

Annual Financial Report

South Washington Watershed District

Woodbury, Minnesota

For the Year Ended
December 31, 2017

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South Washington Watershed District
 Woodbury, Minnesota
 Annual Financial Report
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 For the Year Ended December 31, 2017

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INTRODUCTORY SECTION
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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South Washington Watershed District
Woodbury, Minnesota
Board of Managers and Appointed Officials
For the Year Ended December 31, 2017

BOARD OF MANAGERS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack Lavold	President	05/01/20
Brian Johnson	Vice President	05/01/19
Kevin ChapdeLaine	Vice President	05/01/19
Mike Madigan	Treasurer	05/01/20
Don Pereira	Secretary	05/01/18

APPOINTED OFFICIALS

Matt Moore	Administrator
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FINANCIAL SECTION
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Managers
South Washington Watershed District
Woodbury, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Washington Watershed District, Minnesota (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the 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 the financial reporting provisions of the Minnesota Office of the State auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 District'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 District'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 the District as of December 31, 2017 and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

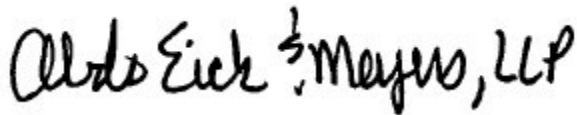
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions starting on page 50 be presented to supplement 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 the District's basic financial statements. The introductory section and combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement.

The combining schedules 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 basic 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 combining schedules are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 25, 2018

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Management's Discussion and Analysis

As management of the South Washington Watershed District (the District), Woodbury, Minnesota, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,789,433 (net position). Of this amount, \$15,872,139 (unrestricted net position) may be used to meet the District's ongoing obligations.
- The District's total net position increased by \$1,383,834, which is mostly due to charges for services and general revenues exceeding expenses during the year. The District is building reserves for payment of future projects.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$19,761,647, a decrease of \$52,804 in comparison with the prior year. This decrease in fund balance is mainly due to the approximately \$2.5 million in capital project expenditures during the year.
- The ending General fund balance is \$450,775, which is made up of nonspendable (\$15,228) and unassigned (\$435,547). The unassigned fund balance is 113.6 percent of the 2018 budgeted expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

**Figure 1
Required Components of the
District’s Annual Financial Report**

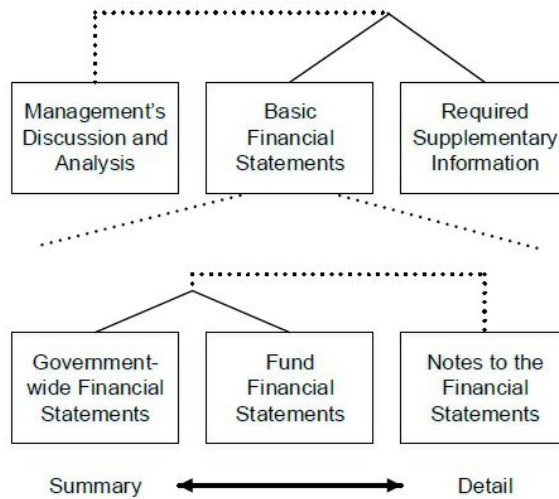


Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2
Major features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements	
	Government-wide Statements	Governmental Funds
Scope	Entire District	The activities of the District
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., grants and earned but unused vacation and sick leave).

The governmental activities of the District include general government and program costs.

The government-wide financial statements start on page 24 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently maintains two governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its General fund and Management Planning fund. A budgetary comparison statement has been provided for the General fund and Management Planning fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 28 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 33 of this report.

This report also presents certain required supplementary information concerning the progress in funding its obligation to provide pension to its employees. Required supplementary information can be found starting on page 50 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$26,789,433 at the close of the most recent fiscal year.

The largest portions (59.2) of the District's net position are unrestricted and available to meet the ongoing needs of the District. 38.3 percent reflects its net investment in capital assets (e.g., land, land improvements, and permanent easements), while the remaining 2.4 is restricted for future use. These assets are not available for future spending.

