

PRIOR LAKE-SPRING LAKE
WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2013

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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, 2013

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INTRODUCTORY SECTION

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

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

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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, 2013

MANAGERS

<u>Name</u>	<u>Title</u>
Curt Hennes	President
Marianne Breitbach	Vice President
William Spitzmueller	Secretary
Bruce Thorsen	Treasurer
Fred Corrigan	Manager

STAFF

Mike Kinney	District Administrator
Amy Tucci	Administrative Assistant
Meghan Litsey	District Outreach Specialist
Nat Kale	Watershed Planner
Jaime Rockney	Water Resources Specialist

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FINANCIAL SECTION

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

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2013, and the respective changes in financial position and the budgetary comparison for the General fund and Implementation fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

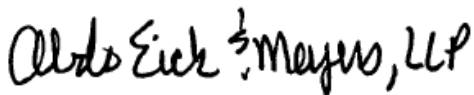
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 21, 2014

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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, 2013. 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 \$963,417 (net position). Because the District has a large amount of net position invested in capital assets and restricted for the Prior Lake outlet channel, the unrestricted net position is (\$369,819).
- The District's total net position decreased by \$1,129,044. These were planned expenditures, the most significant of which was the alum treatment in Spring Lake.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,300,002, a decrease of \$2,381,288 in comparison with the prior year. This decrease in fund balance is due to large expenditures for Spring Lake alum treatments and the payoff of refunded bonds during the year.
- The ending General fund balance is \$142,108, \$139,574 of which is unassigned and \$2,534 is nonspendable due to prepaid items.
- The District's total debt decreased \$1,268,854. This was due to the payoff of refunded bonds during the year.

Overview of the Financial Statements

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

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

Figure 1
Required Components of the
District's Annual Financial Report

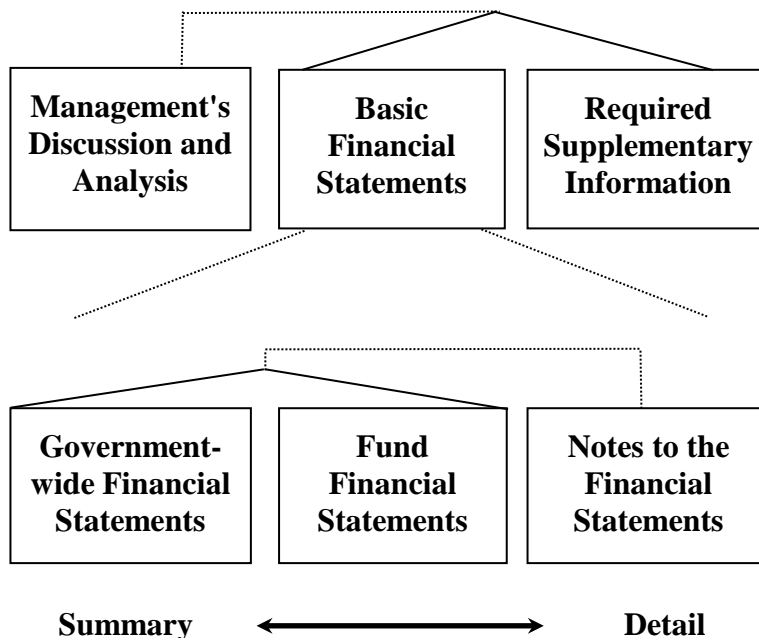


Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

The governmental activities of the District include general government, programs and interest on long-term debt.

The government-wide financial statements start on page 22 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 seven 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 26 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 35 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$963,417 at the close of the most recent fiscal year.

The largest portions of the District’s net position (94 percent) are net investment in capital assets (e.g., land, land improvements, and easements). The net position invested in capital assets is not available for future spending.

