursive style.

Debra A. Jezierski, CPA

DAJ/nal

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2007

- This page intentionally left blank -

SOUTH WASHINGTON WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u> <u>No.</u>
INTRODUCTORY SECTION		
List of Appointed Officials		3
FINANCIAL SECTION		
Independent Auditor's Report		7
Basic Financial Statements		
Government-Wide Financial Statements:		
Statement of Net Assets	Statement 1	12
Statement of Activities	Statement 2	13
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	Statement 5	16
Notes to Financial Statements		17
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule - General Fund	Statement 6	36
Budgetary Comparison Schedule - Note to RSI		37
Individual Fund Statements		
General Fund:		
Comparative Balance Sheet	Statement 7	40
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 8	41

SOUTH WASHINGTON WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Reference</u>	<u>Page No.</u>
Planning and Implementation Fund:		
Comparative Balance Sheet	Statement 9	42
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 10	43
Debt Service Fund:		
Comparative Balance Sheet	Statement 11	44
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 12	45
Supplementary Financial Information		
Combined Schedule of Indebtedness	Exhibit 1	48
Taxable Valuations, Tax Levies and Tax Rates	Exhibit 2	50
Special Revenue Fund - Planning and Implementation Fund:		
Combining Balance Sheet	Exhibit 3	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	Exhibit 4	55
OTHER REPORTS		
Communication of Significant Deficiencies that Indicates No Material Weaknesses in Internal Control		61
Report on Compliance with Minnesota Legal Compliance Audit Guide for Local Government		69

INTRODUCTORY SECTION

- This page intentionally left blank -

SOUTH WASHINGTON WATERSHED DISTRICT
LIST OF APPOINTED OFFICIALS
December 31, 2007

BOARD OF MANAGERS

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

APPOINTED OFFICIALS

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

- This page intentionally left blank -

FINANCIAL SECTION

- This page intentionally left blank -



Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Washington Watershed District as of and for the year ended December 31, 2007 which collectively comprise the South Washington Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Washington Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the South Washington Watershed District as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The South Washington Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. However, the South Washington Watershed District has presented the budgetary information on pages 36 and 37 which is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

- This page intentionally left blank -

required supplementary information. However, we did not audit the information and express no opinion on it.

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

April 18, 2008

- This page intentionally left blank -

BASIC FINANCIAL STATEMENTS

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

December 31, 2007

Statement 1

	Governmental Activities	
	2007	2006
Assets:		
Cash and investments	\$8,374,304	\$6,797,481
Cash and investments with escrow agent	2,858,118	-
Accounts receivable - net	3,180	3,180
Taxes receivable:		
Delinquent	93,878	65,438
Due from county	52,163	45,033
Prepaid items	5,500	-
Deferred charges	47,993	-
Capital assets - net:		
Depreciable	723,064	738,973
Nondepreciable	7,444,970	7,444,970
Total assets	<u>19,603,170</u>	<u>15,095,075</u>
Liabilities:		
Accounts payable	88,765	130,381
Accrued interest payable	95,245	70,527
Unamortized bond premium	102,693	-
Compensated absences payable:		
Due within one year	2,969	2,818
Bonds payable:		
Due within one year	350,000	340,000
Due in more than one year	6,755,000	4,310,000
Total liabilities	<u>7,394,672</u>	<u>4,853,726</u>
Net assets:		
Invested in capital assets, net of related debt	3,858,034	3,533,943
Restricted for:		
Debt Service	2,877,241	19,123
Unrestricted	5,473,223	6,688,283
Total net assets	<u>\$12,208,498</u>	<u>\$10,241,349</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, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2007	2006
Primary government:						
Governmental activities:						
General government	\$225,830	\$ -	\$ -	\$ -	(\$225,830)	(\$149,468)
Programs	276,447	-	-	-	(276,447)	(320,038)
Projects	323,994	2,094,767	-	-	1,770,773	1,715,792
Interest on long-term debt	229,671	-	-	-	(229,671)	(213,452)
Total governmental activities	\$1,055,942	\$2,094,767	\$0	\$0	1,038,825	1,032,834
General revenues:						
Property taxes					548,128	535,009
Grants and contributions not restricted to specific programs					20,551	24,343
Unrestricted investment earnings					347,931	248,949
Miscellaneous other					11,714	7,813
Total general revenues					928,324	816,114
Change in net assets					1,967,149	1,848,948
Net assets - January 1, as previously reported					10,241,349	8,392,401
Net assets - December 31					\$12,208,498	\$10,241,349

