

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2011

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PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 ANNUAL FINANCIAL REPORT  
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 FOR THE YEAR ENDED DECEMBER 31, 2011

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**INTRODUCTORY SECTION**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2011

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PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
BOARD OF MANAGERS AND APPOINTED OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**MANAGERS**

<u>Name</u>	<u>Title</u>
Craig Gontarek	President
William Kallberg	Vice President
William Schmokel	Secretary
Greg Aamodt	Manager
Bruce Thorsen	Manager

**STAFF**

Mike Kinney	Administrator
Amy Tucci	Administrative Assistant
Emily Javens	Watershed Engineer
Nat Kale	Watershed Planner
Shawn Tracy	Watershed Ecologist
Stacy Sass	Water Resources Technician

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**FINANCIAL SECTION**

**PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA**

**FOR THE YEAR ENDED  
DECEMBER 31, 2011**

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5201 Eden Avenue  
Suite 250  
Edina, MN 55436

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the  
Prior Lake-Spring Lake Watershed District  
Prior Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Prior Lake-Spring Lake Watershed District (the District), Prior Lake, Minnesota, as of and for the year ended December 31, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2011, and the respective changes in financial position and budgetary comparisons for the General and Implementation funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the Note 7 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. Adoption of the provision of this statement results in significant changes to the classifications of the components of fund balances.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on starting on page 13 and the Schedule of Funding Progress on page 56 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.

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

April 23, 2012  
Minneapolis, Minnesota

*Abdo, Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

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## **Management's Discussion and Analysis**

As management of the Prior Lake-Spring Lake Watershed District (the District), Prior Lake, 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, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,579,272 (net assets). Of this amount, \$1,076,302 (unrestricted net assets) may be used to meet the District's ongoing obligations.
- The District's total net assets decreased by \$87,370.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,091,218, a decrease of \$140,915 in comparison with the prior year. This decrease in fund balance is due to a deficiency of revenues under expenditures.
- The ending General fund balance is \$146,747, \$144,783 of which is unassigned and \$1,964 is nonspendable due to prepaid items.
- The District's total debt decreased \$85,474. This was primarily due to principal repayments.

### **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**

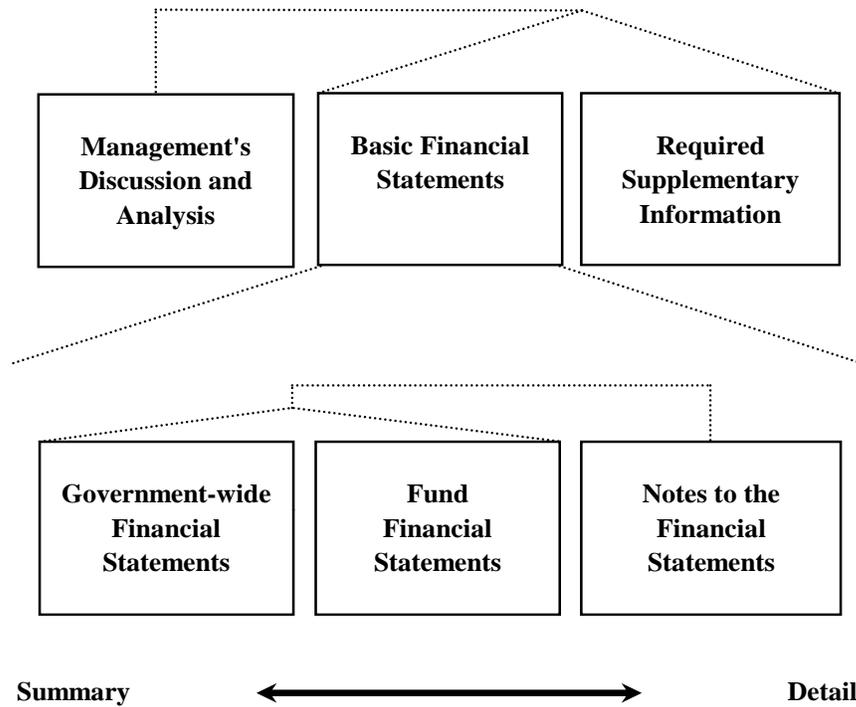


Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	<b>Fund Financial Statements</b>	
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>
Scope	Entire District	The activities of the District
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
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 in flow/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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, programs and interest on long-term debt.

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 ten 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 and Implementation fund. A budgetary comparison statement has been provided for the General and Implementation 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 37 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,579,272 at the close of the most recent fiscal year.

The largest portions of the District's net assets are unrestricted and available to meet the ongoing needs of the District. Thirty-one percent reflects its investment in capital assets (e.g., land, land improvements, and easements). These assets are not available for future spending.

### Prior Lake-Spring Lake Watershed District's Summary of Net Assets

	December 31,		Increase (Decrease)
	2011	2010	
Assets			
Current	\$ 3,734,638	\$ 3,816,304	\$ (81,666)
Capital	812,206	837,218	(25,012)
Total assets	<u>4,546,844</u>	<u>4,653,522</u>	<u>(106,678)</u>
Liabilities			
Current	696,437	626,452	69,985
Noncurrent	1,271,135	1,360,428	(89,293)
Total liabilities	<u>1,967,572</u>	<u>1,986,880</u>	<u>(19,308)</u>
Net assets			
Invested in capital assets	812,206	837,218	(25,012)
Restricted	690,764	53,036	637,728
Unrestricted	1,076,302	1,776,388	(700,086)
Total net assets	<u>\$ 2,579,272</u>	<u>\$ 2,666,642</u>	<u>\$ (87,370)</u>