South Washington Watershed District's Summary of Net Position

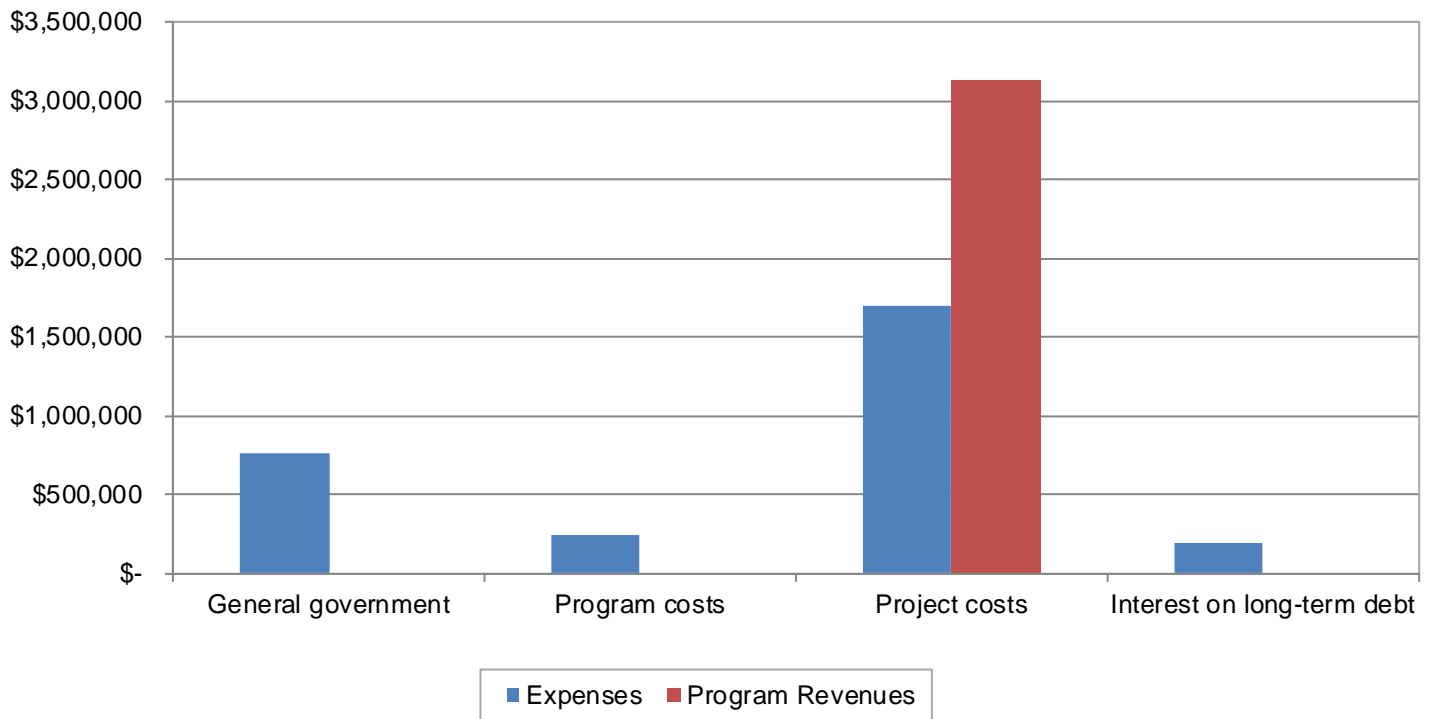
	December 31,		Increase (Decrease)
	2017	2016	
Assets			
Current	\$ 20,287,046	\$ 20,441,057	\$ (154,011)
Capital assets, net	13,565,955	12,803,058	762,897
Total Assets	<u>33,853,001</u>	<u>33,244,115</u>	<u>608,886</u>
Deferred Outflows of Resources			
Pension resources	<u>98,564</u>	<u>186,556</u>	<u>(87,992)</u>
Liabilities			
Current	272,027	387,968	(115,941)
Noncurrent	<u>6,820,937</u>	<u>7,600,963</u>	<u>(780,026)</u>
Total Liabilities	<u>7,092,964</u>	<u>7,988,931</u>	<u>(895,967)</u>
Deferred Outflows of Resources			
Pension resources	<u>69,168</u>	<u>36,141</u>	<u>33,027</u>
Net Position			
Net investment in capital assets	10,260,955	8,828,058	1,432,897
Restricted	656,339	693,218	(36,879)
Unrestricted	<u>15,872,139</u>	<u>15,884,323</u>	<u>(12,184)</u>
Total Net Position	<u>\$ 26,789,433</u>	<u>\$ 25,405,599</u>	<u>\$ 1,383,834</u>

Governmental Activities. Governmental activities increased the District's net position by \$1,383,834, which was mostly due to revenues exceeding expenses during the year.