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

SOUTH WASHINGTON WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

Statement 3

Assets	General Fund	Planning and Implementation	Debt Service	Total Governmental Funds	
				2007	2006
Cash and investments	\$282,155	\$8,073,026	\$19,123	\$8,374,304	\$6,797,481
Cash and investments with escrow agent	-	-	2,858,118	2,858,118	-
Accounts receivable - net	-	3,180	-	3,180	3,180
Taxes receivable:					
Delinquent	3,154	90,724	-	93,878	65,438
Due from county	3,169	48,994	-	52,163	45,033
Prepaid items	5,500	-	-	5,500	-
Total assets	<u>\$293,978</u>	<u>\$8,215,924</u>	<u>\$2,877,241</u>	<u>\$11,387,143</u>	<u>\$6,911,132</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$14,096	\$74,669	\$ -	\$88,765	\$130,381
Deferred revenue	3,154	90,724	-	93,878	65,438
Total liabilities	<u>17,250</u>	<u>165,393</u>	<u>0</u>	<u>182,643</u>	<u>195,819</u>
Fund balance:					
Reserved for:					
Prepaid items	5,500	-	-	5,500	-
Debt service	-	-	2,877,241	2,877,241	19,123
Unreserved:					
Designated:					
General Fund	271,228	-	-	271,228	282,847
Special Revenue Fund	-	8,050,531	-	8,050,531	6,413,343
Total fund balance	<u>276,728</u>	<u>8,050,531</u>	<u>2,877,241</u>	<u>11,204,500</u>	<u>6,715,313</u>
Total liabilities and fund balance	<u>\$293,978</u>	<u>\$8,215,924</u>	<u>\$2,877,241</u>	<u>\$11,387,143</u>	<u>\$6,911,132</u>
Fund balance reported above				\$11,204,500	\$6,715,313
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.				8,168,034	8,183,943
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				93,878	65,438
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				<u>(7,257,914)</u>	<u>(4,723,345)</u>
Net assets of governmental activities				<u>\$12,208,498</u>	<u>\$10,241,349</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, 2007

Statement 4

	General	Planning and	Debt Service	Total Governmental Funds	
	Fund	Implementation		2007	2006
Revenues:					
General property taxes	\$184,031	\$335,657	\$ -	\$519,688	\$531,685
Stormwater utility fees	-	1,549,814	544,953	2,094,767	2,053,218
Intergovernmental	1,249	19,302	-	20,551	40,093
Investment income	20,629	318,884	8,418	347,931	248,949
Other	712	11,002	-	11,714	7,813
Total revenues	<u>206,621</u>	<u>2,234,659</u>	<u>553,371</u>	<u>2,994,651</u>	<u>2,881,758</u>
Expenditures:					
Current:					
General government	212,740	12,939	-	225,679	148,474
Programs	-	276,447	-	276,447	335,790
Projects	-	308,085	-	308,085	321,517
Debt service:					
Principal retirement	-	-	340,000	340,000	330,000
Interest	-	-	204,953	204,953	217,193
Professional services	-	-	47,993	47,993	-
Total expenditures	<u>212,740</u>	<u>597,471</u>	<u>592,946</u>	<u>1,403,157</u>	<u>1,352,974</u>
Revenues over (under) expenditures	(6,119)	1,637,188	(39,575)	1,591,494	1,528,784
Other financing sources:					
Bond premium	-	-	102,693	102,693	-
Refunding bonds issued	-	-	2,795,000	2,795,000	-
Total other financing sources	<u>0</u>	<u>0</u>	<u>2,897,693</u>	<u>2,897,693</u>	<u>0</u>
Net increase (decrease) in fund balance	(6,119)	1,637,188	2,858,118	4,489,187	1,528,784
Fund balance - January 1	<u>282,847</u>	<u>6,413,343</u>	<u>19,123</u>	<u>6,715,313</u>	<u>5,186,529</u>
Fund balance - December 31	<u>\$276,728</u>	<u>\$8,050,531</u>	<u>\$2,877,241</u>	<u>\$11,204,500</u>	<u>\$6,715,313</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, 2007

Statement 5

	<u>2007</u>	<u>2006</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)	\$4,489,187	\$1,528,784
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	28,440	3,324
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.	(15,909)	(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:		
Issuance of refunding bonds	(2,795,000)	-
Premium on refunding bonds	(102,693)	-
Bond issuance costs	47,993	-
Principal retirement	340,000	330,000
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>(24,869)</u>	<u>2,748</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$1,967,149</u></u>	<u><u>\$1,848,948</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

The purpose of the District is to promote public health, safety and welfare and enable its affected area to eventually come into compliance with Minnesota Statutes Section 103B.201 to 103B.255, also known as the Metropolitan Water Management Act. The District is operated by a five member Board of Managers originally appointed by the Board. Subsequent appointments will be made by Washington County.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The government 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, 2007

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 government'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 moved to the overflow fund at year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

E. LEGAL COMPLIANCE – BUDGETS

The District prepares annual revenue and expenditure budgets for the District's General Fund. The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the budget extension process. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made. The District does not prepare an annual expenditure/appropriations budget for its Special Revenue Fund.

