

**BROWN'S CREEK WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2010

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## **INTRODUCTORY SECTION**

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**BROWN'S CREEK WATERSHED DISTRICT**

ORGANIZATION

December 31, 2010

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**Board of Managers:**

Craig Leiser, President

Rick Vanzwol, Vice President

Gail Pundsack, Vice President

Connie Taillon, Treasurer

Gerald Johnson, Secretary

**District Administrator:**

Karen Kill

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Managers  
Brown's Creek Watershed District  
Stillwater, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Brown's Creek Watershed District as of and for the year ended December 31, 2010 which collectively comprise Brown's Creek Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown's Creek Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from Brown's Creek Watershed District's 2009 financial statements and, in our report dated March 23, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Brown's Creek Watershed District as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Brown's Creek Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on pages 26 through 29, 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.

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

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

July 20, 2011

## **BASIC FINANCIAL STATEMENTS**

**BROWN'S CREEK WATERSHED DISTRICT**

## STATEMENT OF NET ASSETS

Statement 1

December 31, 2010

With Comparative Totals For December 31, 2009

	Primary Government	
	Governmental Activities	
	2010	2009
Assets:		
Cash and investments	\$954,429	\$853,446
Accounts receivable	3,480	11,241
Due from other governments	14,402	800
Property taxes receivable:		
Delinquent	33,901	36,250
Due from county	13,774	19,314
Capital assets - net:		
Nondepreciable	62,155	62,155
Total assets	<u>1,082,141</u>	<u>983,206</u>
Liabilities:		
Accounts payable	35,512	53,174
Due to other governments	77,016	68,269
Escrow deposits payable	47,371	40,789
Total liabilities	<u>159,899</u>	<u>162,232</u>
Net assets:		
Invested in capital assets	62,155	62,155
Unrestricted	860,087	758,819
Total net assets	<u>\$922,242</u>	<u>\$820,974</u>

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

**BROWN'S CREEK WATERSHED DISTRICT**

STATEMENT OF ACTIVITIES

**Statement 2**

For The Year Ended December 31, 2010

With Comparative Totals For The Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2010	2009
Primary government:						
Governmental activities:						
General government	\$424,731	\$7,353	\$ -	\$ -	(\$417,378)	(\$389,925)
Projects	341,206	-	74,617	-	(266,589)	(264,416)
Total governmental activities	<u>\$765,937</u>	<u>\$7,353</u>	<u>\$74,617</u>	<u>\$0</u>	<u>(683,967)</u>	<u>(654,341)</u>
General revenues:						
Property taxes					712,330	729,180
Grants and contributions not restricted to specific programs					15,555	14,060
Unrestricted investment earnings					3,631	843
Total general revenues					<u>731,516</u>	<u>744,083</u>
Change in net assets					<u>47,549</u>	<u>89,742</u>
Net assets - January 1, as previously reported					820,974	731,232
Prior period adjustment					<u>53,719</u>	-
Net assets - January 1, as restated					<u>874,693</u>	<u>731,232</u>
Net assets - December 31					<u>\$922,242</u>	<u>\$820,974</u>

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

**BROWN'S CREEK WATERSHED DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS

**Statement 3**

December 31, 2010

With Comparative Totals For December 31, 2009

Assets	General Fund	Management Planning	Total Governmental Funds	
			2010	2009
Cash and investments	\$372,909	\$581,520	\$954,429	\$853,446
Accounts receivable	-	3,480	3,480	11,241
Due from other governments	7,802	6,600	14,402	800
Taxes receivable:				
Delinquent	6,338	27,563	33,901	36,250
Due from county	2,670	11,104	13,774	19,314
<b>Total assets</b>	<b>\$389,719</b>	<b>\$630,267</b>	<b>\$1,019,986</b>	<b>\$921,051</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	\$35,512	\$ -	\$35,512	\$53,174
Due to other governments	77,016	-	77,016	68,269
Escrow deposits payable	-	47,371	47,371	40,789
Deferred revenue	6,338	27,563	33,901	36,250
<b>Total liabilities</b>	<b>118,866</b>	<b>74,934</b>	<b>193,800</b>	<b>198,482</b>
<b>Fund balance:</b>				
<b>Unreserved:</b>				
<b>Designated:</b>				
Special Revenue Fund	-	555,333	555,333	491,720
<b>Undesignated:</b>				
General Fund	270,853	-	270,853	230,849
<b>Total fund balance</b>	<b>270,853</b>	<b>555,333</b>	<b>826,186</b>	<b>722,569</b>
<b>Total liabilities and fund balance</b>	<b>\$389,719</b>	<b>\$630,267</b>	<b>\$1,019,986</b>	<b>\$921,051</b>
Fund balance reported above			\$826,186	\$722,569
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.				
			62,155	62,155
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				
			33,901	36,250
<b>Net assets of governmental activities</b>			<b>\$922,242</b>	<b>\$820,974</b>

