PRIOR LAKE-SPRING LAKE
WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2011

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

PRIOR LAKE-SPRING LAKE
WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
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ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

5201 Eden Avenue
Suite 250
Edina, MN 55436

April 23, 2012

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 the aggregate remaining fund information of the Prior Lake-Spring Lake Watershed District (the District), Prior Lake, Minnesota, for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 18, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

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

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purposed described in the second paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of Minnesota statutes. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of noncompliance with Minnesota statutes.

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Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The requirements of GASB statements No. 54 were adopted for the year ended December 31, 2011. The application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset basis, depreciation, and other postemployment benefits payable including the actuarial accrued liability.

Management's estimate of these accounting estimates is based on estimated or actual historical cost and the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. Other postemployment benefits payable and the actuarial accrued liability were determined by the alternative measurement method allowed for plans with less than 100 members.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the adjustments detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 23, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the District's financial statements for the year ended December 31, 2011.

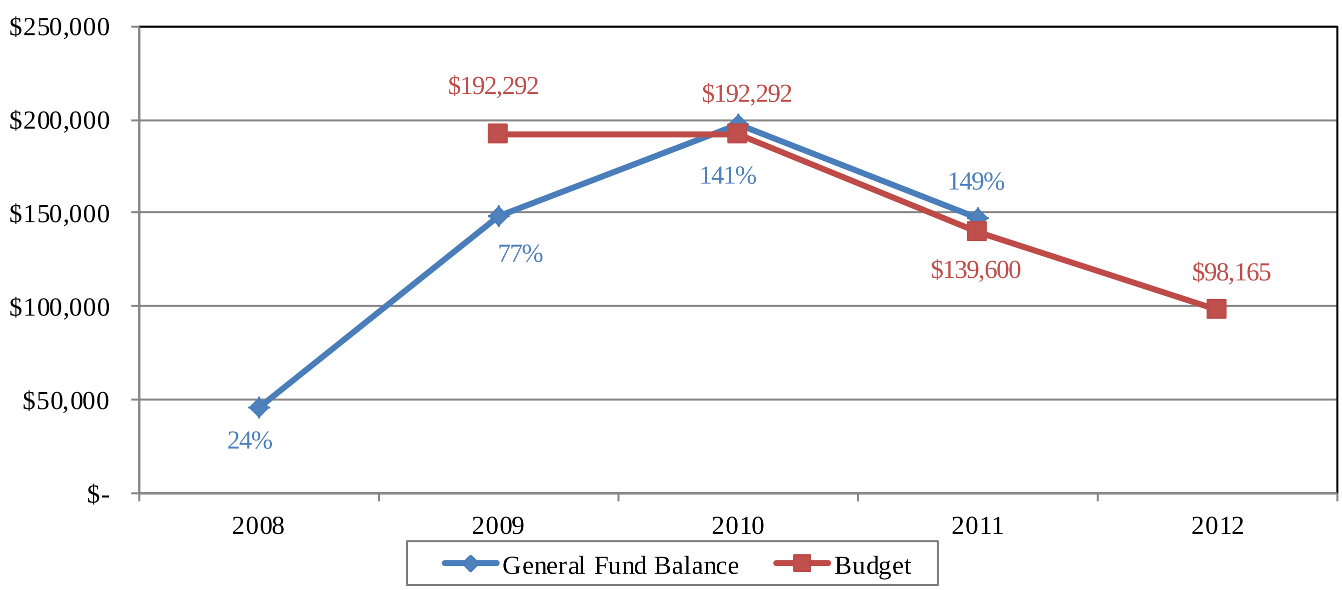
General Fund

The fund balance at December 31, 2011 was $146,747, a decrease of $50,226 in comparison with the prior year. The total fund balance represents 149 percent of the 2011 General fund budget.

A table summarizing the General fund balance in relation to budget follows:

Year	General Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2008	$ 45,574	2009	$ 192,292	24 %
2009	148,265	2010	192,292	77
2010	196,973	2011	139,600	141
2011	146,747	2012	98,165	149

Fund Balance as a Percent of Next Year's Budget



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The purposes and benefits of a General fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However revenues are not received evenly. An adequate fund balance will provide the cash flow required to finance the General fund expenditures.

- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay replacement, legal costs and other items. An adequate fund balance will provide the financing needed for such expenditures.

The 2011 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 101,500	$ 118,915	$ 17,415
Expenditures	139,600	169,141	(29,541)
Net change in fund balances	(38,100)	(50,226)	(12,126)
Fund balances, January 1	196,973	196,973	-
Fund balances, December 31	$ 158,873	$ 146,747	$ (12,126)

Revenue exceeded budget mainly due to interest on investments. Expenditures were over budget. Following are some of the larger expenditure variances:

- Salaries and per diems were over budget by $19,243
- Legal was over budget by $18,346
- Insurance and bonds were under budget by $16,917
- Engineering was under budget by $15,000

Special Revenue Funds

Special revenue funds include funds used to account for revenue derived from specific revenue sources that are restricted or committed to expenditures for specified purposes.

The 2011 Implementation fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 558,000	$ 823,409	$ 265,409
Expenditures	938,600	868,258	70,342
Excess (deficiency) of revenues over (under) expenditures	(380,600)	(44,849)	335,751
Other financing sources			
Transfers in	200,000	99,186	(100,814)
Net change in fund balances	(180,600)	54,337	234,937
Fund balances, January 1	2,200,439	2,200,439	-
Fund balances, December 31	$ 2,019,839	$ 2,254,776	$ 234,937

Revenues exceeded budget by $265,409 primarily due to grants and interest on investments.

Expenditures were under budget by $70,342. Following is the largest expenditure variance:

- Salaries and per diems were under budget by $41,334

Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt.

Debt Service funds may have one or a combination of revenue sources pledged to retire debt. Currently the District debt services are being funded by property taxes.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or Federal grants
- Transfers from other funds

The following is a summary of the assets accumulated in each Debt Service fund and the related long-term debt at year end.

Fund	Cash and Temporary Investments	Total Assets	Bonds Outstanding	Maturity
Bond Debt Service	$ 47,121	$ 49,950	$ 1,355,000	2021

The District should continue to monitor sources of payment for their debt obligations and ensure that there are sufficient resources to meet the debt obligations.

Capital Projects Funds

This group of funds includes most of the development activities in the District. A summary of the status of each fund follows:

Fund	Fund Balances December 31, 2011	Fund Balances December 31, 2010	Increase (Decrease)
Major			
JPA/MOA Construction fund	$ 113,314	$ 105,833	$ 7,481
JPA/MOA Operations fund	141,823	132,462	9,361
Nonmajor			
JPA/MOA Emergency	288,384	269,348	19,036
Bond Construction fund	99,053	173,374	(74,321)
Total	$ 387,437	$ 442,722	$ (55,285)

Following are some specifics on the above funds:

JPA/MOA Construction fund

- There was $26,354 of expenditures during the year
- There is $124,270 of deferred revenue at the end of the year and $14,943 due to other funds

JPA/MOA Operations fund

- There was $142,749 of expenditures during the year
- There is $50,803 of deferred revenue at the end of the year

JPA/MOA Emergency fund

- The only activity during the year was interest on investments

Bond Construction fund – This District fund was created in conjunction with the bond issuance.

- $12,253 of interest on investments
- $86,574 was transferred out during the year

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Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future District's financial statements:

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

Summary

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement also provides guidance for governments that are operators in a service concession arrangement.

This Statement requires disclosures about a service concession arrangement including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*

Summary

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14 and the related financial reporting requirements of Statement No. 34, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

This Statement clarifies the reporting of equity interests in legally separate organizations as well. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

Future Accounting Standard Changes - Continued

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Summary

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Summary

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

Future Accounting Standard Changes - Continued

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53*

Summary

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced.

* * * * * *

This report is intended solely for the information and use of 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.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Abdo, Eick & Meyers, LLP

April 23, 2012
Minneapolis, Minnesota

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