F. CASH AND INVESTMENTS

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

Investments are stated at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date.

G. MARKET VALUE HOMESTEAD CREDIT

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

H. PROPERTY TAX REVENUE RECOGNITION

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

I. INVENTORIES

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

J. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

K. CAPITAL ASSETS

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

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

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

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

Infrastructure	50 years
----------------	----------

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 live 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. 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 (\$7,257,914) difference are as follows:

Bonds payable	(\$7,105,000)
Accrued interest payable	(95,245)
Compensated absences	(2,969)
Deferred charges	47,993
Unamortized bond premium	<u>(102,693)</u>
 Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	 <u><u>(\$7,257,914)</u></u>

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

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$28,440 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2006	(\$65,438)
At December 31, 2007	<u>93,878</u>
 Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	 <u><u>\$28,440</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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 (\$15,909) difference are as follows:

Depreciation expense	<u>(\$15,909)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>(\$15,909)</u></u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$(24,869) difference are as follows:

Accrued interest payable:	
At December 31, 2006	\$70,527
At December 31, 2007	(95,245)
Compensated absences payable:	
At December 31, 2006	2,818
At December 31, 2007	<u>(2,969)</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>(\$24,869)</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, treasury bonds;

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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

At year end the carrying amount of the District's deposits was \$8,374,304 and the bank balance was \$8,390,881. The entire bank balance was covered by federal depository insurance or collateral held by the District's agent in the District's name.

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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

- 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.

As of December 31, 2007, the District had the following investments and maturities:

Investment Type	Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Over 10 Years
Federal Home Loan Bank	AAA	\$202,579	\$ -	\$202,579	\$ -	\$ -
Federal National Mortgage Association	AAA	2,608,925	-	2,608,925	-	-
Money Market	N/A	46,614	46,614	-	-	-
Total		<u>\$2,858,118</u>	<u>\$46,614</u>	<u>\$2,811,504</u>	<u>\$0</u>	<u>\$0</u>
Total investments						\$2,858,118
Deposits						8,374,304
Total cash and investments						<u>\$11,232,422</u>

Following is a reconciliation of the District's cash and investment balances as of December 31, 2007:

Cash and investments	\$8,374,304
Cash and investments with escrow agent	<u>2,858,118</u>
	<u>\$11,232,422</u>

Credit Risk. The District follows State Statutes in regards to credit risk of investments. The District does not have an investment policy which further limits its investment choices.

Interest Rate Risk. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Federal Home Loan Bank	7.08%
Federal National Mortgage Association	91.28%

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2007 are as follows:

	<u>Major General Funds</u>	<u>Major Planning and Implementation</u>	<u>Total</u>
Delinquent property taxes	<u>\$1,670</u>	<u>\$48,038</u>	<u>\$49,708</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)	\$3,154	\$ -
Delinquent property taxes receivable (Planning and Implementation Fund)	<u>90,724</u>	<u>-</u>
Total	<u>\$93,878</u>	<u>\$0</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$7,444,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,444,970</u>
Capital assets, being depreciated:				
Infrastructure	<u>793,070</u>	<u>-</u>	<u>-</u>	<u>793,070</u>
Less accumulated depreciation for:				
Infrastructure	<u>54,097</u>	<u>15,909</u>	<u>-</u>	<u>70,006</u>
Total capital assets being depreciated - net	<u>738,973</u>	<u>(15,909)</u>	<u>-</u>	<u>723,064</u>
Governmental activities capital assets - net	<u><u>\$8,183,943</u></u>	<u><u>(\$15,909)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,168,034</u></u>

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

Governmental activities:	
Projects	<u>\$15,909</u>
Total depreciation expense - governmental activities	<u><u>\$15,909</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 5 LONG-TERM DEBT

