

**SOUTH WASHINGTON WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2003

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## **I. INTRODUCTORY SECTION**

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**SOUTH WASHINGTON WATERSHED DISTRICT**

List of Appointed Officials

December 31, 2003

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**Board of Managers**

President	Jack Lavold
Vice-President	Mike Pouliot
Vice-President	Dennis Hanna
Treasurer	Donald Wodek
Secretary	Don Pereira

**Appointed Officials**

Administrator	Matt Moore
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## **II. FINANCIAL SECTION**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the  
South Washington Watershed District  
Woodbury, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of South Washington Watershed District as of and for the year ended December 31, 2003 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Washington Watershed District'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. 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 South Washington Watershed District as of December 31, 2003, 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.

As described in Note 9 to the basic financial statements, the South Washington Watershed District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2003. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and the budgetary information on pages 11 through 18 and 42 through 43, respectively, are not a required part of the basic financial

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statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Washington Watershed's basic financial statements. The combining and individual fund statements and schedules, and supplementary financial information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken 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 express no opinion it.

February 10, 2004

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of South Washington Watershed District, we offer readers of South Washington Watershed District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2003.

### **Financial Highlights**

- The assets of South Washington Watershed District exceeded its liabilities at the close of the most recent fiscal year by \$4,528,489 (Net assets). Of this amount, \$2,943,345 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the District's fund designations and fiscal policies.
- The District's total net assets increased by \$1,682,383.
- As of the close of the current fiscal year, South Washington Watershed District's governmental funds reported combined ending fund balance was \$2,776,982. This total amount is designated or reserved through legal restrictions and board member authorization.
- At the end of the current fiscal year the general fund balance of \$165,870 of which all was designated.
- The District had debt outstanding of \$5,610,000 at the end of the current fiscal year.

### **Overview of the Financial Statements**

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

## Management's Discussion and Analysis

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

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

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

The government-wide financial statements can be found on pages 20 and 21 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. South Washington Watershed District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of South Washington Watershed District are 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 spend-able resource, as well as on balances of spend-able resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 statement. By doing so, readers may better understand the long-term impact of the District's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## Management's Discussion and Analysis

South Washington Watershed District maintains 3 individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the planning and implementation fund, and the debt service fund, which are considered to be major funds.

South Washington Watershed District adopts an annual appropriated budget for its general fund.

A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 22 through 24 of this report.

**Notes to the financial statements.** The notes provided 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 can be found on pages 25 through 38 of this report.

**Other information.** Combining and individual fund statements and schedules can be found on pages 44 through 65 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of South Washington Watershed District, assets exceeded liabilities by \$4,528,489 at the close of the most recent fiscal year.

A portion of South Washington Watershed District's net assets (\$1,566,021 or 34.6 percent) reflects its investment in capital assets (e.g. land) less any related debt used to acquire those assets that is still outstanding. South Washington Watershed District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although South Washington Watershed District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

With the first year implementation of Governmental Accounting Standards Board Statement 34, the Watershed District is not presenting comparable columns in the various comparisons and analysis for the previous year. Comparative information will be provided in future years.

## Management's Discussion and Analysis

### SOUTH WASHINGTON WATERSHED DISTRICT'S NET ASSETS

	<u>2003</u>
Current and other assets	\$3,063,465
Capital assets	<u>7,400,884</u>
Total assets	<u><u>\$10,464,349</u></u>
Long term liabilities	
outstanding	\$5,610,000
Other liabilities	<u>325,860</u>
Total liabilities	<u><u>\$5,935,860</u></u>
Net assets	
Invested in capital assets	
net of related debt	\$1,566,021
Restricted	19,123
Unrestricted	<u>2,943,345</u>
Total net assets	<u><u>\$4,528,489</u></u>

At the end of the current fiscal year, South Washington Watershed District is able to report positive balances in net assets.