A portion of the District's net assets (1.8 percent) are restricted for debt service. At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

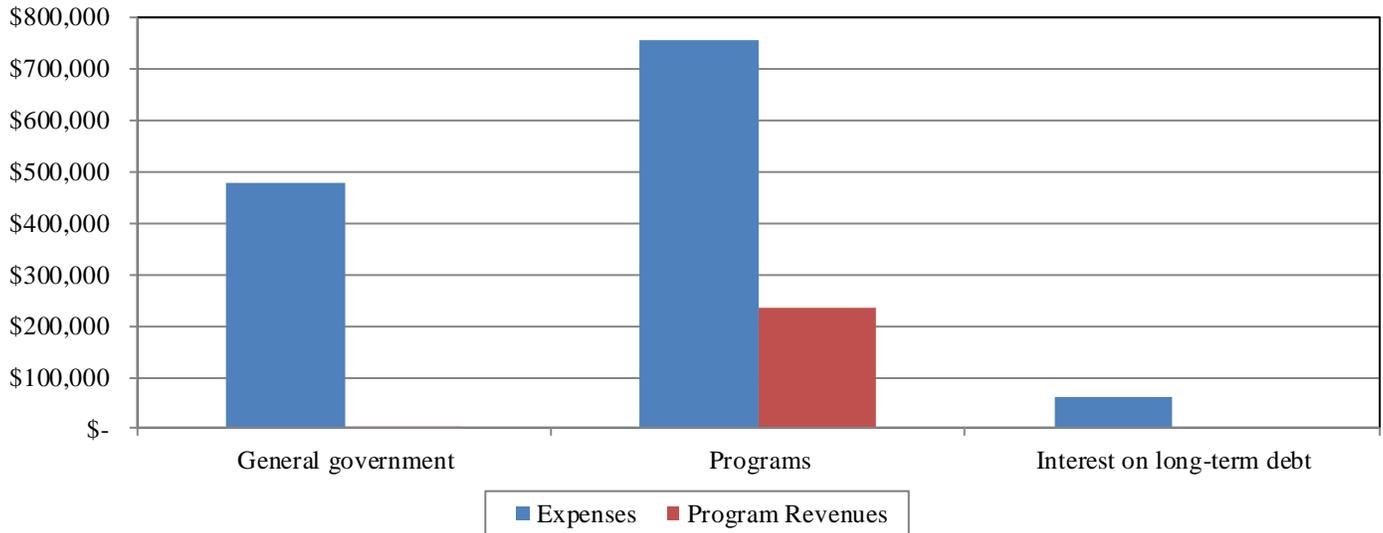
**Governmental activities.** Governmental activities decreased the District's net assets by \$87,370.

**Prior Lake-Spring Lake Watershed District's Changes in Net Assets**

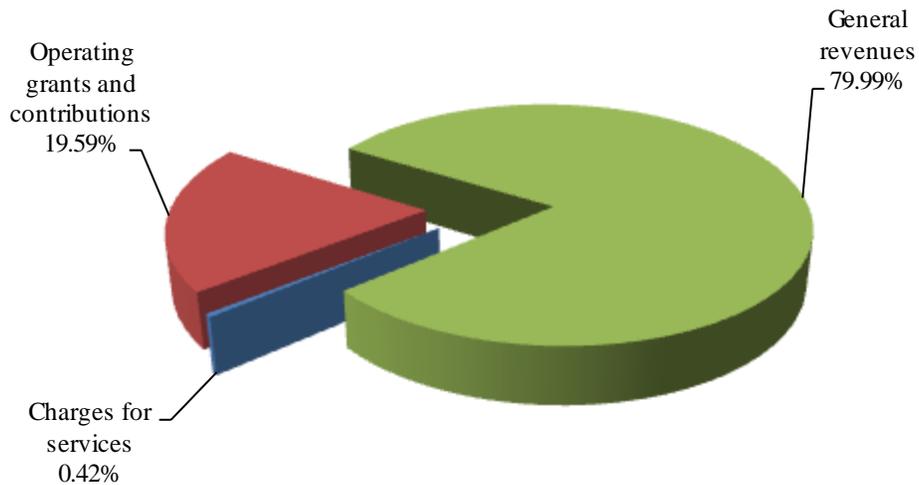
	December 31,		Increase (Decrease)
	2011	2010	
Revenues			
Program			
Charges for services	\$ 5,067	\$ 5,074	\$ (7)
Operating grants and contributions	236,479	74,643	161,836
Capital grants and contribution	-	53,646	(53,646)
General			
Property taxes	737,083	745,428	(8,345)
Unrestricted investment earnings	228,264	42,683	185,581
Total revenues	<u>1,206,893</u>	<u>921,474</u>	<u>285,419</u>
Expenses			
General government	477,544	684,979	(207,435)
Programs	755,306	609,408	145,898
Interest on long-term debt	61,413	66,980	(5,567)
Total expenses	<u>1,294,263</u>	<u>1,361,367</u>	<u>(67,104)</u>
Change in net assets	(87,370)	(439,893)	352,523
Net assets, January 1	<u>2,666,642</u>	<u>3,106,535</u>	<u>(439,893)</u>
Net assets, December 31	<u>\$ 2,579,272</u>	<u>\$ 2,666,642</u>	<u>\$ (87,370)</u>

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

### Expenses and Program Revenues – Governmental 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, *unrestricted 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 \$3,091,218, a decrease of \$140,915 in comparison with the prior year. Approximately 4.7 percent of this total amount, \$144,783, constitutes *unassigned* fund balance, which is available for spending at the District's discretion. The remainder of fund balance (\$2,946,435) is not available for new spending because it is either 1) nonspendable (\$1,964), 2) restricted (\$689,695), or 3) committed (\$2,254,776) for the purposes described in the fund balance section of each balance sheet.