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

GOVERNMENTAL ACTIVITIES

As of December 31, 2007, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	Interest Rates	Date	Final Maturity Date	Original Issue	Payable 12/31/07
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2017	\$5,875,000	\$4,310,000
\$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>7,105,000</u>
Compensated absences payable				-	2,969
Total indebtedness - governmental activities				<u>\$8,670,000</u>	<u>\$7,107,969</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
2008	\$350,000	\$191,060	\$ -	\$87,413
2009	365,000	176,041	-	116,550
2010	3,195,000	93,043	-	116,550
2011	400,000	8,900	-	116,550
2012	-	-	420,000	108,150
2013	-	-	435,000	91,050
2014	-	-	455,000	73,250
2015	-	-	475,000	52,275
2016	-	-	495,000	30,500
2017	-	-	515,000	10,300
Total	<u>\$4,310,000</u>	<u>\$469,044</u>	<u>\$2,795,000</u>	<u>\$802,588</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	\$4,650,000	\$ -	(\$340,000)	\$4,310,000	\$350,000
\$2,795,000 Refunding Bonds 2007A	-	2,795,000	-	2,795,000	-
Total general obligation bonds	<u>4,650,000</u>	<u>2,795,000</u>	<u>(340,000)</u>	<u>7,105,000</u>	<u>350,000</u>
Compensated absences payable	<u>\$2,818</u>	<u>\$6,036</u>	<u>(\$5,885)</u>	<u>\$2,969</u>	<u>\$2,969</u>

All long-term bonded indebtedness outstanding at December 31, 2007 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

CROSSOVER REFUNDING

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

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

The District is responsible for the debt service of the refunded bonds through the crossover date (March 1, 2010) and the debt service of the refunding bonds after the crossover date. The District is also responsible for the September 1, 2010, March 1, 2011 and September 1, 2011 debt service of the refunded bonds. The debt service of the refunding bonds before the crossover date is payable from the escrow account. Assets held with the escrow agent total \$2,858,118 at December 31, 2007.

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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

Payment Date	Refunded Bonds Total	Refunding Bonds Total	Debt Service Commitment	
			Escrow Account	District
3/1/2008	\$449,161	\$ -	\$ -	\$449,161
9/1/2008	91,899	87,413	87,413	91,899
3/1/2009	456,899	58,275	58,275	456,899
9/1/2009	84,142	58,275	58,275	84,142
3/1/2010	3,279,143	58,275	2,868,275	469,143
9/1/2010	8,900	58,275	-	67,175
3/1/2011	408,900	58,275	-	467,175
9/1/2011	-	58,275	-	58,275
3/1/2012	-	478,275	-	478,275
9/1/2012	-	49,875	-	49,875
3/1/2013	-	484,875	-	484,875
9/1/2013	-	41,175	-	41,175
3/1/2014	-	496,175	-	496,175
9/1/2014	-	32,075	-	32,075
3/1/2015	-	507,075	-	507,075
9/1/2015	-	20,200	-	20,200
3/1/2016	-	515,200	-	515,200
9/1/2016	-	10,300	-	10,300
3/1/2017	-	525,300	-	525,300
Total	<u>\$4,779,044</u>	<u>\$3,597,588</u>	<u>\$3,072,238</u>	<u>\$5,304,394</u>

Note 6 CONTINGENCIES

A. RISK MANAGEMENT

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

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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 2007.

B. LITIGATION

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

C. FEDERAL AND STATE FUNDS

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2007.

Note 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

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

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

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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

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

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.00%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5%, effective January 1, 2008. The District's contributions for the years ending December 31, 2007, 2006 and 2005 were \$5,329, \$4,481 and \$3,768, respectively, equal to the contractually required contributions for the years as set by state statute.

Note 8 DESIGNATIONS OF FUND EQUITY

At December 31, 2007 and 2006 the District had the following fund equity reservations and designations:

	December 31,	
	2007	2006
General Fund:		
Reserved for prepaid items	\$5,500	\$ -
Designated for cash flow	271,228	282,847
Special Revenue Fund:		
Designated for Watershed plan implementation	8,050,531	6,413,343
Debt Service Fund:		
Reserved for debt service	2,877,241	19,123
Total	<u>\$11,204,500</u>	<u>\$6,715,313</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 9 STORMWATER UTILITY FEES

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

Note 10 RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Boards (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans.* Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of \$100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of \$10 million or more but less than \$100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than \$10 million). Early implementation is encouraged.

Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligation.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2007.

Statement No. 50 *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2007.

Statement No. 51 *Accounting and Financial Reporting for Intangible Assets.* The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The effect these standards may have on future financial statements is not determinable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended December 31, 2007

Statement 6

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$242,915	\$242,915	\$184,031	(\$58,884)	\$178,150
Intergovernmental - MVHC	1,249	1,249	1,249	-	1,678
Investment income	-	-	20,629	20,629	15,126
Other	-	-	712	712	373
Total revenues	<u>244,164</u>	<u>244,164</u>	<u>206,621</u>	<u>(37,543)</u>	<u>195,327</u>
Expenditures:					
Current:					
Legal	6,400	6,400	6,306	94	7,486
Accounting and auditing	20,125	20,125	19,890	235	15,104
Salary and benefits	130,238	130,238	97,263	32,975	87,596
Contracted services	43,901	43,901	43,901	-	2,138
Manager's per diem and expenses	15,400	15,400	14,747	653	17,138
Insurance	9,600	9,600	9,817	(217)	9,054
Dues	3,500	3,500	3,365	135	3,341
Rent	10,000	10,000	11,215	(1,215)	5,941
Equipment	2,500	2,500	3,328	(828)	-
Office supplies and other	2,500	2,500	2,908	(408)	676
Total expenditures	<u>244,164</u>	<u>244,164</u>	<u>212,740</u>	<u>31,424</u>	<u>148,474</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	(6,119)	<u>(\$6,119)</u>	46,853
Fund balances - January 1			<u>282,847</u>		<u>235,994</u>
Fund balances - December 31			<u>\$276,728</u>		<u>\$282,847</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2007

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.