## Management's Discussion and Analysis

### Governmental Activities

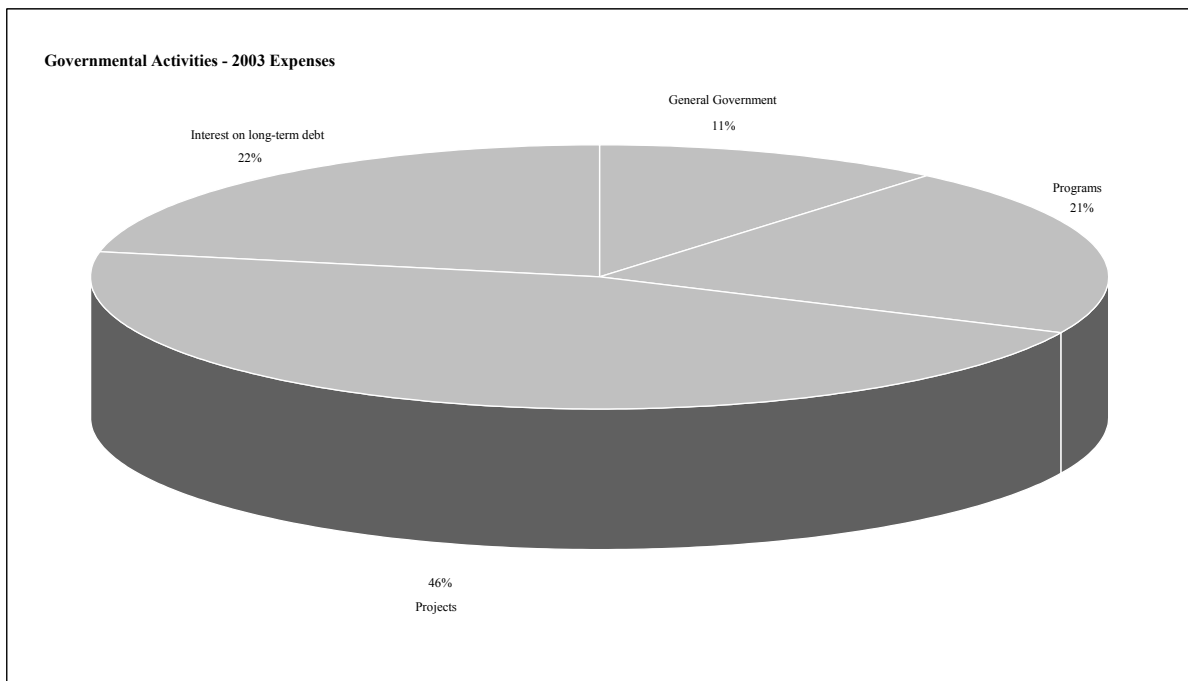
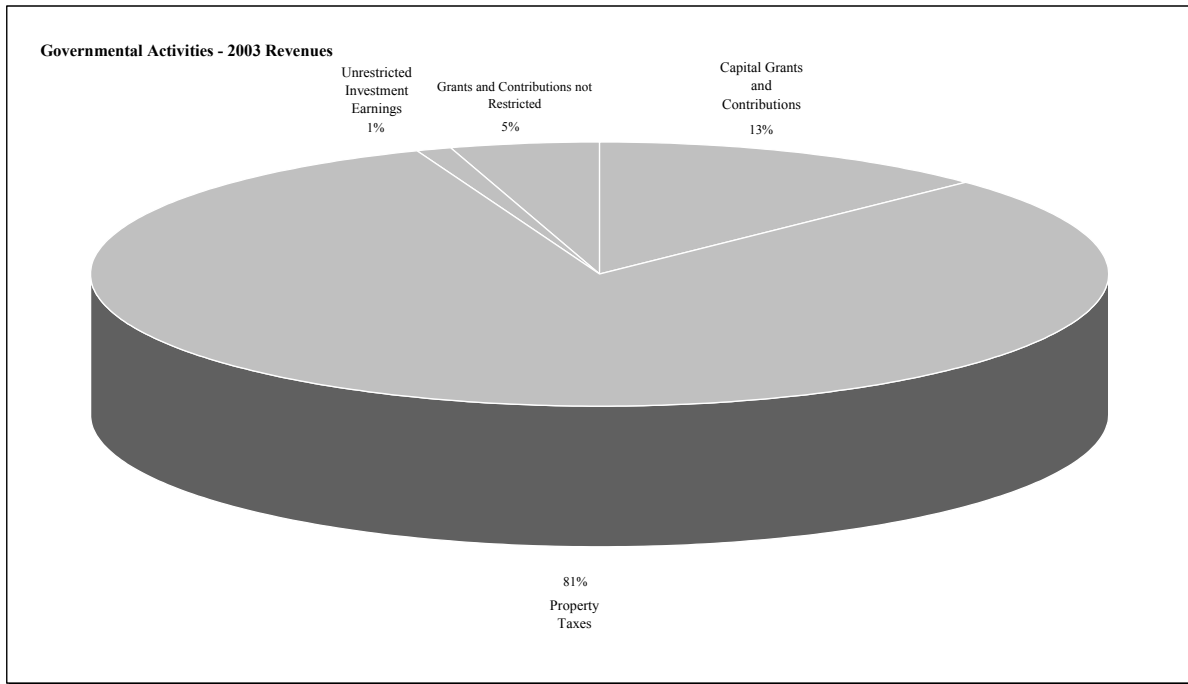
Government activities resulted in an increase of South Washington Watershed District's net assets by \$1,682,383. The details of the increase are as follows:

#### **South Washington Watershed District's Changes in Net Assets**

	<u>2003</u>
Program revenue	
Charges for services	\$ -
Operating grants and contributions	-
Capital grants and contributions	356,750
General revenue	
property taxes	2,258,418
Grants and contributions not restricted to programs	132,235
Unrestricted investment earnings	30,224
Miscellaneous other	9,115
Total revenues	<u>2,786,742</u>
Expenses:	
General	122,647
Programs	235,362
Projects	504,462
Interest on long-term debt	241,888
Total expenses	<u>1,104,359</u>
Increase (decrease) in net assets before transfers	1,682,383
Transfers	<u>-</u>
Increase in net assets	1,682,383
Net Assets January 1	<u>2,846,106</u>
Net Assets December 31	<u><u>\$4,528,489</u></u>

## Management's Discussion and Analysis

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures:



## Management's Discussion and Analysis

### **Financial Analysis of the Government's Funds**

**Governmental Funds.** The focus of South Washington Watershed District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing South Washington Watershed District's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Washington Watershed District's governmental funds reported combined ending fund balances of \$2,776,982. Less than 1% of this amount (\$19,123) is reserved because it has already been committed to pay debt service. The unreserved fund balance of \$2,757,859 includes designations of 1) general fund for cash flow (\$165,870), 2) Special Revenue Fund for watershed plan implementation (\$2,591,989).

The general fund increased by \$49,204 in 2003, which was due to a slightly higher net increase in general revenues over expenses than originally budgeted expected.

The planning and implementation fund decreased by \$3,043,628 in 2003 as the District purchased a significant amount of land in 2003.

The debt service fund was created in 2002 and had an ending fund balance of \$19,123. This was the result of the bond issuance in 2002.

### **Budgetary Highlights**

**General Fund.** The General Fund exceeded budgeted revenues and had expenditures below the budgeted amounts for the year ended December 31, 2003.

### **Capital Asset and Debt Administration**

**Capital assets.** South Washington Watershed District's, investment in capital assets for its governmental activities as of December 31, 2002, amounts to \$7,400,884. This investment in capital assets is entirely land.