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 \$146,747. 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 86.8 percent of 2011 actual expenditures and 149.5 percent of 2012 budgeted fund expenditures. The General fund balance decreased by \$50,226 during the current fiscal year.

The fund balance of the Implementation fund at year end was \$2,254,776 which is an increase of \$54,337 from the prior year.

The JPA/MOA Construction fund balance increased \$7,481 over the prior year. The increase was due to a transfer in from the Bond Construction fund.

The JPA/MOA Operations fund balance at year end amounted to \$141,823, which is an increase of \$9,361 over the prior. This was also mainly due to a transfer in from the Bond Construction fund.

The fund balance of the Bond Debt Service fund decreased \$7,397 during the current year. This was due to expenditures in excess of tax and interest revenues.

## General Fund Budgetary Highlights

The District's General fund budget was not amended during the year. The actual results were less favorable than those projected by the 2011 budget. Revenues were over budget by \$17,415, which can be attributed to property taxes and interest on investments. Expenditures were over budget by \$29,541. The largest variances were provided by salaries and per diems which were over budget by \$19,243 and legal which were over budget by \$18,346. Also notable is insurance and bonds expenditures which were under budget by \$16,917.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of December 31, 2011, amounts to \$812,206 (net of accumulated depreciation). This investment in capital assets includes land, easements, and land improvements. The total decrease in the District's investment in capital assets for the current fiscal year was 3.0 percent.

Additional information on the District's capital assets can be found in Note 3B on page 46 of this report.

### Prior Lake-Spring Lake Watershed District's Capital Assets (net of depreciation)

	December 31,		Increase (Decrease)
	2011	2010	
Land	\$ 37,800	\$ 37,800	\$ -
Permanent easements	438,441	438,441	-
Land improvements	335,965	360,977	(25,012)
Total	<u>\$ 812,206</u>	<u>\$ 837,218</u>	<u>\$ (25,012)</u>

No capital assets were acquired during 2011.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$1,355,000. This amount is tax supported bonds.

### Prior Lake-Spring Lake Watershed District's Outstanding Debt

	December 31,		Increase (Decrease)
	2011	2010	
Tax supported bonds	\$ 1,355,000	\$ 1,440,000	\$ (85,000)
Compensated absences payable	8,145	9,326	(1,181)
Other postemployment benefits payable	6,135	5,428	707
Total	<u>\$ 1,369,280</u>	<u>\$ 1,454,754</u>	<u>\$ (85,474)</u>

The District's total debt decreased \$85,474 (5.9 percent) during the current fiscal year. This is due to the retirement of bonds.

Additional information on the District's long-term debt can be found in Note 3E on page 48 of this report.

### **Economic Factors and Next Year's Budgets**

The District goes through a multi-stage process to develop its annual budget. This first step includes the Cooperators who are a part of the Memorandum of Agreement For Construction, Use, Operation, and Maintenance of the Prior Lake Outlet Channel and Outlet Structure. After this part of the budget is complete, the Watershed District Board meets several times to consider current and projected projects, programs, staff adjustments, etc. to develop the rest of the budget. For the 2012 fiscal year, the District completed an initial process in 2011 that started to shift its work plan efforts from almost entirely the outlet channel system to addressing more issues related to the upper watershed area that drains into the overall lake and wetland systems. This new focus expanded several project areas and their associated funding to reflect this emphasis. Of particular interest was the completed TMDL (Total Maximum Daily Load) report for Spring Lake and Upper Prior Lake and the anticipated TMDL Implementation Plan for these lakes. Furthermore, the District also considered all of the previously noted factors in this report in preparing its budget.

### **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 Michael Kinney, Administrator, Prior Lake-Spring Lake Watershed District, 14070 Commerce Ave, NE, Suite 300, Prior Lake, MN 55372.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2011

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and temporary investments	\$ 3,652,159
Receivables	
Accounts	1,500
Delinquent taxes	15,747
Accrued interest	23,847
Due from other governments	5,451
Prepaid items	1,964
Deferred charges	33,970
Capital assets	
Land and permanent easements	476,241
Depreciable assets, net of accumulated depreciation	<u>335,965</u>
<b>TOTAL ASSETS</b>	<u><b>4,546,844</b></u>
<b>LIABILITIES</b>	
Accounts payable	94,822
Accrued salaries payable	15,237
Accrued interest payable	4,589
Permit collateral	76,660
Deposits payable	10,211
Unearned revenue	396,773
Noncurrent liabilities - due within one year	
Compensated absences payable	8,145
Bonds payable	90,000
Noncurrent liabilities - due in more than one year	
Other postemployment benefits payable	6,135
Bonds payable	<u>1,265,000</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,967,572</b></u>
<b>NET ASSETS</b>	
Invested in capital assets	812,206
Restricted	
Debt service	45,361
Prior Lake outlet channel	546,350
Capital outlay	99,053
Unrestricted	<u>1,076,302</u>
<b>TOTAL NET ASSETS</b>	<u><u><b>\$ 2,579,272</b></u></u>