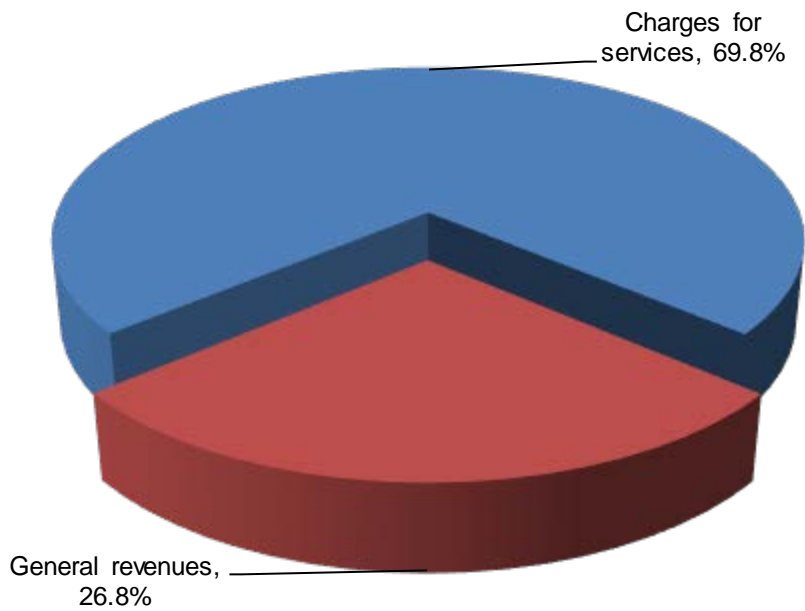
South Washington Watershed District's Changes in Net Position

	December 31,		Increase (Decrease)
	2017	2016	
Revenues			
Program			
Charges for services	\$ 2,980,925	\$ 2,937,169	\$ 43,756
Capital grants and contribution	146,855	68,145	78,710
General			
Property taxes	992,605	855,101	137,504
Grants and contributions not restricted to specific programs	742	2,315	(1,573)
Unrestricted investment earnings	139,707	25,085	114,622
Miscellaneous	9,203	12,996	(3,793)
Total Revenues	<u>4,270,037</u>	<u>3,900,811</u>	<u>369,226</u>
Expenses			
General government	766,312	611,687	154,625
Program costs	241,763	227,655	14,108
Project costs	1,692,234	1,745,869	(53,635)
Interest on long-term debt	185,894	229,729	(43,835)
Total Expenses	<u>2,886,203</u>	<u>2,814,940</u>	<u>71,263</u>
Change in Net Position	1,383,834	1,085,871	297,963
Net Position, January 1	<u>25,405,599</u>	<u>24,319,728</u>	<u>1,085,871</u>
Net Position, December 31	<u>\$ 26,789,433</u>	<u>\$ 25,405,599</u>	<u>\$ 1,383,834</u>

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$19,761,647, a decrease of \$52,804 in comparison with the prior year. Approximately 2.2 percent of this total amount (\$435,547) constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance, \$15,750,977, is 1) Nonspendable (\$15,228) for prepaid items 2) Restricted (\$3,781,577) for debt service and water quality and drainage improvements, and 3) Committed (\$15,529,295) for water resources management plan.

The General fund is the chief operating fund of the District. At the end of the current year, the fund balance of the General fund was \$450,775. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 136.6 percent of 2017 actual expenditures and 117.6 percent of 2018 budgeted fund expenditures. The General fund balance increased by \$50,495 during the current fiscal year.

The fund balance of the Planning and Implementation fund at year end was \$15,750,977 which is a decrease of \$66,626 from the prior year. This was due to capital related project expenditures of approximately \$2.5 million and other program and project costs exceeding revenues from storm fees and other items during the year.

The fund balance of the Debt Service fund at year end was \$3,559,895, a decrease of \$36,673 from prior year. The fund balance is restricted for debt service. The decrease in fund balance is mainly due to regularly scheduled principal and interest payments during the year.

General Fund Budgetary Highlights

The District's General fund budget was not amended during the year. The actual results were more favorable than those projected by the 2017 budget. Revenues were over budget by \$10,318. Expenditures were lower than budgeted by \$40,177. The largest variance was provided by other services and charges expenditures which were under budget by \$33,461, which is due to lower than expected expenditures related to other services (insurance, dues, employee reimbursement).

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2017 amounts to \$13,565,955 (net of accumulated depreciation). This investment in capital assets includes land, easements, infrastructure, and land improvements. The District's investment in capital assets for the current fiscal year was 38.3 percent. During the year, the District entered into a construction agreement with Washington County for three different projects.

South Washington Watershed District's Capital Assets (Net of Depreciation)

	December 31,		Increase (Decrease)
	2017	2016	
Land	\$ 8,356,448	\$ 8,356,448	\$ -
Construction in Progress	746,867	-	746,867
Infrastructure	4,462,640	4,446,610	16,030
Total	<u>\$ 13,565,955</u>	<u>\$ 12,803,058</u>	<u>\$ 762,897</u>

Additional information on the District's capital assets can be found in Note 3B on page 41 of this report.

Noncurrent Liabilities

At the end of the current fiscal year, the District had total bonded debt outstanding of \$6,375,000, all of which were G.O bonds. While all of the District's bonds have revenue streams, they are all backed by the full faith and credit of the District.