Prior Lake-Spring Lake Watershed District’s Summary of Net Position

	December 31,		Increase (Decrease)
	2013	2012	
Assets			
Current	\$ 1,678,032	\$ 4,082,922	\$ (2,404,890)
Capital	901,862	926,873	(25,011)
Total assets	<u>2,579,894</u>	<u>5,009,795</u>	<u>(2,429,901)</u>
Liabilities			
Current	370,526	402,529	(32,003)
Noncurrent	<u>1,245,951</u>	<u>2,514,805</u>	<u>(1,268,854)</u>
Total liabilities	<u>1,616,477</u>	<u>2,917,334</u>	<u>(1,300,857)</u>
Net position			
Net investment in capital assets	901,862	926,873	(25,011)
Restricted	431,374	602,438	(171,064)
Unrestricted	<u>(369,819)</u>	<u>563,150</u>	<u>(932,969)</u>
Total net position	<u>\$ 963,417</u>	<u>\$ 2,092,461</u>	<u>\$ (1,129,044)</u>

At the end of the current fiscal year, the District is able to report positive balances in all but the unrestricted net position category.

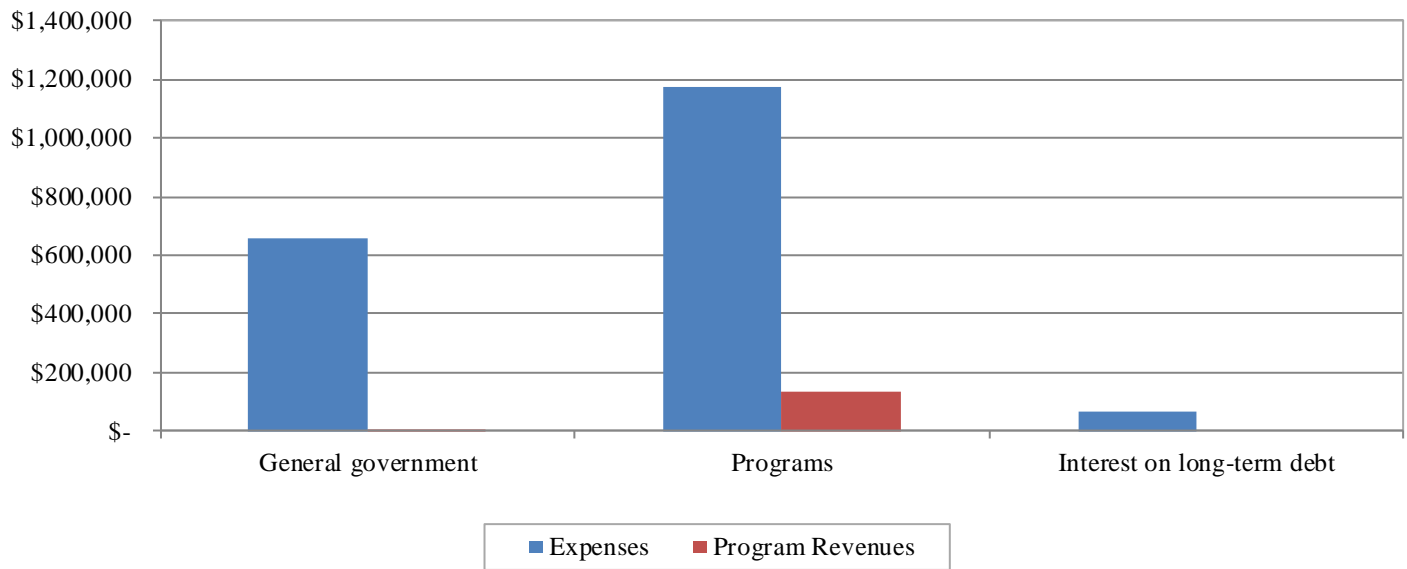
Governmental activities. Governmental activities decreased the District's net position by \$1,129,044.