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 477,544	\$ 5,067	\$ -	\$ -	\$ (472,477)
Programs	755,306	-	236,479	-	(518,827)
Interest on long-term debt	61,413	-	-	-	(61,413)
<b>Total</b>	<b>\$ 1,294,263</b>	<b>\$ 5,067</b>	<b>\$ 236,479</b>	<b>\$ -</b>	<b>(1,052,717)</b>
General revenues					
Property taxes					737,083
Unrestricted investment earnings					228,264
Total general revenues					965,347
Change in net assets					(87,370)
Net assets, January 1					2,666,642
Net assets, December 31					<u>\$ 2,579,272</u>

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

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**FUND FINANCIAL STATEMENTS**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2011

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 DECEMBER 31, 2011

	<b>405</b>	<b>509</b>	<b>810</b>
	General Fund	Implementation Fund	JPA/MOA Construction Fund
<b>ASSETS</b>			
Cash and temporary investments	\$ 300,704	\$ 2,486,687	\$ 252,527
Receivables			
Accounts	1,500	-	-
Delinquent taxes	2,135	10,783	-
Accrued interest	23,847	-	-
Due from other governments	5,451	-	-
Due from other funds	-	-	-
Prepaid items	1,964	-	-
	<u>335,601</u>	<u>2,497,470</u>	<u>252,527</u>
<b>TOTAL ASSETS</b>	<u>\$ 335,601</u>	<u>\$ 2,497,470</u>	<u>\$ 252,527</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 94,822	\$ -	\$ -
Accrued salaries payable	15,237	-	-
Permit collateral	76,660	-	-
Deposits payable	-	10,211	-
Due to other funds	-	-	14,943
Deferred revenue	2,135	232,483	124,270
	<u>188,854</u>	<u>242,694</u>	<u>139,213</u>
<b>TOTAL LIABILITIES</b>	<u>188,854</u>	<u>242,694</u>	<u>139,213</u>
<b>FUND BALANCES</b>			
Nonspendable	1,964	-	-
Restricted for			
Prior Lake outlet channel	-	-	113,314
Debt service	-	-	-
Capital outlay	-	-	-
Committed for			
Water resources management plan	-	2,254,776	-
Unassigned	144,783	-	-
	<u>146,747</u>	<u>2,254,776</u>	<u>113,314</u>
<b>TOTAL FUND BALANCES</b>	<u>146,747</u>	<u>2,254,776</u>	<u>113,314</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 335,601</u>	<u>\$ 2,497,470</u>	<u>\$ 252,527</u>

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

<b>830</b> JPA/MOA Operations Fund	<b>920</b> Bond Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 192,626	\$ 47,121	\$ 372,494	\$ 3,652,159
-	-	-	1,500
-	2,829	-	15,747
-	-	-	23,847
-	-	-	5,451
-	-	14,943	14,943
-	-	-	1,964
<u>\$ 192,626</u>	<u>\$ 49,950</u>	<u>\$ 387,437</u>	<u>\$ 3,715,611</u>
\$ -	\$ -	\$ -	\$ 94,822
-	-	-	15,237
-	-	-	76,660
-	-	-	10,211
-	-	-	14,943
50,803	2,829	-	412,520
<u>50,803</u>	<u>2,829</u>	<u>-</u>	<u>624,393</u>
-	-	-	1,964
141,823	-	288,384	543,521
-	47,121	-	47,121
-	-	99,053	99,053
-	-	-	2,254,776
-	-	-	144,783
<u>141,823</u>	<u>47,121</u>	<u>387,437</u>	<u>3,091,218</u>
<u>\$ 192,626</u>	<u>\$ 49,950</u>	<u>\$ 387,437</u>	<u>\$ 3,715,611</u>

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PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

Total fund balances - governmental	\$ 3,091,218
Amounts reported for the 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 as assets in governmental funds.	
Cost of capital assets	1,726,819
Less accumulated depreciation	(914,613)
Noncurrent liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(8,145)
Other postemployment benefits payable	(6,135)
Bonds payable	(1,355,000)
Less deferred charges net of accumulated amortization	33,970
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds	
Delinquent taxes	15,747
Governmental funds do not report a liability for accrued interest until due and payable	(4,589)
Total net assets - governmental activities	\$ 2,579,272

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>405</b>	<b>509</b>	<b>810</b>
	General Fund	Implementation Fund	JPA/MOA Construction Fund
<b>REVENUES</b>			
Property taxes	\$ 102,480	\$ 489,816	\$ -
Intergovernmental			
Market value homestead credit	2,515	12,216	-
Reimbursements/grants	-	153,950	10,503
Interest on investments	13,920	162,360	7,480
Permit and inspection fees	-	5,067	-
<b>TOTAL REVENUES</b>	<u>118,915</u>	<u>823,409</u>	<u>17,983</u>
<b>EXPENDITURES</b>			
Current			
General government	161,307	260,182	7,559
Program costs	7,834	608,076	18,795
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>169,141</u>	<u>868,258</u>	<u>26,354</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(50,226)</u>	<u>(44,849)</u>	<u>(8,371)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	99,186	15,852
Transfers out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>99,186</u>	<u>15,852</u>
<b>NET CHANGE IN FUND BALANCES</b>	(50,226)	54,337	7,481
<b>FUND BALANCES, JANUARY 1</b>	<u>196,973</u>	<u>2,200,439</u>	<u>105,833</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u><u>\$ 146,747</u></u>	<u><u>\$ 2,254,776</u></u>	<u><u>\$ 113,314</u></u>