- This page intentionally left blank -

INDIVIDUAL FUND STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
GENERAL FUND
December 31, 2007
With Comparative Amounts For December 31, 2006

Statement 7

Assets	<u>2007</u>	<u>2006</u>
Cash and investments	\$282,155	\$289,889
Taxes receivable:		
Delinquent	3,154	6,205
Due from county	3,169	-
Prepaid items	<u>5,500</u>	<u>-</u>
 Total assets	 <u><u>\$293,978</u></u>	 <u><u>\$296,094</u></u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$14,096	\$7,042
Deferred revenue	3,154	6,205
Total liabilities	<u>17,250</u>	<u>13,247</u>
Fund balance:		
Reserved for prepaid item	5,500	-
Unreserved:		
Designated for cash flow	271,228	282,847
Total fund balance	<u>276,728</u>	<u>282,847</u>
 Total liabilities and fund balance	 <u><u>\$293,978</u></u>	 <u><u>\$296,094</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Statement 8

	<u>2007</u>	<u>2006</u>
Revenues:		
General property taxes	\$184,031	\$178,150
Intergovernmental - MVHC	1,249	\$1,678
Investment income	20,629	15,126
Other	712	373
Total revenues	<u>206,621</u>	<u>195,327</u>
Expenditures:		
Current:		
Professional services:		
Legal	6,306	7,486
Accounting and auditing	19,890	15,104
Salary and benefits	97,263	87,596
Secretarial services	43,901	2,138
Manager's per diem and expenses	14,747	17,138
Insurance	9,817	9,054
Dues	3,365	3,341
Rent	11,215	5,941
Equipment	3,328	-
Office supplies and other	2,908	676
Total expenditures	<u>212,740</u>	<u>148,474</u>
Revenues over (under) expenditures	(6,119)	46,853
Fund balance - January 1	<u>282,847</u>	<u>235,994</u>
Fund balance - December 31	<u><u>\$276,728</u></u>	<u><u>\$282,847</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
PLANNING AND IMPLEMENTATION FUND
December 31, 2007
With Comparative Amounts For December 31, 2006

Statement 9

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$8,073,026	\$6,488,469
Accounts receivable	3,180	3,180
Taxes receivable:		
Delinquent	90,724	59,233
Due from county	48,994	45,033
	<u>8,215,924</u>	<u>6,595,915</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$74,669	\$123,339
Deferred revenue	90,724	59,233
Total liabilities	<u>165,393</u>	<u>182,572</u>
Fund balance:		
Unreserved:		
Designated for Watershed plan implementation	8,050,531	6,413,343
Total fund balance	<u>8,050,531</u>	<u>6,413,343</u>
	<u>\$8,215,924</u>	<u>\$6,595,915</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, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Statement 10

	<u>2007</u>	<u>2006</u>
Revenues:		
General property taxes	\$335,657	\$353,535
Stormwater utility fee	1,549,814	1,506,025
Intergovernmental:		
Market value homestead credit	19,302	38,415
Investment income	318,884	233,823
Other	11,002	7,440
Total revenues	<u>2,234,659</u>	<u>2,139,238</u>
Expenditures:		
Current:		
Professional services:		
Legal	4,549	3,482
Engineering	215,966	332,308
Projects and studies	376,956	321,517
Total expenditures	<u>597,471</u>	<u>657,307</u>
Revenues over expenditures	1,637,188	1,481,931
Fund balance - January 1	<u>6,413,343</u>	<u>4,931,412</u>
Fund balance - December 31	<u><u>\$8,050,531</u></u>	<u><u>\$6,413,343</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMPARATIVE BALANCE SHEET
DEBT SERVICE FUND
December 31, 2007
With Comparative Amounts For December 31, 2006

Statement 11

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$19,123	\$19,123
Cash and investments with escrow agent	<u>2,858,118</u>	<u>-</u>
Total assets	<u><u>\$2,877,241</u></u>	<u><u>\$19,123</u></u>
Liabilities and Fund Balance		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balance:		
Reserved for debt service	<u>2,877,241</u>	<u>19,123</u>
Total liabilities and fund balance	<u><u>\$2,877,241</u></u>	<u><u>\$19,123</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, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Statement 12