Prior Lake-Spring Lake Watershed District's Changes in Net Position

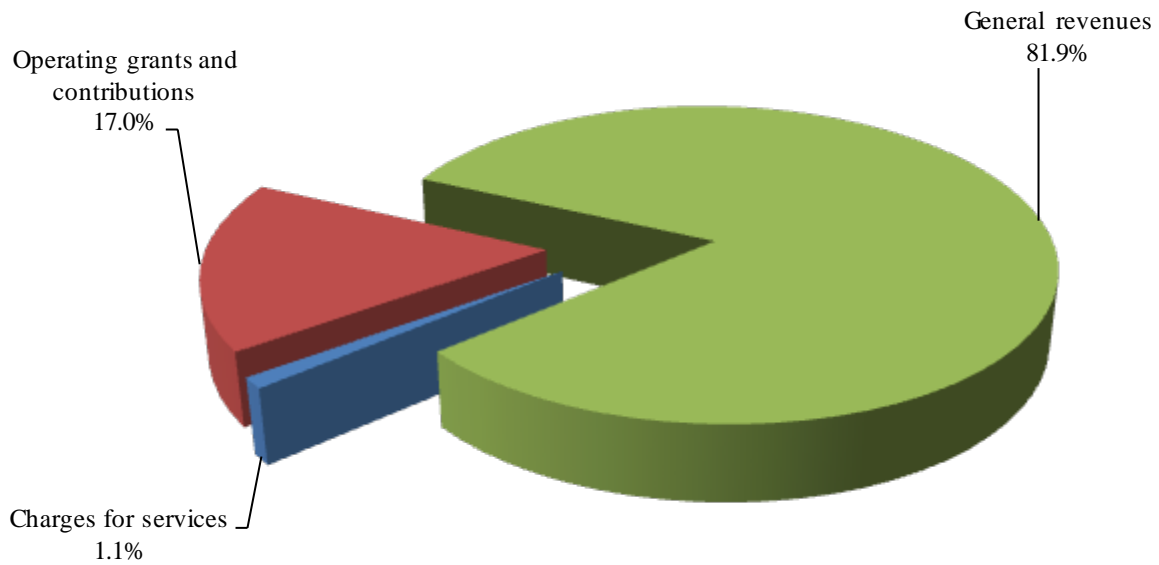
	December 31,		Increase (Decrease)
	2013	2012	
Revenues			
Program			
Charges for services	\$ 8,271	\$ 4,428	\$ 3,843
Operating grants and contributions	131,561	197,596	(66,035)
General			
Property taxes	667,479	704,988	(37,509)
Unrestricted investment earnings	(35,475)	62,145	(97,620)
Total revenues	<u>771,836</u>	<u>969,157</u>	<u>(197,321)</u>
Expenses			
General government	655,932	627,061	28,871
Programs	1,175,390	689,883	485,507
Interest on long-term debt	69,558	105,054	(35,496)
Total expenses	<u>1,900,880</u>	<u>1,421,998</u>	<u>478,882</u>
Change in net position	(1,129,044)	(452,841)	(676,203)
Net position, January 1	<u>2,092,461</u>	<u>2,545,302</u>	<u>(452,841)</u>
Net position, December 31	<u>\$ 963,417</u>	<u>\$ 2,092,461</u>	<u>\$ (1,129,044)</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, *unassigned 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 \$1,300,002, a decrease of \$2,381,288 in comparison with the prior year. Approximately 10.7 percent of this total amount, \$139,574, constitutes *unassigned* fund balance, which is available for spending at the District's discretion. The remainder of fund balance (\$1,160,428) is not available for new spending because it is either 1) nonspendable (\$2,534), 2) restricted (\$430,619), or 3) committed (\$727,275) for the purposes described in the fund balance section of the 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 \$142,108. 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 106.2 percent of 2013 actual expenditures and 145.0 percent of 2014 budgeted fund expenditures. The General fund balance decreased \$6,802 during the current fiscal year.

The fund balance of the Implementation fund at year end was \$727,275 which is a decrease of \$985,440 from the prior year. The decrease is mainly attributable to large expenditures for alum treatment in Spring Lake.

The JPA/MOA Operations fund balance at year end amounted to \$129,533, which is a decrease of \$23,991 from the prior.

The JPA/MOA Emergency fund balance at year end was \$288,316, which is a decrease of \$5,865 from the prior year.

The fund balance of the Bond Debt Service fund decreased \$1,223,073 during the current year. This was due to the payoff of refunded bonds.