South Washington Watershed District's Noncurrent Liabilities

	December 31,		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	
Bonds Payable	<u>\$ 6,473,573</u>	<u>\$ 7,159,815</u>	<u>\$ (686,242)</u>

The District's total noncurrent liabilities decreased by \$686,242 (9.6 percent) during the current fiscal year. The decrease can be attributed to regularly scheduled principal payments.

Additional information on the District's noncurrent liabilities can be found in Note 3C starting on page 42 of this report.

Economic Factors and Next Year's Budgets

The economic outlook for the District is strong with continued growth through the development of residential and commercial property. All the cities and townships will be updating comprehensive land use plans to provide expanded development opportunities. With continued development, the District will experience steady growth in values and tax base. The District collects stormwater utility fees which provide the majority of the revenue for projects. Development, particularly in residential units creates steady growth in the Districts stormwater utility fees. Stormwater utility fees have seen an average increase of 575 units over the past 5 years.

In 2017 the budget was adjusted to align with the updated Watershed Management Plan completed in 2016. This adjustment accounted for the restructuring and focus on a more program oriented approach to implementation of projects. The 2018 budget will include modest increases in general fund, and depending on the growth in stormwater utility fees, implementation funds will increase even though individual fees will continue to decrease. District tax impact will remain low and spending will increase due to the continued construction of overflow project, decreasing the overall fund balance. Fund balance will continued to be managed for construction of overflow project as an alternative to financing improvements.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Matt Moore, Administrator, South Washington Watershed District, 2302 Tower Drive, Woodbury, MN 55125.

GOVERNMENT-WIDE FINANCIAL STATEMENTS
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

South Washington Watershed District
Woodbury, Minnesota
Statement of Net Position
December 31, 2017

	Governmental Activities
Assets	
Cash and temporary investments	\$ 16,668,203
Cash with fiscal agent	3,038,403
Restricted cash	230,420
Receivables	
Accounts	2,640
Stormwater utility fees	42,359
Taxes	9,793
Due from other governments	280,000
Prepaid items	15,228
Capital assets	
Nondepreciable assets	9,103,315
Depreciable assets, net of accumulated depreciation	4,462,640
Total Assets	33,853,001
Deferred Outflows of Resources	
Deferred pension resources	98,564
Liabilities	
Accounts payable	199,794
Accrued salaries payable	10,222
Accrued interest	62,011
Noncurrent liabilities	
Due within one year	170,399
Due in more than one year	6,650,538
Total Liabilities	7,092,964
Deferred Inflows of Resources	
Deferred pension resources	69,168
Net Position	
Net investment in capital assets	10,260,955
Restricted for	
Debt service	434,657
Water quality and drainage improvements	221,682
Unrestricted	15,872,139
Total Net Position	\$ 26,789,433

The notes to the financial statements are an integral part of this statement.

South Washington Watershed District
Woodbury, Minnesota
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General government	\$ 766,312	\$ -	\$ -	\$ -	\$ (766,312)
Program costs	241,763	-	-	-	(241,763)
Project costs	1,692,234	2,980,925	-	146,855	1,435,546
Interest on long-term debt	185,894	-	-	-	(185,894)
Total	<u>\$ 2,886,203</u>	<u>\$ 2,980,925</u>	<u>\$ -</u>	<u>\$ 146,855</u>	<u>241,577</u>
General Revenues					
Property taxes					992,605
Grants and contributions not restricted to specific programs					742
Unrestricted investment earnings					139,707
Miscellaneous					9,203
Total General Revenues					<u>1,142,257</u>
Change in Net Position					1,383,834
Net Position, January 1					<u>25,405,599</u>
Net Position, December 31					<u>\$ 26,789,433</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

South Washington Watershed District
Woodbury, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