	<u>2007</u>	<u>2006</u>
Revenues:		
Stormwater utility fee	\$544,953	\$547,193
Investment income	8,418	-
Total revenues	<u>553,371</u>	<u>547,193</u>
Expenditures:		
Debt service:		
Principal	340,000	330,000
Interest	204,953	217,193
Professional services	47,993	-
Total expenditures	<u>592,946</u>	<u>547,193</u>
Revenues over (under) expenditures	(39,575)	0
Other financing sources:		
Refunding bonds issued	2,795,000	-
Bond premium	102,693	-
Total other financing sources	<u>2,897,693</u>	<u>-</u>
Net increase (decrease) in fund balance	2,858,118	0
Fund balance - January 1	<u>19,123</u>	<u>19,123</u>
Fund balance - December 31	<u><u>\$2,877,241</u></u>	<u><u>\$19,123</u></u>

- This page intentionally left blank -

SUPPLEMENTARY FINANCIAL INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINED SCHEDULE OF INDEBTEDNESS
December 31, 2007

	<u>Interest Rates</u>	<u>Date</u>	<u>Final Maturity Date</u>
General Obligation Bonds:			
G.O. Bonds of 2002	4.75%	1/29/2002	3/1/2011
Crossover Refunding Bonds of 2007A	4.00%	12/27/2007	3/1/2017

Prior Years		Payable 01/01/07	2007		Payable 12/31/07	Principal Due In 2007	Interest Due In 2007	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$1,225,000	\$4,650,000	\$ -	\$340,000	\$4,310,000	\$350,000	\$191,060	\$469,044
2,795,000	-	-	2,795,000	-	2,795,000	-	87,413	715,175

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

Exhibit 2

	Tax Capacity Values <u>2007/2008</u>	Tax Capacity Values <u>2006/2007</u>	Tax Capacity Values <u>2005/2006</u>
Taxable valuations:			
Real estate	\$105,135,946	\$98,369,959	\$87,954,151
Personal property	1,077,831	1,116,847	1,070,401
Total	<u>106,213,777</u>	<u>99,486,806</u>	<u>89,024,552</u>
Tax increment captured	(1,938,319)	(1,928,993)	(1,659,635)
Fiscal disparities:			
Distribution	10,816,723	9,316,156	7,895,333
Contribution	<u>(7,105,726)</u>	<u>(5,514,753)</u>	<u>(5,299,767)</u>
Total	<u><u>\$107,986,455</u></u>	<u><u>\$101,359,216</u></u>	<u><u>\$89,960,483</u></u>
	2007/2008	2006/2007	2005/2006
	<u>Certified Levy</u>	<u>Certified Levy</u>	<u>Certified Levy</u>
Taxes levied:			
Administration levy	\$227,565	\$182,108	\$182,108
Management plan implementation levy	<u>393,000</u>	<u>361,390</u>	<u>361,390</u>
Total	<u><u>\$620,565</u></u>	<u><u>\$543,498</u></u>	<u><u>\$543,498</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
 December 31, 2007
 With Comparative Amounts For December 31, 2006

	200	201	203	205
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update
Assets				
Cash and investments	\$86,697	\$180,828	\$160,021	\$113,121
Accounts receivable	-	-	-	-
Taxes receivable:	-	-	-	-
Delinquent	90,724	-	-	-
Due from county	-	-	-	-
Total assets	\$177,421	\$180,828	\$160,021	\$113,121
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$27,429	\$ -	\$6,183	\$10,962
Deferred revenue	90,724	-	-	-
Total liabilities	118,153	0	6,183	10,962
Fund balance (deficit):				
Unreserved:				
Designated	59,268	180,828	153,838	102,159
Total liabilities and fund balance	\$177,421	\$180,828	\$160,021	\$113,121

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
December 31, 2007
With Comparative Amounts For December 31, 2006

	206	210	310	311
	<u>Development Reviews Programs</u>	<u>Stormwater Utility Administration</u>	<u>Assessment Studies</u>	<u>Greenways</u>
Assets				
Cash and investments	\$69,719	(\$76,058)	\$273,656	\$292,875
Accounts receivable	-	-	-	-
Taxes receivable:				
Delinquent	-	-	-	-
Due from county	-	-	-	-
Total assets	<u><u>\$69,719</u></u>	<u><u>(\$76,058)</u></u>	<u><u>\$273,656</u></u>	<u><u>\$292,875</u></u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$9,120	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	<u><u>9,120</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>
Fund balance (deficit):				
Unreserved:				
Designated	60,599	(76,058)	273,656	292,875
Total liabilities and fund balance	<u><u>\$69,719</u></u>	<u><u>(\$76,058)</u></u>	<u><u>\$273,656</u></u>	<u><u>\$292,875</u></u>