#### **South Washington Watershed District's Capital Assets (Net of Depreciation)**

	<u>2003</u>
Land (not depreciated)	\$7,400,884

## Management's Discussion and Analysis

Additional information on South Washington Watershed District's capital assets can be found in note 4.

**Long-term debt.** At the end of the current fiscal year, South Washington Watershed District had long-term bonded debt outstanding of \$5,610,000 a decrease of \$265,000 from 2002. This amount is for capital improvements.

### South Washington Watershed District's Outstanding Debt

	<u>2003</u>
General Obligation Improvement Bonds	\$5,610,000

South Washington Watershed District maintains a AA3 rating from Moody's.

Additional information of South Washington Watershed District's long-term debt can be found in note 5.

**Requests for information.** This financial report is designed to provide a general overview of South Washington Watershed District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, 8301 Valley Creek Road, Saint Paul, Minnesota 55125-2320.

## **BASIC FINANCIAL STATEMENTS**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**STATEMENT OF NET ASSETS**  
December 31, 2003

**Statement 1**

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$2,982,443
Property taxes receivable:	
Delinquent	40,987
Due from County	40,035
Restricted assets:	
Capital assets - net	<u>7,400,884</u>
Total assets	<u>10,464,349</u>
Liabilities:	
Accounts payable	20,633
Due to other governmental units	224,863
Accrued interest payable	80,364
Bonds payable:	
Due within one year	310,000
Due in more than one year	<u>5,300,000</u>
Total liabilities	<u>5,935,860</u>
Net assets:	
Invested in capital assets, net of related debt	1,566,021
Restricted for:	
Debt service	19,123
Unrestricted	<u>2,943,345</u>
Total net assets	<u><u>\$4,528,489</u></u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended December 31, 2003

**Statement 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Primary government:				
Government activities:				
General government	\$122,647	\$ -	\$ -	\$ -
Programs	235,362	-	-	-
Projects	504,462	-	-	356,750
Interest on long-term debt	241,888	-	-	-
Total government activities	<u>1,104,359</u>	<u>0</u>	<u>0</u>	<u>356,750</u>
Total primary government	<u>\$1,104,359</u>	<u>\$0</u>	<u>\$0</u>	<u>\$356,750</u>
			General revenues:	
			Property taxes	\$2,258,418
			Grants and contributions not restricted to specific programs	132,235
			Unrestricted investment earnings	30,224
			Miscellaneous other	9,115
			Total general revenues and transfers	<u>2,429,992</u>
			Change in net assets	<u>1,682,383</u>
			Net assets - beginning	<u>2,846,106</u>
			Net assets - ending	<u>\$4,528,489</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 December 31, 2003

**Statement 3**

	<u>General</u>	<u>Planning and Implementation</u>	<u>Debt Service</u>	<u>Intra Activity Eliminations</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and investments	\$167,910	\$2,795,410	\$19,123	\$ -	\$2,982,443
Property taxes receivable:					
Delinquent	40,987	-	-	-	40,987
Due from County	3,083	36,952	-	-	40,035
Total assets	<u>\$211,980</u>	<u>\$2,832,362</u>	<u>\$19,123</u>	<u>\$0</u>	<u>\$3,063,465</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	5,123	15,510	-	-	20,633
Due to other governmental units	-	224,863	-	-	224,863
Deferred revenue	40,987	-	-	-	40,987
Total liabilities	<u>46,110</u>	<u>240,373</u>	<u>0</u>	<u>0</u>	<u>286,483</u>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Debt service	-	-	19,123	-	19,123
<b>Unreserved reported in:</b>					
<b>Designated:</b>					
General Fund	165,870	-	-	-	165,870
Special Revenue Funds	-	2,591,989	-	-	2,591,989
<b>Undesignated:</b>					
General Fund	-	-	-	-	-
Special Revenue Funds	-	-	-	-	-
Debt Service Funds	-	-	-	-	-
Total fund balances	<u>165,870</u>	<u>2,591,989</u>	<u>19,123</u>	<u>0</u>	<u>2,776,982</u>
Total liabilities and fund balances	<u>\$211,980</u>	<u>\$2,832,362</u>	<u>\$19,123</u>	<u>\$0</u>	<u>\$3,063,465</u>
Fund balance reported above					\$2,776,982
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					7,400,884
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					40,987
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					<u>(5,690,364)</u>
Net assets of governmental activities					<u>\$4,528,489</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 4**