	General	Planning and Implementation	Debt Service	Total Governmental Funds
Assets				
Cash and temporary investments	\$ 463,560	\$ 15,695,377	\$ 509,266	\$ 16,668,203
Restricted cash	-	221,682	3,047,141	3,268,823
Receivables				
Accounts	-	2,640	-	2,640
Stormwater utility fees	-	31,663	10,696	42,359
Taxes	4,475	5,318	-	9,793
Due from other governments	-	280,000	-	280,000
Prepaid items	15,228	-	-	15,228
	<u>15,228</u>	<u>-</u>	<u>-</u>	<u>15,228</u>
Total Assets	<u>\$ 483,263</u>	<u>\$ 16,236,680</u>	<u>\$ 3,567,103</u>	<u>\$ 20,287,046</u>
Liabilities				
Accounts payable	\$ 25,000	\$ 174,359	\$ 435	\$ 199,794
Salaries payable	3,837	6,385	-	10,222
Total Liabilities	<u>28,837</u>	<u>180,744</u>	<u>435</u>	<u>210,016</u>
Deferred Inflows of Resources				
Unavailable revenue - taxes	3,651	3,862	-	7,513
Unavailable revenue - stormwater utility fees	-	21,097	6,773	27,870
Unavailable revenue - intergovernmental	-	280,000	-	280,000
Total Deferred Inflows of Resources	<u>3,651</u>	<u>304,959</u>	<u>6,773</u>	<u>315,383</u>
Fund Balances				
Nonspendable	15,228	-	-	15,228
Restricted for				
Debt service	-	-	3,559,895	3,559,895
Water quality and drainage improvements	-	221,682	-	221,682
Committed for planning and implementation	-	15,529,295	-	15,529,295
Unassigned	435,547	-	-	435,547
Total Fund Balances	<u>450,775</u>	<u>15,750,977</u>	<u>3,559,895</u>	<u>19,761,647</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 483,263</u>	<u>\$ 16,236,680</u>	<u>\$ 3,567,103</u>	<u>\$ 20,287,046</u>

The notes to the financial statements are an integral part of this statement.

South Washington Watershed District
 Woodbury, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2017

Amounts reported for the governmental activities in the statement of net position are different because

Total Fund Balances - Governmental	\$ 19,761,647
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	13,955,571
Less accumulated depreciation	(389,616)
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Noncurrent liabilities at year-end consist of	
Compensated absences payable	(15,399)
Bonds payable	(6,375,000)
Bond premium	(98,573)
Pension liability	(331,965)
Some receivables are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds.	
Taxes receivable	7,513
Stormwater utility fees	27,870
Intergovernmental	280,000
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	98,564
Deferred inflows of pension resources	(69,168)
Governmental funds do not report a liability for accrued interest until due and payable	(62,011)
Total Net Position - Governmental Activities	\$ 26,789,433

The notes to the financial statements are an integral part of this statement.

South Washington Watershed District
Woodbury, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Planning and Implementation	Debt Service	Total Governmental Funds
Revenues				
Property taxes	\$ 358,398	\$ 633,773	\$ -	\$ 992,171
Stormwater utility fees	-	2,171,013	805,959	2,976,972
Intergovernmental	268	112,329	-	112,597
Interest on investments	9,049	70,807	59,851	139,707
Miscellaneous	1,564	62,518	-	64,082
Total Revenues	369,279	3,050,440	865,810	4,285,529
Expenditures				
Current				
General government	318,784	420,172	-	738,956
Programs	-	241,763	-	241,763
Project	-	1,088	-	1,088
Capital				
Project	-	2,454,043	-	2,454,043
Debt service				
Principal	-	-	670,000	670,000
Interest and other	-	-	232,483	232,483
Total Expenditures	318,784	3,117,066	902,483	4,338,333
Net Change in Fund Balances	50,495	(66,626)	(36,673)	(52,804)
Fund Balances, January 1	400,280	15,817,603	3,596,568	19,814,451
Fund Balances, December 31	<u>\$ 450,775</u>	<u>\$ 15,750,977</u>	<u>\$ 3,559,895</u>	<u>\$ 19,761,647</u>

The notes to the financial statements are an integral part of this statement.

South Washington Watershed District
Woodbury, Minnesota
Reconciliation of the Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2017

Amounts reported for governmental activities in the statement of activities are different because

Total Net Change in Fund Balances - Governmental Funds	\$ (52,804)
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Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	859,989
Depreciation expense	(97,092)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities

Principal repayments	670,000
Amortization of bond premium	16,242

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as the interest accrues, regardless of when it is due.

30,347

Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Property taxes	434
Stormwater utility fees	3,953
Intergovernmental	(20,000)

Long-term pension activity is not reported in governmental funds.

Pension expense	(30,891)
Pension revenue	121

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.

Compensated absences payable	3,535
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Change in Net Position - Governmental Activities	<u>\$ 1,383,834</u>
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South Washington Watershed District
Woodbury, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 358,961	\$ 358,961	\$ 358,398	\$ (563)
Intergovernmental	-	-	268	268
Interest on investments	-	-	9,049	9,049
Miscellaneous	-	-	1,564	1,564
Total Revenues	<u>358,961</u>	<u>358,961</u>	<u>369,279</u>	<u>10,318</u>
Expenditures				
Current				
General government				
Operational services	237,687	237,687	228,807	8,880
Supplies	1,597	1,597	3,761	(2,164)
Other services and charges	119,677	119,677	86,216	33,461
Total Expenditures	<u>358,961</u>	<u>358,961</u>	<u>318,784</u>	<u>40,177</u>
Net Change in Fund Balances	-	-	50,495	50,495
Fund Balances, January 1	400,280	400,280	400,280	-
Fund Balances, December 31	<u>\$ 400,280</u>	<u>\$ 400,280</u>	<u>\$ 450,775</u>	<u>\$ 50,495</u>

The notes to the financial statements are an integral part of this statement.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The South Washington Watershed District (the District), Woodbury, Minnesota was originally created in 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.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly 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.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Basis of 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. 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 revenues to be available if they are collected within 60 days 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for service, assessments to members, grants and interest associated with the current fiscal period are all considered 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 organization.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlement and donations. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The District reports the following major governmental funds:

The *General fund* is the District's primary operating fund. It accounts for all financial resources not accounted for in a different fund of the District.