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

<b>830</b> JPA/MOA Operations Fund	<b>920</b> Bond Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 128,769	\$ -	\$ 721,065
-	3,234	-	17,965
72,026	-	-	236,479
9,362	3,853	31,289	228,264
-	-	-	5,067
<u>81,388</u>	<u>135,856</u>	<u>31,289</u>	<u>1,208,840</u>
47,160	-	-	476,208
95,589	-	-	730,294
-	85,000	-	85,000
-	58,253	-	58,253
<u>142,749</u>	<u>143,253</u>	<u>-</u>	<u>1,349,755</u>
<u>(61,361)</u>	<u>(7,397)</u>	<u>31,289</u>	<u>(140,915)</u>
70,722	-	-	185,760
-	-	(185,760)	(185,760)
<u>70,722</u>	<u>-</u>	<u>(185,760)</u>	<u>-</u>
9,361	(7,397)	(154,471)	(140,915)
<u>132,462</u>	<u>54,518</u>	<u>541,908</u>	<u>3,232,133</u>
<u>\$ 141,823</u>	<u>\$ 47,121</u>	<u>\$ 387,437</u>	<u>\$ 3,091,218</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, 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, 2011

Total net change in fund balances - governmental funds	\$ (140,915)
<p>Amounts reported for governmental activities          in the statement of activities are different because</p>	
<p>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.</p>	
Depreciation expense	(25,012)
<p>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 assets. 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</p>	
Principal repayments	85,000
Amortization of deferred charges	(3,425)
<p>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.</p>	
	265
<p>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.</p>	
Property taxes	(1,947)
<p>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.</p>	
Compensated absences payable	(629)
Other postemployment benefits payable	(707)
	(1,336)
Change in net assets - governmental activities	\$ (87,370)

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 97,485	\$ 97,485	\$ 102,480	\$ 4,995
Intergovernmental				
Market value homestead credit	2,515	2,515	2,515	-
Interest on investments	1,500	1,500	13,920	12,420
	<u>101,500</u>	<u>101,500</u>	<u>118,915</u>	<u>17,415</u>
<b>TOTAL REVENUES</b>	<u>101,500</u>	<u>101,500</u>	<u>118,915</u>	<u>17,415</u>
<b>EXPENDITURES</b>				
Current				
General government				
Salaries and per diems	18,514	18,514	37,757	(19,243)
Payroll taxes and benefits	1,265	1,265	3,074	(1,809)
PERA contributions	926	926	2,518	(1,592)
Health insurance	1,295	1,295	8,478	(7,183)
Engineering	15,000	15,000	-	15,000
Legal	12,500	12,500	30,846	(18,346)
Accounting	14,000	14,000	15,719	(1,719)
Audit	11,500	11,500	9,894	1,606
Postage	600	600	368	232
Rent	17,000	17,000	15,906	1,094
Telephone	6,700	6,700	8,666	(1,966)
Printing	500	500	670	(170)
Office supplies	3,000	3,000	7,245	(4,245)
Bank charges	150	150	28	122
Legal notices	100	100	1,126	(1,026)
Insurance and bonds	22,000	22,000	5,083	16,917
Office equipment	6,500	6,500	4,845	1,655
Miscellaneous	6,500	6,500	9,084	(2,584)
Program costs	1,550	1,550	7,834	(6,284)
	<u>139,600</u>	<u>139,600</u>	<u>169,141</u>	<u>(29,541)</u>
<b>TOTAL EXPENDITURES</b>	<u>139,600</u>	<u>139,600</u>	<u>169,141</u>	<u>(29,541)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(38,100)	(38,100)	(50,226)	(12,126)
<b>FUND BALANCES, JANUARY 1</b>	<u>196,973</u>	<u>196,973</u>	<u>196,973</u>	<u>-</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 158,873</u>	<u>\$ 158,873</u>	<u>\$ 146,747</u>	<u>\$ (12,126)</u>

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 IMPLEMENTATION FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 492,784	\$ 492,784	\$ 489,816	\$ (2,968)
Intergovernmental				
Market value homestead credit	12,216	12,216	12,216	-
Reimbursements/grants	-	-	153,950	153,950
Interest on investments	50,000	50,000	162,360	112,360
Permit and inspection fees	-	-	5,067	5,067
Miscellaneous	3,000	3,000	-	(3,000)
	<u>558,000</u>	<u>558,000</u>	<u>823,409</u>	<u>265,409</u>
<b>TOTAL REVENUES</b>				
<b>EXPENDITURES</b>				
Current				
General government				
Salaries and per diems	189,342	189,342	148,008	41,334
Payroll taxes and benefits	35,658	35,658	55,150	(19,492)
Legal	61,500	61,500	50,074	11,426
Postage	2,350	2,350	4	2,346
Utilities	150	150	160	(10)
Printing	3,750	3,750	-	3,750
Legal notices	250	250	-	250
Equipment	1,000	1,000	5,950	(4,950)
Miscellaneous	21,900	21,900	836	21,064
Program costs	<u>622,700</u>	<u>622,700</u>	<u>608,076</u>	<u>14,624</u>
	<u>938,600</u>	<u>938,600</u>	<u>868,258</u>	<u>70,342</u>
<b>TOTAL EXPENDITURES</b>				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	(380,600)	(380,600)	(44,849)	335,751
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>200,000</u>	<u>200,000</u>	<u>99,186</u>	<u>(100,814)</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	(180,600)	(180,600)	54,337	234,937
<b>FUND BALANCES, JANUARY 1</b>				
	<u>2,200,439</u>	<u>2,200,439</u>	<u>2,200,439</u>	<u>-</u>
<b>FUND BALANCES, DECEMBER 31</b>				
	<u>\$ 2,019,839</u>	<u>\$ 2,019,839</u>	<u>\$ 2,254,776</u>	<u>\$ 234,937</u>

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The Prior Lake-Spring Lake Watershed District (the District) was organized pursuant to a properly filed petition, on March 4, 1970 with the Board of Water and Soil Resources.