	General	Planning and Implementation	Debt Service	Intra Activity Eliminations	Totals (Memorandum Only)	
					Governmental Funds	
					2003	2002
<b>Revenues:</b>						
General property taxes	\$151,915	\$1,588,770	\$508,478	\$ -	\$2,249,163	\$1,370,532
Intergovernmental	10,030	478,955	-	-	488,985	302,076
Investment income	791	29,433	-	-	30,224	102,695
Other	9,115	-	-	-	9,115	4,296
Total revenues	<u>171,851</u>	<u>2,097,158</u>	<u>508,478</u>	<u>0</u>	<u>2,777,487</u>	<u>1,779,599</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	122,647	-	-	-	122,647	124,895
Programs	-	235,362	-	-	235,362	311,218
Projects	-	504,462	-	-	504,462	466,159
<b>Capital outlay:</b>						
General government	-	-	-	-	-	-
Programs	-	-	-	-	-	-
Projects	-	4,400,962	-	-	4,400,962	1,233,050
<b>Debt service:</b>						
Principal retirement	-	-	265,000	-	265,000	-
Interest	-	-	243,478	-	243,478	163,908
Paying agent fees	-	-	-	-	-	24,097
Total expenditures	<u>122,647</u>	<u>5,140,786</u>	<u>508,478</u>	<u>0</u>	<u>5,771,911</u>	<u>2,323,327</u>
Revenues over (under) expenditures	<u>49,204</u>	<u>(3,043,628)</u>	<u>0</u>	<u>0</u>	<u>(2,994,424)</u>	<u>(543,728)</u>
<b>Other financing sources (uses):</b>						
Bond Proceeds	-	-	-	-	-	5,875,000
Discount on debt issued	-	-	-	-	-	(82,838)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,792,162</u>
Net increase (decrease) in fund balance	49,204	(3,043,628)	0	0	(2,994,424)	5,248,434
Fund balance - January 1	<u>116,666</u>	<u>5,635,617</u>	<u>19,123</u>	<u>-</u>	<u>5,771,406</u>	<u>522,972</u>
Fund balance - December 31	<u>\$165,870</u>	<u>\$2,591,989</u>	<u>\$19,123</u>	<u>\$0</u>	<u>\$2,776,982</u>	<u>\$5,771,406</u>

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2003

**Statement 5**

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	2003
Amounts reported for governmental activities in the statement of activities (page 21) are different because:	
Net changes in fund balances - total governmental funds (page 23)	(\$2,994,424)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,400,962
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,255
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	265,000
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.	1,590
Change in net assets of governmental activities (page 21)	\$1,682,383

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the South Washington Watershed District conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

The South Washington Watershed District (the District) was originally created on August 25, 1993 under the name of Cottage Grove Ravine Watershed District by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota Statutes Chapter 103D. In July 1994, the District changed its name to South Washington Watershed District.

The purpose of the District is to promote public health, safety and welfare and enable its affected area to eventually come into compliance with Minnesota Statutes Section 103B.201 to 103B.255, also known as the Metropolitan Water Management Act. The District is operated by a five member Board of Managers originally appointed by the Board. Subsequent appointments will be made by Washington County.

In accordance with Governmental Accounting Standards Board (GASB) pronouncements and generally accepted accounting principles, the general purpose 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 South Washington Watershed 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 and its component units. 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*, 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 or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. 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 government 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. However, debt service expenditures are recorded only when payment is due.

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 government.

The government 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.