The *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 utility fees are committed for planning and implementation

The *Debt service fund* accounts for the resources accumulated and payments made for principal and interest on long term general obligation debt of governmental funds.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The District's cash and temporary investments are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, 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, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The District does not have deposits at December 31, 2017.

The broker money market accounts operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares. The District does not have a formal investment policy.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's recurring fair value measurements are listed in detail on page 40 and are valued using quoted market prices (Level 1 inputs).

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

The District has the following recurring fair value measurements as of December 31, 2017:

- US Government securities of \$3,038,403 are valued using quoted market prices (Level 1 inputs)

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the District's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Property Taxes

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

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and are recorded as prepaid items. The District uses the consumption method to account for all prepaid items.

Capital Assets

Capital assets, which include land, land improvements and easements are reported in the applicable 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 acquisition 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 the general provisions of GASB Statement No. 34 in the 2004 calendar year and has elected not to report infrastructure assets acquired in years prior to 2004.

South Washington Watershed District
 Woodbury, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Infrastructure	48 - 50

Deferred Outflows of Resources

In addition to assets, the statement of net position will 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 only item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30th. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, which is paid to the employee upon separation. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is typically used to liquidate governmental compensated absences payable.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance 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 only 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 funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, stormwater utility fees and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The District has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

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

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board, which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

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

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

The Board of Managers adopts an annual budget for the General and Management Planning fund of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. 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 use encumbrance accounting.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement process. The budget was not amended in 2017.

Note 3: Detailed Notes on Accounts

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party.

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

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

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- 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;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- 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
- Time deposits that are fully insured by any Federal agency.

The District does not have deposits at December 31, 2017.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

Investments

The investments of the District are subject to the following risks:

- *Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. The District follows State Statutes in regards to credit risk of investments. The District policy does not further limit investment choices.
- *Custodial Credit Risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have an investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk*. This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk*. This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have an investment policy to address interest rate risk, however, manages exposure to declines in fair values by limiting a majority of investments to less than five years. Extended maturities may be utilized to take advantage of higher yields; however, no more than 40 percent of the total investments should extend beyond five years as of the total investment figure as of January first of each year and in no circumstance should any extend beyond 10 years.

At year end, the District's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Costs						
4M Fund	N/A	less than 6 months	\$ 16,668,203			
Broker Money Market Funds	N/A	less than 6 months	230,420			
Non-pooled Investments at Fair Value						
U.S. Government Securities	AAA	less than 6 months	22,716	\$ 22,716	\$ -	\$ -
U.S. Government Securities	AAA	6 months to a year	22,798	22,798	-	-
U.S. Government Securities	AAA	1 to 3 years	2,992,889	2,992,889	-	-
Total			<u>\$ 19,937,026</u>	<u>\$ 3,038,403</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Ratings are provided by Moody's where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

A reconciliation of cash and temporary investments as shown on the statement of net position for the District follows:

Primary Government	
Cash and investments	\$ 16,668,203
Cash with fiscal agents	3,038,403
Restricted cash	<u>230,420</u>
Total Cash and Temporary Investments	<u><u>\$ 19,937,026</u></u>

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated				
Land	\$ 8,356,448	\$ -	\$ -	\$ 8,356,448
Construction in progress	-	746,867	-	746,867
Total Capital Assets, not being Depreciated	<u>8,356,448</u>	<u>746,867</u>	<u>-</u>	<u>9,103,315</u>
Capital Assets, being Depreciated				
Infrastructure	4,739,134	113,122	-	4,852,256
Less Accumulated Depreciation for				
Infrastructure	<u>(292,524)</u>	<u>(97,092)</u>	<u>-</u>	<u>(389,616)</u>
Total Capital Assets being Depreciated, Net	<u>4,446,610</u>	<u>16,030</u>	<u>-</u>	<u>4,462,640</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 12,803,058</u></u>	<u><u>\$ 762,897</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 13,565,955</u></u>

Depreciation expense charged to the project costs function for 2017 was \$97,092

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

C. Long-term Debt

General Obligation (G.O.) Bonds.