312	313	315	317	319	322	Totals	
Infiltration	Regional Facility	Groundwater Protection and Monitoring	Watershed Hydrologic/ Hydraulic Modeling	East Mississippi	Overflow	2007	2006
\$243,816	\$2,455,127	\$255,112	\$66,702	\$33,539	\$3,917,871	\$8,073,026	\$6,488,469
-	3,180	-	-	-	-	3,180	3,180
-	-	-	-	-	-	90,724	59,233
-	48,994	-	-	-	-	48,994	45,033
<u>\$243,816</u>	<u>\$2,507,301</u>	<u>\$255,112</u>	<u>\$66,702</u>	<u>\$33,539</u>	<u>\$3,917,871</u>	<u>\$8,215,924</u>	<u>\$6,595,915</u>
\$5,000	\$82	\$ -	\$12,730	\$1,038	\$2,125	\$74,669	\$123,339
-	-	-	-	-	-	90,724	59,233
<u>5,000</u>	<u>82</u>	<u>0</u>	<u>12,730</u>	<u>1,038</u>	<u>2,125</u>	<u>165,393</u>	<u>182,572</u>
<u>238,816</u>	<u>2,512,967</u>	<u>255,112</u>	<u>53,972</u>	<u>32,501</u>	<u>3,909,998</u>	<u>8,050,531</u>	<u>6,413,343</u>
<u>\$243,816</u>	<u>\$2,513,049</u>	<u>\$255,112</u>	<u>\$66,702</u>	<u>\$33,539</u>	<u>\$3,912,123</u>	<u>\$8,215,924</u>	<u>\$6,595,915</u>

- This page intentionally left blank -

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, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Exhibit 4
Page 1 of 2

	200	201	203	205	206
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update	Development Reviews Programs
Revenues:					
Property taxes	\$117,456	\$ -	\$37,686	\$37,686	\$18,843
Stormwater utility fee	-	-	-	-	-
Intergovernmental:					
Market value homestead credit	677	613	207	382	458
Land acquisition grant	-	-	-	-	-
Investment income	11,184	10,134	3,427	6,303	7,564
Miscellaneous	-	-	-	-	-
Total revenues	129,317	10,747	41,320	44,371	26,865
Expenditures:					
Current:					
Legal	-	-	-	486	-
Engineering	-	14,071	25,901	69,958	74,562
Projects and studies	153,028	-	7,245	-	-
Capital outlay:					
Infrastructure	-	-	-	-	-
Total expenditures	153,028	14,071	33,146	70,444	74,562
Revenues over (under) expenditures	(23,711)	(3,324)	8,174	(26,073)	(47,697)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	0	0	0	0	0
Net change in fund balance	(23,711)	(3,324)	8,174	(26,073)	(47,697)
Fund balance - January 1	82,979	184,152	145,664	128,232	108,296
Fund balance - December 31	\$59,268	\$180,828	\$153,838	\$102,159	\$60,599

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, 2007
With Comparative Amounts For The Year Ended December 31, 2006

	210	310	311	312
	Stormwater Utility Administration	Assessment Studies	Greenways	Infiltration
Revenues:				
Property taxes	\$22,612	\$ -	\$ -	\$ -
Stormwater utility fee	-	75,372	67,835	52,760
Intergovernmental:				
Market value homestead credit	370	252	406	436
Land acquisition grant	-	-	-	-
Investment income	6,120	4,161	6,707	7,197
Miscellaneous	-	-	-	-
Total revenues	<u>29,102</u>	<u>79,785</u>	<u>74,948</u>	<u>60,393</u>
Expenditures:				
Current:				
Legal	2,185	-	-	-
Engineering	13,922	-	-	-
Projects and studies	15,492	-	11,534	56,405
Capital outlay:				
Infrastructure	-	-	-	-
Total expenditures	<u>31,599</u>	<u>0</u>	<u>11,534</u>	<u>56,405</u>
Revenues over (under) expenditures	<u>(2,497)</u>	<u>79,785</u>	<u>63,414</u>	<u>3,988</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	(2,497)	79,785	63,414	3,988
Fund balance - January 1	<u>(73,561)</u>	<u>193,871</u>	<u>229,461</u>	<u>234,828</u>
Fund balance - December 31	<u>(\$76,058)</u>	<u>\$273,656</u>	<u>\$292,875</u>	<u>\$238,816</u>