Planning and Implementation Fund - is established to account for expenditures related to the preparation and implementation of the Watershed Management Plan.

Debt Service Fund - is established to account for the accumulation of resources for, and the payment of, principal interest and related costs of the \$5,875,000 General Obligation Bonds of 2002.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003

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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 South Washington Watershed District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. BUDGETS**

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General Fund. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

**E. LEGAL COMPLIANCE – BUDGETS**

The District prepares annual revenue and expenditure budgets for the District's General 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. The District does not prepare an annual expenditure/appropriations budget for its Special Revenue Fund.

**F. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

Investments are stated at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

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**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 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. 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 City 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 the year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January are 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. These funds do not maintain material amounts of inventories.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

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**I. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government 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 requires the District to report and depreciate new infrastructure assets effective with the beginning of the current 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 has elected to implement the general provisions of GASB Statement No. 34 in the current year and has elected not to report infrastructure assets acquired in years prior to 2003.

**J. LONG-TERM OBLIGATIONS**

In the government-wide financial statements long-term debt is reported as a liability in the applicable governmental activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

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

**K. FUND EQUITY**

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

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003

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**L. 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.

**M. 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.

**N. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$5,690,364) difference are as follows:

Bonds payable	(\$5,610,000)
Accrued interest payable	<u>(80,364)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>(\$5,690,364)</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

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2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “Revenues on the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$9,255 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2002	(\$31,732)
At December 31, 2003	<u>40,987</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$9,255</u></u>

Another element of that reconciliation states that “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.” The details of this \$1,590 difference are as follows:

Accrued interest payable:	
At December 31, 2002	\$81,954
At December 31, 2003	<u>(80,364)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$1,590</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

**Note 2 DEPOSITS AND INVESTMENTS**

DEPOSITS

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 (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. 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.

Balances at December 31, 2003 are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
1) Insured or collateralized by securities held by the District or its agent in the District's name.	\$2,982,443	\$3,023,226
2) Collateralized with securities held by the pledging institution trust department in the District's name.	-	-
3) Uncollateralized or collateralized with securities not in the District's name.	-	-
Totals	<u>\$2,982,443</u>	<u>\$3,023,226</u>

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) General obligations of the State of Minnesota or any of its municipalities.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

- 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.

Balances at December 31, 2003:

Securities Type	Custodial Credit Risk Category			Carrying/Fair Value Amount
	1	2	3	
U.S. government and agency securities	\$ -	\$ -	\$ -	\$ -
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0
Money market mutual funds				<u>304,679</u>
Total investments				304,679
Deposits				<u>2,677,764</u>
Total deposits and investments				2,982,443
Petty cash and change				-
Totals				<u>\$2,982,443</u>

The District's investments are categorized above to give an indication of the level of custodial credit risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

**Note 3 RECEIVABLES**

Significant receivables balances not expected to be collected within one year of December 31, 2003 are as follows:

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

	Major Funds			Total
	General	Planning and Implementation	Debt Service	
Delinquent property taxes	\$30,750	\$ -	\$ -	<u>\$30,750</u>

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)	<u>\$40,987</u>	<u>\$ -</u>

**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2003 as previously reported was as follows:

	Beginning Balance	Restated <sup>(1)</sup>	Beginning Balance, as Restated	Increases	Decrease	Adjustments	Ending Balance
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$2,999,922	\$ -	\$2,999,922	\$4,400,962	\$ -	\$ -	\$7,400,884
Total capital assets, not being depreciated	<u>2,999,922</u>	<u>-</u>	<u>2,999,922</u>	<u>4,400,962</u>	<u>-</u>	<u>-</u>	<u>7,400,884</u>
Capital assets, being depreciated:							
Office equipment	20,124	(20,124)	-	-	-	-	-
Total capital assets, being depreciated	<u>20,124</u>	<u>(20,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation for:							
Office equipment	-	-	-	-	-	-	-
Total accumulated depreciation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total capital assets being depreciated - net	<u>20,124</u>	<u>(20,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets - net	<u>\$3,020,046</u>	<u>(\$20,124)</u>	<u>\$2,999,922</u>	<u>\$4,400,962</u>	<u>\$0</u>	<u>\$0</u>	<u>\$7,400,884</u>

<sup>(1)</sup> Restated for change in capitalization threshold as of December 31, 2002.