The District issued 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 Grey Cloud Island Slough Crossing Project. The District issued a general obligation crossover refunding bond in 2016 to partially refund the 2011A bond on March 15th, 2016. The District will pay the scheduled principal and interest on the Series 2007A bonds until the call date of March 1st 2019.

As of December 31, 2017, the long-term bonded debt of the District is as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O Bonds, 2011A	\$ 3,945,000	2.00 - 4.00 %	5/1/2011	3/1/2019	\$ 3,305,000
G.O Crossover Refunding Bonds, 2016A	3,070,000	2.00 - 3.00	3/15/2016	3/1/2031	<u>3,070,000</u>
Total					<u>\$ 6,375,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 160,000	\$ 183,635	\$ 343,635
2019	3,145,000	127,125	3,272,125
2020	190,000	70,165	260,165
2021	215,000	64,090	279,090
2022	220,000	57,565	277,565
2023-2027	1,310,000	195,775	1,505,775
2028-2031	<u>1,135,000</u>	<u>53,163</u>	<u>1,188,163</u>
Total	<u>\$ 6,375,000</u>	<u>\$ 751,518</u>	<u>\$ 7,126,518</u>

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Governmental Activities					
Bonds Payable					
General Obligation					
Bonds	\$ 7,045,000	\$ -	\$ (670,000)	\$ 6,375,000	\$ 155,000
Add					
Premium on bonds	114,815	-	(16,242)	98,573	-
Total Bonds Payable	7,159,815	-	(686,242)	6,473,573	155,000
Pension Liability					
GERF	422,214	129	(90,378)	331,965	-
Compensated					
Absences Payable	18,934	22,509	(26,044)	15,399	15,399
Total Governmental Activities	<u>\$ 7,600,963</u>	<u>\$ 22,638</u>	<u>\$ (802,664)</u>	<u>\$ 6,820,937</u>	<u>\$ 170,399</u>

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1.0 percent increases.

The benefit provisions stated in the following 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.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

GERF Benefits

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. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in calendar year 2017. The District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The District's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$23,712, \$24,670 and \$23,445 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the District reported a liability of \$331,965 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$4,202. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0052 percent which was a 0 percent decrease from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$56,739, or its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$121 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

South Washington Watershed District
Woodbury, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2017, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 11,006	\$ 22,277
Changes in Actuarial Assumptions	55,544	33,279
Net Difference between Projected and Actual Earnings on Plan Investments	-	13,612
Changes in Proportion	19,184	-
Contributions to GERF Subsequent to the Measurement Date	12,830	-
Total	\$ 98,564	\$ 69,168

Deferred outflows of resources totaling \$12,830 related to pensions resulting from the District's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	\$ 12,438
2019	24,509
2020	(6,286)
2021	(14,095)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERF through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

South Washington Watershed District
 Woodbury, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The following changes in actuarial assumptions occurred in 2017:

GERF

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	100.00 %	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

South Washington Watershed District
 Woodbury, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	GERF	\$ 514,902	\$ 331,965

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 5: Other Information

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 for which the District carries insurance. The District pays annual premiums for its workers compensation and property and casualty insurance. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

B. Stormwater Utility Fees

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

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REQUIRED SUPPLEMENTARY INFORMATION
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

South Washington Watershed District
Woodbury, Minnesota
Required Supplementary Information
December 31, 2017

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered-Employed Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employed Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0052 %	\$ 331,965	\$ 4,202	\$ 336,167	\$ 308,713	108.9 %	75.9 %
06/30/16	0.0052	422,214	5,548	427,762	322,277	132.7	68.9
06/30/15	0.0048	248,761	-	248,761	279,306	89.1	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

Required Supplementary Information						
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered-Employed Payroll (c)	Contributions as a Percentage of Covered-Employed Payroll (b/c)	
12/31/17	\$ 23,712	\$ 23,712	\$ -	\$ 316,160	7.5 %	
12/31/16	24,670	24,670	-	328,933	7.5	
12/31/15	23,445	23,445	-	312,600	7.5	

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available

South Washington Watershed District
Woodbury, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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COMBINING SCHEDULES
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

South Washington Watershed District
Woodbury, Minnesota
Planning and Implementation Fund
Combining Balance Sheet
December 31, 2017