The Mission of the District is to manage and preserve water resources of the District to the best of its ability using input from the community, sound engineering practices, and its ability to efficiently fund beneficial projects which transcend political jurisdictions.

The District is governed by a Board of Managers which consists of five members. The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the District's activities.

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 assets 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. *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.

**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, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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.

Deferred revenue in the fund financial statements and unearned revenue in the government-wide financial statements 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 deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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 *Implementation fund* was established pursuant to Minnesota statutes for funding related to the development and implementation of the District's watershed management plan. By law, this plan must contain a capital improvement plan which allows watershed districts to implement projects without petition. The District may impose an ad valorem levy over the entire watershed or subwatershed to fund these projects or allow funds to accumulate to finance these capital improvement projects. The property tax levy is committed to execute the water resources management plan as filed with the Board of Water and Soil Resources.

The *JPA/MOA Construction fund* was established to account for the construction costs associated with the cost sharing agreement.

The *JPA/MOA Operations fund* was established to account for activity necessary to monitor the status of the Outlet Channel and ensure the stability and continued performance of the Outlet Channel.

The *Bond Debt Service fund* was established to account for debt associated with restoring and improving the Prior Lake Outlet and Channel.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

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.

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Amounts reported as *program revenues* include: (1) charges to customers or member cities for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments.

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.

**D. Assets, liabilities and net assets or fund equity**

*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. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. 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.
7. 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.
8. 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.

Investments are stated at fair value.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***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 5 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. The District has no ability to enforce payments 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 taxes were levied.

*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.

Property taxes on homestead property (as defined by Minnesota 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 the 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.

***Interfund receivable and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

***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.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*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 estimated fair market value at the date of donation.

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

Assets	Useful Lives in Years
Land improvements	50

*Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused paid time off. All paid time off that is 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 Standard No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive paid time off. The General fund is typically used to liquidate governmental compensated absences payable.

*Postemployment benefits other than pensions*

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined using the alternative measurement method, in accordance with GASB Statement 45, at January 1, 2009.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

*Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bonds premiums and discounts, as well as the issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt 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.

*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 District Board (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. The Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the District Administrator.

*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.

The District has formally adopted a fund balance policy for the General fund. The District's policy is to maintain a minimum unassigned fund balance of 50 percent of the next years budgeted expenditures for cash-flow timing needs.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

*Net assets*

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets - Consists of capital assets, net of accumulated depreciation
- b. Restricted net assets - Consist of net assets 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 assets - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

*Comparative data/reclassifications*

Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year’s presentation.

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

The Board of Managers adopts an annual budget for the General and Implementation funds of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. There were no amendments to the budget during 2011. 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 monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement process.

The District does not use encumbrance accounting.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2011, expenditures exceeded appropriation in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 139,600	\$ 169,141	\$ 29,541

Excess of expenditures over budget were funded by revenues in excess of budget and available fund balance.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**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.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

At year end, the District's carrying amount of deposits was \$551,933 and the bank balance was \$564,561. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was covered by collateral held in the District's name.

A reconciliation of cash and investments as shown in the financial statements of the District follows:

Carrying amount of deposits	\$ 551,933
Investments	<u>3,100,226</u>
Total cash and temporary investments	<u><u>\$ 3,652,159</u></u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

*Investments*

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

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Money market	N/A	less than 6 months	\$ 460,010
Non-pooled investments			
Brokered certificate of deposit	N/A	1 to 5 years	96,420
Government securities	AAA	more than 5 years	1,508,705
Municipal securities	AA	1 to 5 years	114,730
Municipal securities	AA+	more than 5 years	249,462
Municipal securities	AAA	more than 5 years	670,899
Total non-pooled investments			<u>2,640,216</u>
Total			<u>\$ 3,100,226</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.

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

- *Credit Risk.* 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. Minnesota statutes limit the Districts investments to the list on page 39 of the notes.
- *Custodial Credit Risk.* The 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.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District did not have an investment policy that addresses the risks described above for the majority of the year.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

**B. Capital assets**

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 37,800	\$ -	\$ -	\$ 37,800
Permanent easements	438,441	-	-	438,441
Total capital assets, not being depreciated	<u>476,241</u>	<u>-</u>	<u>-</u>	<u>476,241</u>
Capital assets, being depreciated				
Land improvements	1,250,578	-	-	1,250,578
Less accumulated depreciation for				
Land improvements	<u>(889,601)</u>	<u>(25,012)</u>	<u>-</u>	<u>(914,613)</u>
Total capital assets being depreciated, net	<u>360,977</u>	<u>(25,012)</u>	<u>-</u>	<u>335,965</u>
Governmental activities capital assets, net	<u>\$ 837,218</u>	<u>\$ (25,012)</u>	<u>\$ -</u>	<u>\$ 812,206</u>

The full depreciation expense amount was charged to Programs.

**C. Deferred revenue/unearned revenue**

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. Also, governmental funds 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/unearned revenue reported were as follows:

<u>Fund</u>	<u>Unavailable</u>	<u>Unearned</u>
General		
Delinquent taxes	\$ 2,135	\$ -
Implementation		
Delinquent taxes	10,783	-
Grants		221,700
JPA/MOA Construction		
Memorandum of Agreement	-	124,270
JPA/MOA Operations		
Memorandum of Agreement	-	50,803
Bond Debt Service		
Delinquent taxes	<u>2,829</u>	<u>-</u>
Total	<u>\$ 15,747</u>	<u>\$ 396,773</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

**D. Interfund receivables, payables, and transfers**

The interfund loan from the Bond Construction fund to the JPA/MOA Construction fund represents the cost sharing agreement described in Note 6.