Regional Facility	313	315	317	319	322	Totals	
		Groundwater Protection and Monitoring	Watershed Hydrologic/ Hydraulic Modeling	East Mississippi	Overflow	2007	2006
\$ -	\$ -	\$ -	\$ -	\$ -	\$101,374	\$335,657	\$353,535
639,907	60,701	79,140	-	-	574,099	1,549,814	1,506,025
6,340	556	200	-	-	8,405	19,302	22,665
-	-	-	-	-	-	-	15,750
104,741	9,179	3,305	-	-	138,862	318,884	233,823
11,002	-	-	-	-	-	11,002	7,440
<u>761,990</u>	<u>70,436</u>	<u>82,645</u>	<u>0</u>	<u>822,740</u>	<u>2,234,659</u>	<u>2,139,238</u>	
1,732	-	-	-	-	146	4,549	3,482
-	-	-	3,973	-	13,579	215,966	332,308
1,019	-	131,301	-	-	932	376,956	321,517
-	-	-	-	-	-	-	-
<u>2,751</u>	<u>0</u>	<u>131,301</u>	<u>3,973</u>	<u>14,657</u>	<u>597,471</u>	<u>657,307</u>	
<u>759,239</u>	<u>70,436</u>	<u>(48,656)</u>	<u>(3,973)</u>	<u>808,083</u>	<u>1,637,188</u>	<u>1,481,931</u>	
-	-	-	-	-	-	-	275,000
-	-	-	-	-	-	-	(275,000)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
759,239	70,436	(48,656)	(3,973)	808,083	1,637,188	1,481,931	
1,753,728	184,676	102,628	36,474	3,101,915	6,413,343	4,931,412	
<u>\$2,512,967</u>	<u>\$255,112</u>	<u>\$53,972</u>	<u>\$32,501</u>	<u>\$3,909,998</u>	<u>\$8,050,531</u>	<u>\$6,413,343</u>	

- This page intentionally left blank -

OTHER REPORTS

- This page intentionally left blank -



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES THAT INDICATES
NO MATERIAL WEAKNESSES IN INTERNAL CONTROL**

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

In planning and performing our audit of the financial statements of South Washington Watershed District as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered South Washington Watershed District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Washington Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Washington Watershed District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the South Washington Watershed District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the South Washington Watershed District's financial statements that is more than inconsequential will not be prevented or detected by the South Washington Watershed District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings and responses as items 2007-1 through 2007-3.

- This page intentionally left blank -

South Washington Watershed District
Communication of Significant Deficiencies that
Indicates No Material Weaknesses in Internal Control
Page 2

This communication is intended solely for the information and use of the South Washington Watershed District's management and members of the board, 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 18, 2008

- This page intentionally left blank -

2007-1 Oversight of Financial Statement Preparation

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

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

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

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

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

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

South Washington Watershed District
Communication of Significant Deficiencies that
Indicates No Material Weaknesses in Internal Control
Schedule of Findings and Responses
Page 4

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

2007-2 Inadequate Documentation of the Components of Internal Control

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

Condition: The District has established policies regarding the design and operation of internal accounting controls, such as payroll, receipts and capital assets. However, these policies are not in writing and therefore, under the definition of SAS 112, a finding exists.

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

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

Recommendation: We recommend the District establish a written internal control manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.

Management Response: The District will be documenting internal controls during 2008.

2007-3 Late Filing of Tax Levy

Criteria: The tax levy amount approved by the Board should be submitted to the County by the required filing date.

Condition: The levy was not certified to the County by the required time.

Cause: Not determinable.

Effect: The error in certifying late to the County defaulted the levy amount to that approved in 2006, which resulted in a loss of \$457,036 in tax revenue.

Recommendation: We recommend the District submit the tax levy to the County in a timely manner.

Management Response: The District will now certify the final tax levy at the same time the storm water utility certification is due (October 15th).



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

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

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

We have audited the basic financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2007 and have issued our report thereon dated April 18, 2008.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories except for tax increment financing as it does not pertain to the South Washington Watershed District.

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 and members of the board, 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 18, 2008

- This page intentionally left blank -



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

REQUIRED COMMUNICATIONS

We have audited the financial statements of the governmental activities and each major fund of the South Washington Watershed District (the District) for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 11, 2007 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope identified in our engagement letter and within our anticipated timeframe. We also provided for a two-way dialogue with you at the beginning of our audit in a discussion regarding auditor communications on April 2, 2008.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

REQUIRED COMMUNICATIONS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. For the District, accounting estimates include depreciation on capital assets and fair value of investments.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, except as described in the following paragraph.

The District has elected not to record an estimated uncollectible of \$11,059 for property taxes receivable. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

REQUIRED COMMUNICATIONS

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 18, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the information and use of the South Washington Watershed District's management and members of the board 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 18, 2008