	01	02	03	04	
	Planning Fund	Regulatory	Implementation and Maintenance	Education	Total
Assets					
Cash and temporary investments	\$ 2,385,371	\$ 224,771	\$ 12,739,016	\$ 346,219	\$ 15,695,377
Restricted cash	-	-	221,682	-	221,682
Receivables					
Accounts	-	-	2,640	-	2,640
Stormwater utility fees	1,393	-	30,270	-	31,663
Taxes	171	237	4,734	176	5,318
Due from other governments	-	-	280,000	-	280,000
Total Assets	<u>\$ 2,386,935</u>	<u>\$ 225,008</u>	<u>\$ 13,278,342</u>	<u>\$ 346,395</u>	<u>\$ 16,236,680</u>
Liabilities					
Accounts payable	\$ 31,619	\$ 400	\$ 129,500	\$ 12,840	\$ 174,359
Salaries payable	2,041	1,359	2,383	602	6,385
Total Liabilities	<u>33,660</u>	<u>1,759</u>	<u>131,883</u>	<u>13,442</u>	<u>180,744</u>
Deferred Inflows of Resources					
Unavailable revenues - taxes	-	-	3,862	-	3,862
Unavailable revenues - stormwater utility fees	-	-	21,097	-	21,097
Unavailable revenues - intergovernmental	-	-	280,000	-	280,000
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>304,959</u>	<u>-</u>	<u>304,959</u>
Fund Balances					
Restricted for water quality and improvements	-	-	221,682	-	221,682
Committed for planning and implementation	2,353,275	223,249	12,619,818	332,953	15,529,295
Total Fund Balances	<u>2,353,275</u>	<u>223,249</u>	<u>12,841,500</u>	<u>332,953</u>	<u>15,750,977</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,386,935</u>	<u>\$ 225,008</u>	<u>\$ 13,278,342</u>	<u>\$ 346,395</u>	<u>\$ 16,236,680</u>

South Washington Watershed District
 Woodbury, Minnesota
 Planning and Implementation Fund
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2017

	01	02	03	04	
	Planning Fund	Regulatory	Implementation and Maintenance	Education	Total
Revenues					
Property taxes	\$ 75,126	\$ 103,316	\$ 378,888	\$ 76,443	\$ 633,773
Stormwater utility fees	286,217	-	1,884,796	-	2,171,013
Intergovernmental	111,911	77	284	57	112,329
Interest on investments	9,074	2,607	57,196	1,930	70,807
Miscellaneous	35,000	2,239	25,279	-	62,518
Total Revenues	<u>517,328</u>	<u>108,239</u>	<u>2,346,443</u>	<u>78,430</u>	<u>3,050,440</u>
Expenditures					
Current					
General government	222,288	97,575	79,527	20,782	420,172
Programs	-	-	188,301	53,462	241,763
Projects	-	-	1,088	-	1,088
Capital					
Projects	-	-	2,435,043	19,000	2,454,043
Total Expenditures	<u>222,288</u>	<u>97,575</u>	<u>2,703,959</u>	<u>93,244</u>	<u>3,117,066</u>
Net Change in Fund Balances	295,040	10,664	(357,516)	(14,814)	(66,626)
Fund Balances, January 1	<u>2,058,235</u>	<u>212,585</u>	<u>13,199,016</u>	<u>347,767</u>	<u>15,817,603</u>
Fund Balances, December 31	<u>\$ 2,353,275</u>	<u>\$ 223,249</u>	<u>\$ 12,841,500</u>	<u>\$ 332,953</u>	<u>\$ 15,750,977</u>

South Washington Watershed District
Woodbury, Minnesota
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Planning and Implementation Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 634,379	\$ 634,379	\$ 633,773	\$ (606)
Stormwater utility fees	2,163,900	2,163,900	2,171,013	7,113
Intergovernmental	-	-	112,329	112,329
Interest on investments	-	-	70,807	70,807
Miscellaneous	-	-	62,518	62,518
Total Revenues	<u>2,798,279</u>	<u>2,798,279</u>	<u>3,050,440</u>	<u>252,161</u>
Expenditures				
Current				
General government	566,255	566,255	420,172	146,083
Programs	281,718	281,718	241,763	39,955
Projects	216,326	216,326	1,088	215,238
Capital				
Projects	1,733,980	1,733,980	2,454,043	(720,063)
Total Expenditures	<u>2,798,279</u>	<u>2,798,279</u>	<u>3,117,066</u>	<u>(318,787)</u>
Net Change in Fund Balances	-	-	(66,626)	(66,626)
Fund Balances, January 1	<u>15,817,603</u>	<u>15,817,603</u>	<u>15,817,603</u>	-
Fund Balances, December 31	<u>\$ 15,817,603</u>	<u>\$ 15,817,603</u>	<u>\$ 15,750,977</u>	<u>\$ (66,626)</u>

OTHER REQUIRED REPORT
SOUTH WASHINGTON WATERSHED DISTRICT
WOODBURY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

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 the governmental activities and each major fund of the South Washington Watershed District (the District), Woodbury, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements and have issued our report thereon dated April 25, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the District does not have any established tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use those charged with governance and management of the District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 25, 2018