The composition of interfund transfers for the year ending December 31, 2011, is as follows:

	Transfer in		
	<b>509</b>	<b>810</b>	<b>830</b>
	Implementation Fund	JPA/MOA Construction Fund	JPA/MOA Operations Fund
Transfer out			
Other governmental funds	\$ 99,186	\$ 15,852	\$ 70,722
			Total
Transfer out			
Other governmental funds			\$ 185,760

The following interfund transfers were made during 2011:

- Other governmental funds transferred \$15,852 and \$70,722 to the JPA/MOA Construction fund and the JPA/MOA Operations fund, respectively. These interfund transfers were budgeted and represent the District's cost-share allocation for the funds established pursuant to the Memorandum of Agreement for construction, use, operation and maintenance of the Prior Lake Outlet Channel and Outlet Structure.
- The Revolving Contingency, Milfoil Control, and Outlet Maintenance Trust funds transferred \$82,626, \$14,269, and \$2,291 to the Implementation fund to close out the funds.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

**E. Long-term liabilities**

The District issued tax supported bonds in 2006 in the amount of \$1,670,000. The purpose of the issuance was to provide funding for restoring and improving the Prior Lake Outlet and Channel. The bonds are general obligations of the District and accordingly, the full faith and credit of the District is pledged to their payment. The repayment of the bonds will be by an ad valorem property tax.

The District has pledged future tax revenue to repay the \$1,670,000 bonds issued in November 2006. Proceeds from the bonds provided funding for restoring and improving the Prior Lake Outlet Channel. Taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The information relating to this bond is as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2006A Tax Supported Bonds	\$ 1,670,000	3.65-4.20 %	11/14/06	12/15/21	<u>\$ 1,355,000</u>

Annual debt service requirements to maturity for the tax supported bonds are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 90,000	\$ 55,065	\$ 145,065
2013	100,000	51,645	151,645
2014	110,000	47,645	157,645
2015	120,000	43,245	163,245
2016	130,000	38,445	168,445
2017-2021	<u>805,000</u>	<u>104,840</u>	<u>909,840</u>
Total	<u>\$ 1,355,000</u>	<u>\$ 340,885</u>	<u>\$ 1,695,885</u>

Changes in long-term liabilities

During the year ended December 31, 2011, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<b>Governmental activities</b>					
Tax supported bonds series 2006A	\$ 1,440,000	\$ -	\$ (85,000)	\$ 1,355,000	\$ 90,000
Compensated absences payable	9,326	14,792	(15,973)	8,145	8,145
Other postemployment benefits payable	<u>5,428</u>	<u>-</u>	<u>707</u>	<u>6,135</u>	<u>-</u>
Total governmental activities	<u>\$ 1,454,754</u>	<u>\$ 14,792</u>	<u>\$ (100,266)</u>	<u>\$ 1,369,280</u>	<u>\$ 98,145</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

**F. Operating lease**

On April 26, 2010, the District entered into an operating lease for office space that ends April 30, 2015. On August 15, 2011 the District entered into an addendum to the lease for additional space. The District paid \$15,906 for rent in 2011.

Annual lease payments for the remainder of the lease are as follows:

Fiscal Year	Rent per Year
2012	\$ 22,500
2013	23,400
2014	24,600
2015	8,600

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan description**

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota statutes, chapters 353 and 356.

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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.

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 10 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 10 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. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**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 Minnesota statutes. GERS 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 2011. In 2011, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members and 7.25 percent for Coordinated Plan GERS members. The District's contributions to the GERS for the years ending December 31, 2011, 2010 and 2009 were \$14,097, \$13,480, and \$13,357, respectively. The District's contributions were equal to the contractually required contributions for each year as set forth by Minnesota statutes.

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**A. Plan description**

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan until Medicare age, which covers both active and retired members. Benefit provisions are established through negotiations between the Watershed Board of Managers and the District Administrator. The Retiree Health Plan does not issue a publicly available financial report.

**B. Funding policy**

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. The retiree must pay the full premium to continue coverage for medical insurance. The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

Contribution requirements are set by the District annually on a pay-as-you-go basis. The District contributes none of the cost of current year premiums for eligible retired plan members and their dependents except for the implicit rate subsidy described above. For fiscal year 2011, the District contributed \$12,505 to the plan.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/11	\$ 13,212	94.6 %	\$ 6,135
12/31/10	13,252	98.1	5,428
12/31/09	14,089	63.3	5,176

**C. Funded status and funding progress**

As of January 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$57,361, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$172,846, and the ratio of unfunded actuarial accrued liability to the covered payroll was 33.2 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

**D. Actuarial methods and assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* - The retirement age for active employees was determined on an individual level although the majority of employees are expected to retire at age 65. In addition, spouses of retired employees were assumed to continue on the plan for the lesser of eighteen months after the retired employee reaches Medicare age or until the spouse reaches Medicare age.

*Marital status* - Marital status of members at the calculation date was assumed to continue through retirement.

*Mortality* - Life expectancies were based on the mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

*Turnover* - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 4.5 percent initially, increased to a rate of 6.0 percent after six years, was used.

*Health insurance premiums* - 2008, 2009, and 2010 health insurance premiums for retirees were used as the basis for the calculation of the present value of total benefits to be paid.