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



**BROWN'S CREEK WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2010  
With Comparative Totals For The Year Ended December 31, 2009

**Statement 4**

	<u>General Fund</u>	<u>Management Planning</u>	<u>Total Governmental Funds</u>	
			<u>2010</u>	<u>2009</u>
Revenues:				
General property taxes	\$137,830	\$576,849	\$714,679	\$719,732
Intergovernmental	-	74,617	74,617	9,952
Market value homestead credit	3,015	12,540	15,555	14,060
Permits	-	7,353	7,353	14,377
Investment income	3,631	-	3,631	843
Total revenues	<u>144,476</u>	<u>671,359</u>	<u>815,835</u>	<u>758,964</u>
Expenditures:				
Current:				
General government	104,472	320,259	424,731	404,302
Projects	-	341,206	341,206	274,368
Total expenditures	<u>104,472</u>	<u>661,465</u>	<u>765,937</u>	<u>678,670</u>
Revenues over expenditures	<u>40,004</u>	<u>9,894</u>	<u>49,898</u>	<u>80,294</u>
Fund balance - January 1, as previously reported	230,849	491,720	722,569	642,275
Prior period adjustment	-	53,719	53,719	-
Net assets - January 1, as restated	<u>230,849</u>	<u>545,439</u>	<u>776,288</u>	<u>642,275</u>
Fund balance - December 31	<u>\$270,853</u>	<u>\$555,333</u>	<u>\$826,186</u>	<u>\$722,569</u>

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

**BROWN'S CREEK WATERSHED DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2010  
With Comparative Amounts For The Year Ended December 31, 2009

**Statement 5**

Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:	2010	2009
Net changes in fund balance - total governmental funds (Statement 4)	\$49,898	\$80,294
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
General property taxes deferred revenue:		
At December 31, 2009	(36,250)	(26,802)
At December 31, 2010	33,901	36,250
Change in net assets of governmental activities (Statement 2)	\$47,549	\$89,742

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

**BROWN'S CREEK WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Brown's Creek Watershed District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies:

**A. FINANCIAL REPORTING ENTITY**

The District was originally created in 1997 by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota Statutes Chapter 103D. The District was established to promote the public welfare and public interest and will advance the purpose of Minnesota Statutes Chapters 103B and 103D. The District is operated by a five member Board of Managers.

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

The District reports the following major governmental funds:

General Fund is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenditures and for the construction and maintenance of projects of common benefit to the District.

Management Planning Fund (special revenue fund) is established to account for the preparation of an overall plan for projects and improvements, and for projects and improvements to implement the approved plan. The Fund collects an ad valorem tax levy, pursuant to Minnesota Statutes 103B.241.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**BROWN'S CREEK WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**D. BUDGETS**

The District prepares annual revenue and expenditure budgets for the District's General Fund and Special Revenue Fund. The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made. Encumbrance accounting, under which purchase orders, contracts and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

**E. CASH AND INVESTMENTS**

Cash balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to the individual funds on the basis of applicable cash balances available by each of the funds and in accordance with State Statute. The District adopted GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" in 1998. In accordance with the provisions of GASB No. 31, the District reports investments at fair value, based upon quoted market prices, in the financial statements. In accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue to the operating statements.

**F. MARKET VALUE HOMESTEAD CREDIT**

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

**G. 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 District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as

**BROWN'S CREEK WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

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

**H. INVENTORIES**

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. None of the District's funds maintain significant amounts of inventories of materials and supplies.

**I. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, infrastructure assets and intangible assets such as easements and computer software, are reported in the 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.

**BROWN'S CREEK WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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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 had 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 prior year and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets since implementing GASB No. 34. Land is the only capital asset recorded and it is not depreciated.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010. GASB Statement No. 51 required the District to capitalize and depreciate intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District has elected not to report intangible assets acquired in years prior to 2010. The District did not acquire any intangible assets for the year ending December 31, 2010.

**J. FUND EQUITY**

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**K. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**L. USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**M. COMPARATIVE TOTALS**

The basic financial statements, required supplementary information and individual fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District Board, 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% of the deposits not covered by insurance or bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

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



**BROWN'S CREEK WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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Custodial Credit Risk- Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all District deposits. The market value of collateral pledged must equal 110% of deposit not covered by insurance of bonds.

At year end the carrying amount of the District's deposits was \$954,429 and the bank balance was \$971,408. The entire bank balance was covered by federal depository insurance or perfected collateral held by the District's agent in the District's name.

**B. INVESTMENTS**

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2010.

**BROWN'S CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**Note 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2010 are as follows:

	<u>Major Funds</u>		
	<u>General</u>	<u>Management Planning Fund</u>	<u>Total</u>
Delinquent taxes	<u>\$2,347</u>	<u>\$9,764</u>	<u>\$12,111</u>

**Note 4 DEFERRED REVENUES**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$6,338	\$ -
Delinquent property taxes receivable (Management Planning Fund)	<u>27,563</u>	<u>-</u>
Total	<u>\$33,901</u>	<u>\$0</u>

**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$62,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$62,155</u>

**BROWN'S CREEK WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2010

**Note 6 CONTINGENCIES**

As of December 31, 2010, the District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

**Note 7 DESIGNATIONS OF FUND EQUITY**

At December 31, 2010 and 2009, the District had the following fund equity reservations and designations:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Special Revenue Fund:		
Designated for watershed plan implementation	<u>\$555,333</u>	<u>\$491,720</u>

**Note 8 RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**Note 9 PRIOR PERIOD ADJUSTMENT**

During the year, it was noted that grant revenue from 2009 had not been recorded. As such, we have recorded that revenue as a prior period adjustment. A summary of the change is as follows:

	<u>Management Planning Fund Balance</u>	<u>Net Assets</u>
Balance January 1, 2010, as previously reported	\$491,720	\$820,974
Prior period adjustment - unrecorded revenue	<u>53,719</u>	<u>53,719</u>
Balance January 1, 2010, as restated	<u>\$545,439</u>	<u>\$874,693</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**BROWN'S CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended December 31, 2009

**Statement 6**

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes	\$138,035	\$138,035	\$137,830	(\$205)	\$126,507
Market value homestead credit	3,015	3,015	3,015	-	2,477
Investment income	-	-	3,631	3,631	843
Total revenues	<u>141,050</u>	<u>141,050</u>	<u>144,476</u>	<u>3,426</u>	<u>129,827</u>
<b>Expenditures:</b>					
General government:					
Legal fees	16,800	15,000	14,985	15	14,969
Accounting	11,500	11,605	11,290	315	11,495
Staff engineer	21,300	21,585	21,297	288	21,434
Bonding and insurance	4,500	4,261	2,305	1,956	2,804
WS & WCD	36,700	38,368	38,333	35	36,666
Manager per diem	10,000	11,618	5,781	5,837	7,382
Secretarial services	5,250	5,878	3,623	2,255	3,623
Dues and subscriptions	4,000	4,129	3,985	144	3,437
Postage	2,000	2,286	763	1,523	714
Printing	1,000	1,334	1,048	286	166
Conference	1,000	1,454	1,037	417	546
Other	6,000	6,955	25	6,930	45
Contingency	25,000	16,204	-	16,204	-
Total expenditures	<u>145,050</u>	<u>140,677</u>	<u>104,472</u>	<u>36,205</u>	<u>103,281</u>
Revenues over expenditures	<u>(\$4,000)</u>	<u>\$373</u>	40,004	<u>\$39,631</u>	26,546
Fund balance - January 1			<u>230,849</u>		<u>204,303</u>
Fund balance - December 31			<u>\$270,853</u>		<u>\$230,849</u>

**BROWN'S CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended Decemeber 31, 2009

	Budgeted Amounts		2010 Actual Amounts	with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
<b>Revenues:</b>					
General property taxes	\$574,110	\$574,110	\$576,849	\$2,739	\$593,225
Intergovernmental	31,500	147,219	74,617	(72,602)	9,952
Market value homestead credit	12,540	12,540	12,540	-	11,583
Permit	-	-	7,353	7,353	14,377
Total revenues	<u>618,150</u>	<u>733,869</u>	<u>671,359</u>	<u>(62,510)</u>	<u>629,137</u>
<b>Expenditures:</b>					
<b>General government:</b>					
Baseline monitoring and equipment	123,000	125,460	117,980	7,480	98,540
Legal fees	30,000	38,102	10,266	27,836	21,898
Staff engineer	67,100	63,855	63,855	-	62,055
Permitting - legal	-	4,634	4,008	626	1,714
Permitting - engineering	25,000	21,720	30,706	(8,986)	28,280
WS & WCD	73,300	76,632	76,667	(35)	73,333
East Metro Water Resources Educator	16,000	15,799	15,525	274	15,201
Other	-	2,500	1,252	1,248	-
<b>Projects:</b>					
THPP	10,000	10,754	12,522	(1,768)	8,246
Education and outreach	5,000	5,377	3,127	2,250	2,123
Volunteer stream monitoring	5,000	5,789	1,504	4,285	4,211
Homeowner BMP program	65,000	76,111	46,993	29,118	37,012
H & H model upgrade	7,500	7,629	7,151	478	7,371
Kern center infiltration monitoring	30,000	29,705	2,301	27,404	5,295
Local plan review	-	-	-	-	2,414
Long Lake plan implementation	50,000	84,548	29,628	54,920	47,951
GIS management tool	1,500	1,500	-	1,500	-
Benz Lake management plan implementation	-	-	-	-	742
McKusick Lake plan implementation	65,000	65,000	11,034	53,966	-
Brown's Creek Biological TMDL	30,000	35,323	35,836	(513)	53,719
Buffer mapping	1,750	3,205	-	3,205	1,065
Grant preparation	5,000	5,495	5,379	116	4,506
Land conservation	20,000	9,674	3,331	6,343	20,326
Stormwater management facility inventory	2,500	5,000	-	5,000	-
BMP program LGU demonstration	30,000	49,750	22,302	27,448	22,127
Groundwater	5,000	18,265	8,405	9,860	11,493
Herberger's Pond	12,500	20,461	12,324	8,137	26,039
Washington Avenue Pond	9,000	9,000	-	9,000	-
Materman Lake management plan	-	11,126	7,709	3,417	9,974
CIP maintenance	15,000	14,050	940	13,110	5,950

**BROWN'S CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended Decemeber 31, 2009

	Budgeted Amounts		2010 Actual Amounts	with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
Brown's Creek TMDL implementation	\$92,500	\$180,186	\$118,009	\$62,177	\$3,804
Rules Review/Evaluation	10,000	10,000	-	10,000	-
Plan Reviews - LGU/LWMP	2,500	3,986	-	3,986	-
Management Plan Update	15,000	15,000	-	15,000	-
62 St. Culvert Replacement	7,500	-	-	-	-
Long Lake Sediment Deltas	30,000	30,000	-	30,000	-
Long Lake Boat Mixing Study	5,000	5,000	-	5,000	-
Long, Lily, McKisck TMDL	25,000	25,000	-	25,000	-
Woodpile Lake Management Plan	20,000	19,258	3,763	15,495	-
Kismet Basin Flood Stabilization - Monitoring	-	200	-	200	-
Fen Management Plan Implementation	-	15,224	8,948	6,276	-
Brown's Creek Trails Park Maintenance	-	7,500	-	7,500	-
Total expenditures	<u>911,650</u>	<u>1,127,818</u>	<u>661,465</u>	<u>466,353</u>	<u>575,389</u>
Revenues over (under) expenditures	<u>(\$293,500)</u>	<u>(\$393,949)</u>	<u>9,894</u>	<u>\$403,843</u>	<u>53,748</u>
Fund balance - January 1, as previously reported			491,720		437,972
Prior period adjustment			<u>53,719</u>		<u>-</u>
Net assets - January 1, as restated			<u>545,439</u>		<u>437,972</u>
Fund balance - December 31			<u>\$555,333</u>		<u>\$491,720</u>



**BROWN'S CREEK WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2010

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**Note A**    **BUDGETS**

The General and major Special Revenue Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at major department level.

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**BROWN'S CREEK WATERSHED DISTRICT**  
**GENERAL FUND**  
**COMPARATIVE BALANCE SHEET**  
December 31, 2010  
With Comparative Totals For December 31, 2009

**Statement 8**

Assets	2010	2009
Cash and investments	\$372,909	\$348,889
Due from other governments	7,802	-
Taxes receivable:		
Delinquent	6,338	6,257
Due from county	2,670	3,403
<b>Total assets</b>	<b>\$389,719</b>	<b>\$358,549</b>
<b>Liabilities and Fund Balance</b>		
Liabilities:		
Accounts payable	\$35,512	\$53,174
Due to other governments	77,016	68,269
Deferred revenue	6,338	6,257
<b>Total liabilities</b>	<b>118,866</b>	<b>127,700</b>
Fund balance:		
Unreserved:		
Undesignated	270,853	230,849
<b>Total liabilities and fund balance</b>	<b>\$389,719</b>	<b>\$358,549</b>

**BROWN'S CREEK WATERSHED DISTRICT**

## GENERAL FUND

Statement 9

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

For The Year Ended December 31, 2010

With Comparative Totals For The Year Ended December 31, 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
General property taxes	\$137,830	\$126,507
Market value homestead credit	3,015	2,477
Investment income	3,631	843
Total revenues	<u>144,476</u>	<u>129,827</u>
Expenditures:		
General government:		
Legal fees	14,985	14,969
Accounting	11,290	11,495
Staff engineer	21,297	21,434
Bonding and insurance	2,305	2,804
WS & WCD	38,333	36,666
Manager per diem	5,781	7,382
Secretarial services	3,623	3,623
Dues and subscriptions	3,985	3,437
Postage	763	714
Printing	1,048	166
Conference	1,037	546
Other	25	45
Total expenditures	<u>104,472</u>	<u>103,281</u>
Revenues over expenditures	40,004	26,546
Fund balance - January 1	<u>230,849</u>	<u>204,303</u>
Fund balance - December 31	<u><u>\$270,853</u></u>	<u><u>\$230,849</u></u>

**BROWN'S CREEK WATERSHED DISTRICT**  
**MANAGEMENT PLANNING FUND**  
**COMPARATIVE BALANCE SHEET**  
December 31, 2010  
With Comparative Totals For December 31, 2009

**Statement 10**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and investments	\$581,520	\$504,557
Accounts receivable	3,480	11,241
Due from other governments	6,600	800
Taxes receivable:		
Delinquent	27,563	29,993
Due from county	<u>11,104</u>	<u>15,911</u>
<b>Total assets</b>	<b><u><u>\$630,267</u></u></b>	<b><u><u>\$562,502</u></u></b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Escrow deposits payable	\$47,371	\$40,789
Deferred revenue	<u>27,563</u>	<u>29,993</u>
<b>Total liabilities</b>	<b><u><u>74,934</u></u></b>	<b><u><u>70,782</u></u></b>
<b>Fund balance:</b>		
Designated	<u>555,333</u>	<u>491,720</u>
<b>Total liabilities and fund balance</b>	<b><u><u>\$630,267</u></u></b>	<b><u><u>\$562,502</u></u></b>

**BROWN'S CREEK WATERSHED DISTRICT**  
**MANAGEMENT PLANNING FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2010  
With Comparative Totals For The Year Ended December 31, 2009

**Statement 11**

	2010	2009
Revenues:		
General property taxes	\$576,849	\$593,225
Intergovernmental	74,617	9,952
Market value homestead credit	12,540	11,583
Permit	7,353	14,377
Total revenues	<u>671,359</u>	<u>629,137</u>
Expenditures:		
General government:		
Baseline monitoring and equipment	117,980	98,540
Legal fees	10,266	21,898
Staff engineer	63,855	62,055
Permitting - legal	4,008	1,714
Permitting - engineering	30,706	28,280
WS & WCD	76,667	73,333
East Metro Water Resources Educator	15,525	15,201
Other	1,252	-
Projects:		
THPP	12,522	8,246
Education and outreach	3,127	2,123
Volunteer stream monitoring	1,504	4,211
Homeowner BMP Program	46,993	37,012
H & H model upgrade	7,151	7,371
Kern Center infiltration monitoring	2,301	5,295
Local plan review	-	2,414
Long Lake plan implementation	29,628	47,951
Benz Lake management plan implementation	-	742
Brown's Creek Biological TMDL	35,836	53,719
Buffer mapping	-	1,065
Grant preparation	5,379	4,506
Land conservation	3,331	20,326
McKusick Lake management plan	11,034	-
BMP program LGU Demonstration	22,302	22,127
Groundwater	8,405	11,493
Herberger's Pond	12,324	26,039
Materman Lake management plan	7,709	9,974
CIP maintenance	940	5,950
Brown's Creek TMDL implementation	118,009	3,804
Woodpile Lake Management Plan	3,763	-
Fen Management Plan implementation	8,948	-
Total expenditures	<u>661,465</u>	<u>575,389</u>
Revenues over expenditures	<u>9,894</u>	<u>53,748</u>
Fund balance - January 1, as previously reported	491,720	437,972
Prior period adjustment	53,719	-
Net assets - January 1, as restated	<u>545,439</u>	<u>437,972</u>
Fund balance - December 31	<u>\$555,333</u>	<u>\$491,720</u>

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## **OTHER REPORTS**

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## REPORT ON INTERNAL CONTROL

To the Board of Managers  
Brown's Creek Watershed District  
Stillwater, Minnesota

In planning and performing our audit of the financial statements of Brown's Creek Watershed District as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Brown's Creek Watershed District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brown's Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Brown's Creek Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency* in internal control 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency of Brown's Creek Watershed District's internal control as described in the accompanying Schedule of Findings and Responses as item 2010-1 and 2010-2 to be a significant deficiencies.

Brown's Creek Watershed District's written response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Brown's Creek Watershed District's response and, accordingly, we express no opinion on them.

Brown's Creek Watershed District  
Report on Internal Control

This communication is intended solely for the information and use of management, Brown's Creek Watershed District's Board of Managers, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

July 20, 2011

## **2010-1 Financial Statement Preparation**

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

*Condition:* Like many similarly sized organizations, the District has requested assistance from us, the auditors, with drafting financial statements and related notes. This is a common practice and an allowable nonaudit service under the AICPA Ethics Interpretation 101-3. However, other than relying on the auditors, the District staff does not perform sufficient procedures to detect if there were misstatements or omission of disclosures to the financial statements.

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

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

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

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

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

Brown's Creek Watershed District  
Report on Internal Control  
Schedule of Findings and Responses

**2010-2 Grant Revenue Recognition**

*Criteria:* Grant revenue should be recorded in the year the cost are incurred for expenditure driven grants.

*Condition:* During the course of our audit, audit staff prepared an entry to record grant revenue from 2009.

*Cause:* Unknown.

*Effect:* By not having controls in place to review grant revenue for accuracy, there is an increased risk that financial statements misstatements may occur.

*Recommendation:* We recommend the District review their accounting procedures for grant recognition and determine a course of action to gain more control of the financial statement process.

*Management Response:* All grant information will be provided to the auditor in the year the grant costs are incurred for grant expenditures.



REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE  
AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

To the Board of Managers  
Brown's Creek Watershed District  
Stillwater, Minnesota

We have audited the basic financial statements of Brown's Creek Watershed District, as of and for the year ended December 31, 2010 and have issued our report thereon dated July 20, 2011.

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers 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 study included all of the above listed categories except public indebtedness as the Brown's Creek Watershed District has no debt.

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

This report is intended solely for the information and use of management, Brown's Creek Watershed District's Board of Managers, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

July 20, 2011

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