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 2013 budget. Revenues were over budget by \$2,061, which can be attributed to property taxes. Expenditures were over budget by \$26,837. The largest variances were provided by legal, miscellaneous, and contracted services, which were over budget by \$14,402, \$9,393, and \$9,010, respectively. The overages in legal were largely due to the under budgeting of general legal services. The overages in miscellaneous were mainly due to under budgeting of dues and subscription expenditures. The contracted services exceeding budget were mainly due to human resources related expenditures that were not budgeted for.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$901,862 (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 2.7 percent.

Additional information on the District's capital assets can be found in Note 3B on page 44 of this report.

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

	December 31,		Increase (Decrease)
	2013	2012	
Land	\$ 37,800	\$ 37,800	\$ -
Permanent easements	578,120	578,120	-
Land improvements	285,942	310,953	(25,011)
Total	<u>\$ 901,862</u>	<u>\$ 926,873</u>	<u>\$ (25,011)</u>

The decrease is fully attributable to depreciation.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$1,232,968. This amount is General Obligation crossover refunding bonds.

Prior Lake-Spring Lake Watershed District's Outstanding Debt

	December 31,		Increase (Decrease)
	2013	2012	
Tax supported bonds	\$ 1,232,968	\$ 2,501,464	\$ (1,268,496)
Compensated absences payable	12,983	13,341	(358)
Total	<u>\$ 1,245,951</u>	<u>\$ 2,514,805</u>	<u>\$ (1,268,854)</u>

The District's total debt decreased \$1,268,854 (50.5 percent) during the current fiscal year. This is due to the payoff of refunded bonds.

Additional information on the District's long-term debt can be found in Note 3D starting on page 45 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 2014 fiscal year, the District completed an initial process in 2013 including the outlet channel system and the upper watershed area that drains into the overall lakes and wetland systems. Of particular interest was the TMDL (Total Maximum Daily Load) Implementation Plan for Spring Lake and Upper Prior Lake.

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 District 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, 2013

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 STATEMENT OF NET POSITION
 DECEMBER 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and temporary investments	\$ 1,653,736
Receivables	
Accounts	1,500
Delinquent taxes	8,515
Accrued interest	7,905
Due from other governments	3,842
Prepaid items	2,534
Capital assets	
Land and permanent easements	615,920
Depreciable assets, net of accumulated depreciation	<u>285,942</u>
TOTAL ASSETS	<u><u>2,579,894</u></u>
LIABILITIES	
Accounts payable	79,890
Accrued salaries payable	730
Accrued interest payable	1,011
Permit collateral deposits	73,910
Deposits payable	8,446
Unearned revenue	206,539
Noncurrent liabilities	
Due within one year	137,983
Due in more than one year	<u>1,107,968</u>
TOTAL LIABILITIES	<u><u>1,616,477</u></u>
NET POSITION	
Net investment in capital assets	901,862
Restricted	
Debt service	13,525
Prior Lake outlet channel	417,849
Unrestricted	<u>(369,819)</u>
TOTAL NET POSITION	<u><u>\$ 963,417</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 655,932	\$ 8,271	\$ -	\$ -	\$ (647,661)
Programs	1,175,390	-	131,561	-	(1,043,829)
Interest on long-term debt	69,558	-	-	-	(69,558)
Total	\$ 1,900,880	\$ 8,271	\$ 131,561	\$ -	(1,761,048)
General revenues					
Property taxes					667,479
Unrestricted investment earnings					(35,475)
Total general revenues					632,004
Change in net position					(1,129,044)
Net position, January 1					2,092,461
Net position, December 31					<u>\$ 963,417</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, 2013

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2013

	405	509	830
	General Fund	Implementation Fund	JPA/MOA Operations Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and temporary investments	\$ 280,857	\$ 735,721	\$ 336,072
Receivables			
Accounts	1,500	-	-
Delinquent taxes	1,586	5,163	-
Accrued interest	7,905	-	-
Due from other governments	3,842	-	-
Prepaid items	2,534	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 298,224</u></u>	<u><u>\$ 740,884</u></u>	<u><u>\$ 336,072</u></u>
 LIABILITIES			
Accounts payable	\$ 79,890	\$ -	\$ -
Accrued salaries payable	730	-	-
Permit collateral deposits	73,910	-	-
Deposits payable	-	8,446	-
Unearned revenue	-	-	206,539
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u><u>154,530</u></u>	<u><u>8,446</u></u>	<u><u>206,539</u></u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - taxes	1,586	5,163	-
	<u> </u>	<u> </u>	<u> </u>
 FUND BALANCES			
Nonspendable	2,534	-	-
Restricted for			
Prior Lake outlet channel	-	-	129,533
Debt service	-	-	-
Committed for			
Water resources management plan	-	727,275	-
Unassigned	139,574	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u><u>142,108</u></u>	<u><u>727,275</u></u>	<u><u>129,533</u></u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 298,224</u></u>	<u><u>\$ 740,884</u></u>	<u><u>\$ 336,072</u></u>

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

850 JPA/MOA Emergency Fund	920 Bond Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 288,316	\$ 12,770	\$ -	\$ 1,653,736
-	-	-	1,500
-	1,766	-	8,515
-	-	-	7,905
-	-	-	3,842
-	-	-	2,534
<u>\$ 288,316</u>	<u>\$ 14,536</u>	<u>\$ -</u>	<u>\$ 1,678,032</u>
\$ -	\$ -	\$ -	\$ 79,890
-	-	-	730
-	-	-	73,910
-	-	-	8,446
-	-	-	206,539
-	-	-	369,515
-	1,766	-	8,515
-	-	-	2,534
288,316	-	-	417,849
-	12,770	-	12,770
-	-	-	727,275
-	-	-	139,574
<u>288,316</u>	<u>12,770</u>	<u>-</u>	<u>1,300,002</u>
<u>\$ 288,316</u>	<u>\$ 14,536</u>	<u>\$ -</u>	<u>\$ 1,678,032</u>

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PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

Total fund balances - governmental	\$ 1,300,002
Amounts reported for the governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	1,866,498
Less accumulated depreciation	(964,636)
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	(12,983)
Bonds payable	(1,205,000)
Unamortized bond premium	(27,968)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore, are unavailable in the funds.	
Delinquent taxes receivable	8,515
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(1,011)</u>
Total net position - governmental activities	<u><u>\$ 963,417</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 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	405	509	830
	General Fund	Implementation Fund	JPA/MOA Operations Fund
REVENUES			
Property taxes	\$ 128,647	\$ 405,800	\$ -
Intergovernmental			
Reimbursements/grants	-	51,115	80,446
Interest on investments	(1,586)	(18,240)	(2,866)
Permit and inspection fees	-	554	-
Miscellaneous	-	7,717	-
	<u>127,061</u>	<u>446,946</u>	<u>77,580</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	133,863	455,545	66,882
Program costs	-	1,076,267	74,112
Debt service			
Principal	-	-	-
Interest and other	-	-	-
	<u>133,863</u>	<u>1,531,812</u>	<u>140,994</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(6,802)</u>	<u>(1,084,866)</u>	<u>(63,414)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	135,439	39,423
Transfers out	-	(36,013)	-
	<u>-</u>	<u>99,426</u>	<u>39,423</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	(6,802)	(985,440)	(23,991)
FUND BALANCES, JANUARY 1	<u>148,910</u>	<u>1,712,715</u>	<u>153,524</u>
FUND BALANCES, DECEMBER 31	<u>\$ 142,108</u>	<u>\$ 727,275</u>	<u>\$ 129,533</u>

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

850 JPA/MOA Emergency Fund	920 Bond Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 138,556	\$ -	\$ 673,003
-	-	-	131,561
(3,133)	(9,650)	-	(35,475)
-	-	-	554
-	-	-	7,717
<u>(3,133)</u>	<u>128,906</u>	<u>-</u>	<u>777,360</u>
-	-	-	656,290
-	-	-	1,150,379
-	1,265,000	-	1,265,000
-	86,979	-	86,979
<u>-</u>	<u>1,351,979</u>	<u>-</u>	<u>3,158,648</u>
<u>(3,133)</u>	<u>(1,223,073)</u>	<u>-</u>	<u>(2,381,288)</u>
-	-	-	174,862
<u>(2,732)</u>	<u>-</u>	<u>(136,117)</u>	<u>(174,862)</u>
<u>(2,732)</u>	<u>-</u>	<u>(136,117)</u>	<u>-</u>
(5,865)	(1,223,073)	(136,117)	(2,381,288)
<u>294,181</u>	<u>1,235,843</u>	<u>136,117</u>	<u>3,681,290</u>
<u>\$ 288,316</u>	<u>\$ 12,770</u>	<u>\$ -</u>	<u>\$ 1,300,002</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, 2013

Total net change in fund balances - governmental funds	\$ (2,381,288)
<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	(25,011)
<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 position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.</p>	
Principal repayments	1,265,000
Amortization of bond premium	3,496
<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>	
	13,925
<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	(5,524)
<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	358
	358
Change in net position - governmental activities	\$ (1,129,044)

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 125,000	\$ 125,000	\$ 128,647	\$ 3,647
Interest on investments	-	-	(1,586)	(1,586)
TOTAL REVENUES	125,000	125,000	127,061	2,061
EXPENDITURES				
Current				
General government				
Salaries and per diems	54,641	54,641	54,134	507
Payroll taxes and benefits	4,448	4,448	4,974	(526)
PERA contributions	3,645	3,645	3,543	102
Health insurance	12,266	12,266	9,401	2,865
Legal	7,500	7,500	21,902	(14,402)
Accounting	3,369	3,369	3,894	(525)
Audit	1,901	1,901	1,203	698
Rent	4,079	4,079	3,537	542
Telephone	2,080	2,080	1,736	344
Utilities	31	31	-	31
Office supplies	2,113	2,113	1,561	552
Insurance and bonds	1,783	1,783	1,123	660
Office equipment	912	912	194	718
Miscellaneous	5,258	5,258	15,633	(10,375)
Contracted services	3,000	3,000	11,028	(8,028)
TOTAL EXPENDITURES	107,026	107,026	133,863	(26,837)
NET CHANGE IN FUND BALANCES	17,974	17,974	(6,802)	(24,776)
FUND BALANCES, JANUARY 1	148,910	148,910	148,910	-
FUND BALANCES, DECEMBER 31	<u>\$ 166,884</u>	<u>\$ 166,884</u>	<u>\$ 142,108</u>	<u>\$ (24,776)</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 406,968	\$ 406,968	\$ 405,800	\$ (1,168)
Intergovernmental				
Reimbursements/grants	-	-	51,115	51,115
Interest on investments	-	-	(18,240)	(18,240)
Permit and inspection fees	-	-	554	554
Miscellaneous	-	-	7,717	7,717
	<u>406,968</u>	<u>406,968</u>	<u>446,946</u>	<u>39,978</u>
TOTAL REVENUES	<u>406,968</u>	<u>406,968</u>	<u>446,946</u>	<u>39,978</u>
EXPENDITURES				
Current				
General government				
Salaries and per diems	232,770	232,770	269,699	(36,929)
Payroll taxes and benefits	86,730	86,730	89,269	(2,539)
Legal	19,250	19,250	18,640	610
Accounting	14,351	14,351	19,399	(5,048)
Audit	8,099	8,099	5,992	2,107
Rent	17,378	17,378	17,621	(243)
Telephone and internet	8,861	8,861	8,647	214
Utilities	132	132	283	(151)
Office Supplies	9,002	9,002	7,777	1,225
Insurance	7,596	7,596	5,593	2,003
Equipment	3,883	3,883	967	2,916
Miscellaneous	19,942	19,942	11,658	8,284
Program costs	1,100,523	1,100,523	1,076,267	24,256
	<u>1,528,517</u>	<u>1,528,517</u>	<u>1,531,812</u>	<u>(3,295)</u>
TOTAL EXPENDITURES	<u>1,528,517</u>	<u>1,528,517</u>	<u>1,531,812</u>	<u>(3,295)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,121,549)</u>	<u>(1,121,549)</u>	<u>(1,084,866)</u>	<u>36,683</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	135,439	135,439
Transfers out	(70,517)	(70,517)	(36,013)	34,504
	<u>(70,517)</u>	<u>(70,517)</u>	<u>99,426</u>	<u>169,943</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(70,517)</u>	<u>(70,517)</u>	<u>99,426</u>	<u>169,943</u>
NET CHANGE IN FUND BALANCES	(1,192,066)	(1,192,066)	(985,440)	206,626
FUND BALANCES, JANUARY 1	<u>1,712,715</u>	<u>1,712,715</u>	<u>1,712,715</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 520,649</u>	<u>\$ 520,649</u>	<u>\$ 727,275</u>	<u>\$ 206,626</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, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Prior Lake-Spring Lake Watershed District (the District), Prior Lake, Minnesota, 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 of Managers exercises legislative authority and determines all matters of policy. The Board of Managers 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 position and the statement activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

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

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

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, 2013

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.

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

The 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 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 associated with the cost sharing agreement.

The *JPA/MOA Emergency fund* was established to account for any major unexpected and necessary expenditures relating to the JPA/MOA agreement.

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

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.

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.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, liabilities, deferred inflows of resources and net position 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, 2013

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 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. 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 unavailable revenue because they are not available to finance current expenditures.

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, 2013

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.

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 statement of net position. The recognition of bond premiums and discounts as are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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 of Managers, which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board of Managers 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 of Managers itself or by an official to which the governing body delegates the authority. The Board of Managers 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.

Net position

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

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 of Managers. There were no amendments to the budget during 2013. 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 of Managers through the disbursement process.

The District does not use encumbrance accounting.

B. Excess of expenditures over appropriations

For the year ended December 31, 2013, expenditures exceeded appropriation in the following funds:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
General	\$ 107,026	\$ 133,863	\$ 26,837
Implementation	1,528,517	1,531,812	3,295

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, 2013

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 of Managers, 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 \$102,567 and the bank balance was \$115,681. The entire bank balance was covered by federal depository insurance.

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

Carrying amount of deposits	\$ 102,567
Investments	<u>1,551,169</u>
Total cash and investments	<u>\$ 1,653,736</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

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	\$ 394,600
Non-pooled investments			
Brokered certificate of deposit	N/A	1 to 3 years	834,959
Municipal securities	AA	less than 6 months	55,121
Municipal securities	AAA	more than 3 years	266,489
Total non-pooled investments			<u>1,156,569</u>
Total			<u>\$ 1,551,169</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 and the District's investment policy limit the District's investments to the list on page 37 of the notes. The District's investment policy specifically limits investments to the following:
 - Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued by the United States of America and its agencies
 - Interest bearing checking and savings accounts, or any other investments constituting direct obligations of any FDIC financial institution
 - Certificates of deposit with federally insured institutions that are collateralized or insured in excess of the \$250,000 provided by the Federal Deposit Insurance Corporation coverage limit
 - Money market accounts that are 100 percent invested in above referenced government securities
 - Commercial paper issued by corporations organized in the United States with assets exceeding \$500,000,000, of highest quality category by at least two of the three standard rating agencies, maturing in 270 days. The total investment in any one corporation cannot exceed 10 percent of that corporation's outstanding obligations and cannot be more than \$500,000

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

- *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. The District's investment policy states that collateral must be placed in safekeeping at or before the time the investments are purchased if the investment is not fully covered by FDIC insurance.
- *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. According to the District's investment policy, the District can hold up to 100 percent but not less than 10 percent of investments in United States government Treasury bills, Treasury notes, or Treasury bonds. The District's investment policy also states that the District will not hold more than 90 percent of its investments in interest bearing checking, savings, or certificate of deposit accounts, 20 percent in money market accounts that are 100 percent invested in government securities, and 10 percent in commercial paper meeting outlined requirements.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the District's investment policy, no investment maturity shall extend beyond five years to reduce this risk.

B. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 37,800	\$ -	\$ -	\$ 37,800
Permanent easements	578,120	-	-	578,120
Total capital assets, not being depreciated	615,920	-	-	615,920
Capital assets, being depreciated				
Land improvements	1,250,578	-	-	1,250,578
Less accumulated depreciation for				
Land improvements	(939,625)	(25,011)	-	(964,636)
Total capital assets being depreciated, net	310,953	(25,011)	-	285,942
Governmental activities capital assets, net	\$ 926,873	\$ (25,011)	\$ -	\$ 901,862

The full depreciation expense amount was charged to programs.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

C. Transfers

The following interfund transfers were made during 2013:

- Other governmental funds transferred \$135,439 to the Implementation Fund and \$678 to the JPA/MOA Operations fund to close out the other governmental funds.
- The JPA/MOA Emergency fund transferred \$2,732 to the JPA/MOA Operations fund for interest revenue reallocation.
- The Implementation fund transferred \$36,013 to the JPA/MOA Operations fund. This interfund transfer was budgeted and represents 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.

D. 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 were general obligations of the District and accordingly, the full faith and credit of the District is pledged to their payment. The bonds were paid off on December 15, 2013.

On July 1, 2012, the District issued G.O. refunding bonds to refund the 2006A Tax Supported Bonds. The bonds bear an interest rate of 2.00-2.05 percent. Taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. As a result of the refunding issue, the District saved \$79,213 in debt service payments and achieved an economic gain (the present value of the difference between the old and new debt service) of \$73,018. The information relating to the bonds is as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2012A G.O. Crossover Refunding Bonds	\$ 1,205,000	2.00-2.05 %	07/01/12	12/15/21	<u>\$ 1,205,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 125,000	\$ 24,275	\$ 149,275
2015	130,000	21,775	151,775
2016	140,000	19,175	159,175
2017	145,000	16,375	161,375
2018	155,000	13,475	168,475
2019-2021	510,000	21,240	531,240
Total	<u>\$ 1,205,000</u>	<u>\$ 116,315</u>	<u>\$ 1,321,315</u>

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

Changes in long-term liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Governmental activities					
Tax supported bonds					
series 2006A	\$ 1,265,000	\$ -	\$ (1,265,000)	\$ -	\$ -
G.O. crossover refunding					
bonds, series 2012A	1,205,000	-	-	1,205,000	125,000
Premium on bonds	31,464	-	(3,496)	27,968	-
Total bonds	<u>2,501,464</u>	<u>-</u>	<u>(1,268,496)</u>	<u>1,232,968</u>	<u>125,000</u>
Compensated					
absences payable	<u>13,341</u>	<u>26,276</u>	<u>(26,634)</u>	<u>12,983</u>	<u>12,983</u>
Total governmental					
activities	<u>\$ 2,514,805</u>	<u>\$ 26,276</u>	<u>\$ (1,295,130)</u>	<u>\$ 1,245,951</u>	<u>\$ 137,983</u>

E. 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 \$23,400 for rent in 2013.

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

<u>Fiscal Year</u>	<u>Rent per Year</u>
2014	\$ 24,600
2015	8,600

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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. GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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, by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERF 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 2012 and 2013. In 2012 and 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members and 7.25 percent for Coordinated Plan GERF members. The District's contributions to the GERF for the years ending December 31, 2013, 2012 and 2011 were \$23,440, \$23,356, and \$14,097, respectively. The District's contributions were equal to the contractually required contributions for each year as set forth by Minnesota statutes.

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 5: OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District pays annual premiums for its workers compensation and property and casualty insurance. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

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

B. Permit collateral deposits

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, 2013, the District was holding \$73,910 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, 2013, the District received cost reimbursement revenue of \$80,446 and has unearned revenue of \$206,539.

COMBINING FUND FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
 PRIOR LAKE, MINNESOTA
 NONMAJOR CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2013

	810 JPA/MOA Construction Fund	910 Bond Construction Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS	\$ -	\$ -	\$ -
FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2013

	810	910	
	JPA/MOA	Bond	
	Construction	Construction	
	Fund	Fund	Total
	<u> </u>	<u> </u>	<u> </u>
OTHER FINANCING USES			
Transfers out	\$ (115,592)	\$ (20,525)	\$ (136,117)
FUND BALANCES, JANUARY 1	<u>115,592</u>	<u>20,525</u>	<u>136,117</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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OTHER REQUIRED REPORTS

PRIOR LAKE-SPRING LAKE WATERSHED DISTRICT
PRIOR LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2013

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AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 21, 2014