*Inflation rate* - The expected long-term inflation assumption of 4.09 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

*Payroll growth rate* - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 3.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2011, was five years.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**Note 6: 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. Permit collateral**

The District issues permits to applicants who wish to make changes to land that may affect the water drainage or alter the lake shore within the boundaries of the District. The District requires collateral to be deposited to ensure the projects are completed in accordance with the permit application. As of December 31, 2011, the District was holding \$76,660 of collateral deposits.

**C. Cost sharing agreement**

On October 17, 2007, the District entered into a Joint Powers Agreement with the City of Prior Lake and the City of Shakopee. At the same time, the District also entered into a Memorandum of Agreement with the City of Prior Lake, the City of Shakopee, and the Shakopee Mdewakanton Sioux Community. The purpose of both agreements is to share costs for construction, use, and operation of the Prior Lake outlet channel.

For the year ended December 31, 2011, the District received cost reimbursement revenue of \$82,529, has unearned revenue of \$175,073 and an internal balance of \$14,943.

**Note 7: ACCOUNTING CHANGE**

GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District implemented this standard for fiscal year end December 31, 2011. Changes to governmental fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1.

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**REQUIRED SUPPLEMENTARY INFORMATION**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2011

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED DECEMBER 31, 2011

**Schedule of funding progress for the postemployment benefit plan**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/09	\$ -	\$ 57,361	\$ 57,361	- %	\$ 172,846	33.2%

See Note 5C on page 51 for further information.

**COMBINING FUND FINANCIAL STATEMENTS**

**PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA**

**FOR THE YEAR ENDED  
DECEMBER 31, 2011**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEET  
 DECEMBER 31, 2011

	Special Revenue	Capital Projects	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ -	\$ 372,494	\$ 372,494
Due from other funds	-	14,943	14,943
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ 387,437</b>	<b>\$ 387,437</b>
<b>FUND BALANCES</b>			
Restricted	\$ -	\$ 387,437	\$ 387,437

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue	Capital Projects	Total
REVENUES			
Interest on investments	\$ -	\$ 31,289	\$ 31,289
OTHER FINANCING USES			
Transfers out	(99,186)	(86,574)	(185,760)
NET CHANGE IN FUND BALANCES	(99,186)	(55,285)	(154,471)
FUND BALANCES, JANUARY 1	99,186	442,722	541,908
FUND BALANCES, DECEMBER 31	\$ -	\$ 387,437	\$ 387,437

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR SPECIAL REVENUE FUNDS  
 COMBINING BALANCE SHEET  
 DECEMBER 31, 2011

	<b>410</b> Revolving Contingency Fund	<b>415</b> Milfoil Control Fund	<b>425</b> Outlet Maintenance Trust	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR SPECIAL REVENUE FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>410</b>	<b>415</b>	<b>425</b>	
	Revolving Contingency Fund	Milfoil Control Fund	Outlet Maintenance Trust	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
OTHER FINANCING USES				
Transfers out	\$ (82,626)	\$ (14,269)	\$ (2,291)	\$ (99,186)
FUND BALANCES, JANUARY 1	<u>82,626</u>	<u>14,269</u>	<u>2,291</u>	<u>99,186</u>
 FUND BALANCES, DECEMBER 31	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR CAPITAL PROJECT FUNDS  
 COMBINING BALANCE SHEET  
 DECEMBER 31, 2011

	<b>850</b>	<b>910</b>	
	JPA/MOA	Bond	
	Emergency	Construction	
	Fund	Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS			
Cash and temporary investments	\$ 288,384	\$ 84,110	\$ 372,494
Due from other funds	-	14,943	14,943
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 288,384</u>	<u>\$ 99,053</u>	<u>\$ 387,437</u>
FUND BALANCES			
Restricted	<u>\$ 288,384</u>	<u>\$ 99,053</u>	<u>\$ 387,437</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
 PRIOR LAKE, MINNESOTA  
 NONMAJOR CAPITAL PROJECT FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>850</b>	<b>910</b>	
	JPA/MOA Emergency Fund	Bond Construction Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Interest on investments	\$ 19,036	\$ 12,253	\$ 31,289
OTHER FINANCING USES			
Transfers out	<u>          -</u>	<u>      (86,574)</u>	<u>      (86,574)</u>
NET CHANGE IN FUND BALANCES	19,036	(74,321)	(55,285)
FUND BALANCES, JANUARY 1	<u>      269,348</u>	<u>      173,374</u>	<u>      442,722</u>
FUND BALANCES, DECEMBER 31	<u><u>      \$ 288,384</u></u>	<u><u>      \$ 99,053</u></u>	<u><u>      \$ 387,437</u></u>

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**OTHER REQUIRED REPORTS**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT  
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2011

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5201 Eden Avenue  
Suite 250  
Edina, MN 55436

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers  
Prior Lake-Spring Lake Watershed District  
Prior Lake, Minnesota

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Prior Lake-Spring Lake Watershed District (the District), Prior Lake, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated April 23, 2012.

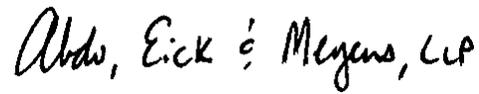
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute, section 6.65. 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 main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and other miscellaneous provisions. Our study included all of the listed categories except that we did not test for compliance in tax increment financing because the District has not established a tax increment financing district.

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

This report is intended solely for the information and use of the Board of Managers, management and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

April 23, 2012  
Minneapolis, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants