

Pioneer-Sarah Creek Watershed Management Commission – 2009 Approved Budget

| | | 2008 Approved Budget | 2009 Approved Budget | |
|---------------------------------------|---|----------------------------|----------------------------|---|
| General Revenue | | | | |
| | Member Dues | 70,000 | 72,800 | |
| | Interest Income | 3,500 | 4,500 | |
| | Miscellaneous | | | |
| | Subtotal General Revenue | 73,500 | 77,300 | |
| General Expense | | | | |
| | Administrative/Office - General | (38,000) | (40,000) | |
| | Legal Services | (1,000) | (1,000) | |
| | Financial Review (Audit in 2006) | (5,000) | (5,000) | |
| | Insurance | (3,600) | (3,700) | |
| | Website | (4,000) | (4,000) | |
| | 2Generation Plan Administration - local plans | (1,000) | (3,000) | |
| | Miscellaneous | 0 | 0 | |
| | Subtotal General Expenses | (52,600) | (56,700) | |
| General Programs | | | | |
| | Lake Monitoring | (6,580) | (6,850) | 5 lakes by TRPD, 3 lakes thru CAMP, add sampling related to Lk Sarah TMDL |
| | Stream Monitoring | (10,500) | (10,500) | inflow monitoring - Sarah, Inde, Rebecca |
| | Macroinvertebrate Program - River Watch | (1,500) | (1,500) | new Henn Co Stream Monitoring (SHEP) |
| | Water Quality Goals - Lake Inde | | | |
| | Wetland, Lake, Stream Buffer Standards | | | |
| | NPDES Education Component | (3,000) | (3,000) | cooperator funds - BC/EC/SC/WM EPOC |
| | Education | (1,000) | 0 | |
| | Contingency | (1,000) | (2,000) | |
| | Subtotal General Programs | (23,580) | (23,850) | |
| | Total General Expenses/Programs | (2,680) | (3,250) | |
| SPECIAL PROGRAMS | | | | |
| Project Reviews | | | | |
| | Project Review Fees | 16,000 | 16,000 | |
| | Project Reviews - HCES | (12,000) | (14,000) | |
| | Project Reviews - Administrative | (3,500) | (3,500) | |
| | Technical Support | | | |
| | Subtotal Project Reviews | 500 | (1,500) | |
| Wetland Conservation Act (WCA) | | | | |
| | WCA Fees | 4,500 | 4,500 | |
| | WCA Review - HCES | (3,500) | (4,000) | |
| | WCA Administrative/Legal | (1,200) | (1,500) | |
| | WCA Fees - TEP | | | |
| | WCA - TEP Consultant | | | |
| | Subtotal WCA | (200) | (1,000) | |
| Lake Independence | | | | |
| | Lake Independence TMDL | | | |
| | Lake Independence TMDL - nutrient mgmt - onsite assessments | (5,000) | (5,000) | if volunteerism fails, city ordinances, etc. |
| | Lake Independence CWLA - nutrient mgmt | 150,000 | 210,000 | |
| | Lake Independence CWLA - nutrient mgmt | (150,000) | (210,000) | |
| | Lake Independence CWLA - nutrient mgmt - HCES/Admin | (7,500) | (7,500) | |
| | Lake Independence MEP Grant | | | |
| | Lake Independence MEP Grant - Comm match +\$8,167 in-kind | | | |
| | LICA - Special Monitoring | | | |
| | LICA - Special Monitoring | | | |
| | Subtotal Lake Independence | (12,500) | (12,500) | |

Pioneer-Sarah Creek Watershed Management Commission – 2009 Approved Budget

| | | | |
|--|--|-----------------|------------------------------|
| Lake Sarah | | | |
| | Lake Sarah Grant (1990) | | |
| | WOMP Grant (1995) - designated for Lk Sarah | | |
| | Lake Sarah TMDL - NRICH | | |
| | Lake Sarah TMDL - NRICH | | |
| | Lake Sarah TMDL - NRICH | | |
| | Lake Sarah Project (1990 Grant) - lake level monitoring | | |
| | Water Control Project - Lake Sarah - TRPD ending 12/07 | | |
| | Lake Sarah TMDL - Implementation Plan | 35,000 | |
| | Lake Sarah TMDL - Implementation Plan | (35,000) | (10,000) |
| | Subtotal Lake Sarah | 0 | (10,000) |
| Capital Improvement Projects (CIPs) | | | |
| | Loretto Wetland - Three Rivers Park District | | |
| | Loretto Wetland | | |
| | Manure Management - Three Rivers Park District | | |
| | Manure Management | (25,000) | |
| | Future TMDLs | 25,000 | 25,000 |
| | Future TMDLs | (30,000) | (30,000) |
| | Third Generation Plan | (5,000) | (5,000) |
| | Future Projects - build reserve | (7,500) | (7,500) |
| | Subtotal CIPs | (42,500) | (17,500) |
| | Total Special Programs | (54,700) | (42,500) |
| | TOTAL ALL PROGRAMS/ACTIVITIES | (57,380) | (45,750) |
| | (To) From Reserves | | |
| | Increase (decrease) in reserved funds | | |
| | Total All Activity | (57,380) | (45,750) |
| | Ending Fund Balance incl. Encumbered/Designated Funds | 63,253 | 28,003 |
| | Encumbered Funds at year-end - WCA | | |
| | Other Designated Funds | | Designated funds prior years |
| | Total Encumbered/Designated Funds | | |
| | Unencumbered/Undesignated Funds | | |
| | Adjust double statement of stream monitoring in 2008 Budget - Lk Sarah TMDL (lines 18 and 65) | 10,500 | |
| | Adjusted Fund Balance | 73,753 | |

Pioneer-Sarah Creek Watershed Management Commission 2009 Member Assessments

| 2007 | 2006 Market Value | Increase in MV | | 2007 Assessment | | Increase over Prev Year | |
|---------------|----------------------|----------------|----------------|------------------|--------------|-------------------------|--|
| | PSC Basin | over Prev Year | %age | Amount | %age | Amount | |
| Greenfield | 378,839,600 | 2.11% | 28.09% | 18,121.13 | 8.73% | 1,455.23 | |
| Independence | 536,339,006 | 8.80% | 39.77% | 25,654.84 | 15.86% | 3,511.46 | |
| Loretto | 70,293,400 | 10.33% | 5.21% | 3,362.36 | 17.49% | 500.45 | |
| Maple Plain | 121,655,800 | -29.54% | 9.02% | 5,819.19 | -24.97% | -1,937.10 | |
| Medina | 128,965,900 | 10.38% | 9.56% | 6,168.86 | 17.54% | 920.58 | |
| Minnetrista | 112,340,500 | 16.70% | 8.33% | 5,373.61 | 24.27% | 1,049.37 | |
| TOTALS | 1,348,434,206 | 2.67% | 100.00% | 64,500.00 | 9.32% | 5,500.00 | |
| 2008 | 2007 Market Value | Increase in MV | | 2008 Assessment | | Increase over Prev Year | |
| | PSC Basin | over Prev Year | %age | Amount | %age | Amount | |
| Greenfield | 415,209,400 | 9.60% | 27.08% | 18,958.62 | 4.62% | 837.49 | |
| Independence | 629,846,100 | 17.43% | 41.08% | 28,759.02 | 12.10% | 3,104.17 | |
| Loretto | 70,254,500 | -0.06% | 4.58% | 3,207.85 | -4.60% | -154.51 | |
| Maple Plain | 142,824,100 | 17.40% | 9.32% | 6,521.40 | 12.07% | 702.21 | |
| Medina | 140,509,100 | 8.95% | 9.17% | 6,415.70 | 4.00% | 246.84 | |
| Minnetrista | 134,414,400 | 19.65% | 8.77% | 6,137.41 | 14.21% | 763.80 | |
| TOTALS | 1,533,057,600 | 13.69% | 100.00% | 70,000.00 | 8.53% | 5,500.00 | |
| 2009 | 2008 Market Value | Increase in MV | | 2009 Assessment | | Increase over Prev Year | |
| | PSC Basin | over Prev Year | %age | Amount | %age | Amount | |
| Greenfield | 500,707,500 | 20.59% | 29.84% | 21,727.04 | 14.60% | 2,768.42 | |
| Independence | 638,857,600 | 1.43% | 38.08% | 27,721.75 | -3.61% | -1,037.27 | |
| Loretto | 72,117,500 | 2.65% | 4.30% | 3,129.37 | -2.45% | -78.48 | |
| Maple Plain | 143,795,700 | 0.68% | 8.57% | 6,239.68 | -4.32% | -281.72 | |
| Medina | 160,839,700 | 14.47% | 9.59% | 6,979.27 | 8.78% | 563.57 | |
| Minnetrista | 161,384,000 | 20.06% | 9.62% | 7,002.89 | 14.10% | 865.47 | |
| TOTALS | 1,677,702,000 | 9.44% | 100.00% | 72,800.00 | 4.00% | 2,800.00 | |

PIONEER-SARAH CREEK WATERSHED
MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
December 31, 2009

Pioneer-Sarah Creek Watershed Management Commission

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, Minnesota

We have audited the accompanying financial statements of the governmental activities of the Pioneer-Sarah Creek Watershed Management Commission (the Commission) as of and for the year ended December 31, 2009, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Commission as of December 31, 2009, and the respective changes in the financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Commission has not presented the MD&A that is necessary to supplement, although not be a part of, the basic financial statements.

Johnson + Company, Ltd.

April 12, 2010



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BASIC FINANCIAL STATEMENTS

Pioneer-Sarah Creek Watershed Management Commission

Statement of Net Assets and Balance Sheet
General Fund

As of December 31, 2009

(with Comparative Actual Amounts as of December 31, 2008)

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | 2009 | 2008 |
| Assets | | |
| Current assets | | |
| Cash in bank | \$ 105,965 | \$ 107,252 |
| Accounts receivable | - | 23,539 |
| Total assets | <u>\$ 105,965</u> | <u>\$ 130,791</u> |
| Liabilities and Fund Balances/Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 29 | \$ 16,350 |
| Fund balances/net assets | | |
| Reserved fund balance | 24,157 | 21,207 |
| Unreserved/unrestricted | <u>81,779</u> | <u>93,234</u> |
| Total fund balances | <u>105,936</u> | <u>114,441</u> |
| Total liabilities and fund balances/net assets | <u>\$ 105,965</u> | <u>\$ 130,791</u> |

See notes to financial statements

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Pioneer-Sarah Creek Watershed Management Commission

Statement of Activities and Revenue, Expenditures,
and Changes in Fund Balances/Net Assets
Budget and Actual
General Fund

Year Ended December 31, 2009

(with Comparative Actual Amounts for the Year Ended December 31, 2008)

| | Governmental Activities | | | |
|---|------------------------------|------------------|------------------|------------------|
| | 2009 | | 2008 | |
| | Original and Final Budget | (Audited) | Over (Under) | (Audited) |
| Program/project expenditures/expenses | | | | |
| Invertebrate monitoring | \$ 1,500 | \$ 1,500 | \$ - | \$ 1,500 |
| Lakes monitoring | 6,850 | 5,100 | (1,750) | 4,610 |
| Stream monitoring | 10,500 | 2,500 | (8,000) | - |
| Project reviews | 17,500 | 11,257 | (6,243) | 10,730 |
| WCA - expense | 5,500 | 1,112 | (4,388) | 783 |
| Lake Sarah TMDL | 10,000 | 3,518 | (6,482) | 582 |
| Lake Sarah project | - | - | - | 7,500 |
| Lake Independence MEP | - | - | - | 734 |
| Lake Independence CWL | 217,500 | 358,998 | 141,498 | 38,509 |
| Lake Independence nutrient management | 5,000 | - | (5,000) | - |
| Capital improvement projects | 37,500 | - | (37,500) | - |
| Total program/project expenses | 311,850 | 383,985 | 72,135 | 64,948 |
| Program/project revenue | | | | |
| Membership dues | 72,800 | 72,800 | - | 70,000 |
| WCA administration fees | 4,500 | 350 | (4,150) | 6,150 |
| Project review fees | 16,000 | 7,300 | (8,700) | 1,800 |
| Lake Independence TMDL | - | - | - | 7,007 |
| Lake Independence CWL | 235,000 | 357,056 | 122,056 | 25,154 |
| Total program/project revenue | 328,300 | 437,506 | 109,206 | 110,111 |
| Net program/project revenue (expenses) | 16,450 | 53,521 | 37,071 | 45,163 |
| General expenditures/expenses | | | | |
| Administration | 40,000 | 45,344 | 5,344 | 37,231 |
| Insurance | 3,700 | 2,694 | (1,006) | 2,764 |
| Legal and audit services | 6,000 | 4,877 | (1,123) | 4,701 |
| Website | 4,000 | 2,404 | (1,596) | 1,993 |
| Education | 3,000 | 2,664 | (336) | - |
| Second generation plan administration | 8,000 | 951 | (7,049) | 1,098 |
| Third generation plan | - | 6,364 | 6,364 | - |
| Contingency | 2,000 | - | (2,000) | - |
| Miscellaneous | - | 94 | 94 | 25 |
| Total general expenses | 66,700 | 65,392 | (1,308) | 47,812 |
| General revenue | | | | |
| Interest and dividend income | 4,500 | 416 | (4,084) | 3,174 |
| Net general revenue (expenses) | (62,200) | (64,976) | (2,776) | (44,638) |
| Change in net assets/fund balance | \$ (45,750) | (11,455) | \$ 34,295 | 525 |
| Fund balance | | | | |
| Fund balance - beginning of year | | 93,234 | | 92,709 |
| Fund balance - end of year | | <u>\$ 81,779</u> | | <u>\$ 93,234</u> |

See notes to financial statements

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements
December 31, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization

The Pioneer-Sarah Creek Watershed Management Commission is formed under a Joint Powers Agreement, as amended according to Minnesota Statutes Sections 103B.201 through 103B.255 and Minnesota Rules Chapter 8410 relating to Metropolitan Area Local Water Management and its reporting requirements. Pioneer-Sarah Creek Watershed Management Commission was established in October, 1984 to protect and manage the natural resources of the Pioneer-Sarah Creek Watershed.

The Commission is considered a governmental unit, but is not a component unit of any of its members. As a governmental unit, the Commission is exempt from federal and state income taxes.

Reporting Entity

A joint venture is a legal entity resulting from a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain either an ongoing financial interest or an ongoing financial responsibility. The Commission is considered a joint venture.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Commission (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component's unit board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units required to be included in the Commission's financial statements.

Entity-Wide Financial Statement Presentation

The entity-wide financial statements (the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Commission. 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 or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants or contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

The entity-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.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statement Presentation

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, expenditures, additions, and deductions. Resources are allocated to, and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The resources of the Commission are accounted for in one fund:

- **General Fund (Governmental Fund Type)** - This fund is used to receive dues and miscellaneous items which may be disbursed for any and all purposes authorized by the bylaws of the Commission.

Typically, separate fund financial statements are provided for Governmental Funds. However, due to the simplicity of the Commission's operation, the Governmental Fund financial statements have been combined with the entity-wide statements.

Governmental Fund financial statements are reported using the current financial resources and measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

1. **Revenue Recognition** - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if collected within 60 days after year-end.
2. **Recording of Expenditures** - Expenditures are generally recorded when a liability is incurred.

Budgets

The amounts shown in the financial statements as "budget" represent the budget amounts based on the modified accrual basis of accounting. A budget for the General Fund is adopted annually by the Commission. Appropriations lapse at year-end and encumbrance accounting is not used. Budgetary control is at the fund level.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Members' contributions

Members' contributions are calculated based on the member's share of the taxable market value of all real property within the watershed to the total market value of all real property in the watershed.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The Commission follows the policy of expensing any supplies or small equipment at the time of purchase. The Commission currently has no capitalized assets.

Receivables

The Commission utilizes an allowance for uncollectible accounts to value its receivables; however, all of the receivables as of December 31, 2008 have been collected and there were no outstanding receivables as of December 31, 2009.

NOTE 2 - CASH AND INVESTMENTS

A. Deposits

In accordance with applicable Minnesota Statutes, the Commission maintains a checking account authorized by the Commission.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the 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 Commission has no additional deposit policies addressing custodial credit risk.

At year-end, the Commission had no funds held in its bank account. All funds were transferred to their 4M Fund investment account. (see below)

B. Investments

At December 31, 2009 and 2008 the Commission held \$105,965 and \$107,252 (approximate cost and fair value), respectively, in investments with PMA Financial Network in Minnesota 4M Funds Holdings.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk - For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the Commission would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2009

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the Commission's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase 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; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The Commission's investment policies do not further address credit risk.

Concentration Risk - This is the risk associated with investing a significant portion of the Commission's investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The Commission does not have an investment policy limiting the concentration of investments.

Interest Rate Risk - This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Commission does not have an investment policy limiting the duration of investments.

NOTE 3 - RESERVED AND UNRESERVED FUNDS

Unreserved funds are received and available for use in the normal operations of the Commission.

Reserved funds are comprised of the following:

The Monitoring Guarantee Restricted Funds are for wetland mitigation projects. The initial monitoring fee is set by the commission per project and is to be reduced equally over a five year period provided the project meets the requirements of the mitigation.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2009

NOTE 3 - RESTRICTED AND UNRESTRICTED FUNDS (CONTINUED)

The Financial Guarantee Restricted Funds are received as a guarantee that the mitigation will perform as required. Upon completion, and if the project meets the qualified plan requirements, these financial guarantees are refunded.

The Administrative Guarantee Restricted Funds are received as a guarantee that the project administration fees are paid. The restricted amount is reduced as project-related administrative expenses arise. Any residual funds not used are refunded upon completion of the project.

NOTE 4 - LETTERS OF CREDIT

A letter of credit was received as replacement plan/monitoring guarantees for the Heritage Woods - Project 2007-07 for \$12,500 during the year ended December 31, 2007. The letter of credit was returned during 2009.

NOTE 5 - COMMITMENTS AND CONTRACTS

Three Rivers Park District (the District) - Lake Sarah TMDL

In 2008, the Commission entered into an agreement to pay the District up to \$44,913 to complete a Total Maximum Daily Load (TMDL) study of Lake Sarah. As of December 31, 2009, the Commission incurred total costs of \$11,599 to the District in project-related expenses since the inception of the agreement.

In a separate contract, the Minnesota Pollution Control Agency (MNPCA) has agreed to reimburse the Commission up to \$34,913 of the costs associated with this project. The District invoiced the MNPCA directly and has been paid \$31,422 as of December 31, 2009. This project is expected to be completed in 2010.

Three Rivers Park District (the District) - Lake Independence project

The Commission and the District have entered into a Cooperative Water Resources Management Project Joint Powers Agreement to assess the water quality and prevent further degradation at Lake Independence. The Commission and the District will share responsibilities, as outlined in the contract. The District will provide up to \$50,000 in cost-sharing funding for this project. The Commission paid \$5,187 in project-related expenses during 2007 and incurred no project-related expenses in 2008 or 2009, but expects to execute an amendment to this contract and complete the work at a later date.

Minnesota Board of Water and Soil Resources (BOWSR) - Lake Independence Clean Water Legacy

In 2007, the Commission received a grant up to \$410,000 from BOWSR for restoration and improvements to the water quality in Lake Independence. The Commission received a total of \$382,210 of the grant money and incurred total costs of \$403,175 since the date of the award. The project was completed in 2009.

Pioneer-Sarah Creek Watershed Management Commission

Notes to Financial Statements (continued)
December 31, 2009

NOTE 6 - MEMBERS' CONTRIBUTIONS

Contributions received from members were as follows:

| | Year Ended December 31 | | | |
|--------------|------------------------|-----------------|-----------------------|-----------------|
| | 2009 | | 2008 (for comparison) | |
| | Amount | Percentage | Amount | Percentage |
| Greenfield | \$ 21,727 | 29.84 % | \$ 18,959 | 27.08 % |
| Independence | 27,722 | 38.08 | 28,759 | 41.08 |
| Loretto | 3,129 | 4.30 | 3,208 | 4.58 |
| Maple Plain | 6,240 | 8.57 | 6,521 | 9.32 |
| Medina | 6,979 | 9.59 | 6,416 | 9.17 |
| Minnetrissa | 7,003 | 9.62 | 6,137 | 8.77 |
| | <u>\$ 72,800</u> | <u>100.00 %</u> | <u>\$ 70,000</u> | <u>100.00 %</u> |

OTHER REQUIRED REPORTS

Thomas J. Opitz, C.P.A.
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MEMBER
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Brad R. Cohrs, C.P.A.
Julie A. Lawrence, C.P.A.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, MN 55447

In planning and performing our audit of the financial statements of the Pioneer-Sarah Creek Watershed Management Commission as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission'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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Because of the limited size of your office staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of the condition.

This communication is intended solely for the information and use of the Board of Directors to the Commission, its member cities, the state of Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.

April 12, 2010

Johnson & Company, Ltd.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH MINNESOTA STATE LAWS AND REGULATIONS

Board of Directors
Pioneer-Sarah Creek Watershed Management Commission
Plymouth, Minnesota

We have audited the financial statements of the governmental activities and major fund of the Pioneer-Sarah Creek Watershed Management Commission (the Commission) as of and for the year ended December 31, 2009, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 12, 2010.

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

The *Minnesota Legal Compliance Audit Guide for Local Governments* covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the applicable categories.

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

This report is intended solely for the information and use of the Commission, its member cities, the state of Minnesota, and management of the Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Johnson & Company, Ltd.

April 12, 2010



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