During the year ended December 31, 2003, the District board approved an amended capital asset policy. This policy increase the capitalization threshold to \$5,000. This approved change has resulted in the District adjusting their fixed asset listing to only include assets that comply with the amended policy.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

**Note 5 LONG-TERM DEBT**

The District issued a general obligation bond in 2002 to provide funds for capital improvements.

GOVERNMENTAL ACTIVITIES

As of December 31, 2003, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	<u>Interest Rates</u>	<u>Date</u>	<u>Final Maturity Date</u>	<u>Original Issue</u>	<u>Payable 12/31/03</u>
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2017	\$5,875,000	\$5,610,000

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$310,000	\$236,908
2005	320,000	227,763
2006	330,000	217,193
2007	340,000	204,953
2008	350,000	191,060
2009	365,000	176,041
2010	385,000	159,911
2011	400,000	142,638
2012	415,000	124,296
2013	435,000	104,741
2014	455,000	83,821
2015	480,000	61,495
2016	500,000	37,850
2017	525,000	12,863
Total	<u>\$5,610,000</u>	<u>\$1,981,533</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$5,875,000	\$ -	\$265,000	\$5,610,000	\$310,000

All long-term bonded indebtedness outstanding at December 31, 2003 is backed by the full faith and credit of the District.

**Note 6 CONTINGENCIES**

**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.

Workers compensation coverage for District employees and council members is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The District pays an annual premium to LMCIT. The District is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the District is not subject to a deductible. The District workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Other insurance coverage is provided through a pooled self-insurance program through the LMCIT. The District pays an annual premium to the LMCIT. The District is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess various amounts. The District retains risk for the deductible portions of the insurance policies. The amount of these deductibles are considered immaterial to the financial statements.

There were no significant reductions in insurance or settlements in excess of insurance coverage for 2001, 2002 or 2003.

**B. LITIGATION**

The District's attorney has indicated that there are no pending litigation's in which the District is involved that would have a material effect upon the District's financial statements.

**C. FEDERAL AND STATE FUNDS**

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2003.

**Note 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan Description**

All full-time and certain part-time employees of the South Washington Watershed District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statute*, Chapters 353 and 356.

PERF 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 State 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.

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 the PERF. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-1855 or by calling (651)296-7460 or 1-800-652-9026.

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003

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**Note 8 DESIGNATIONS OF FUND EQUITY**

At December 31, 2003 and 2002 the District had the following fund equity reservations and designations:

	December 31,	
	<u>2003</u>	<u>2002</u>
General Fund		
Designated for cash flow	\$165,870	\$116,666
Special Revenue Fund		
Designated for Watershed plan implementation	2,591,989	5,635,617
Debt Service Fund		
Reserved for debt service	<u>19,123</u>	<u>19,123</u>
Total	<u>\$2,776,982</u>	<u>\$5,771,406</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003

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**Note 9 CHANGE IN ACCOUNTING PRINCIPLE**

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The District is required to implement GASB 34 no later than the year ended December 31, 2003. The District elected to implement GASB 34, during 2003. The most significant effects of implementing GASB 34 during 2003 are as follows:

- Government-wide financial statements are prepared using full accrual accounting for all the District’s activities.
- Infrastructure and construction in progress for governmental activities has been capitalized and all applicable capital assets are depreciated on the government-wide financial statements. See Note 4 for restatement of previously reported amounts.
- The basic fund financial statements focus on major funds rather than fund types.
- A Management Discussion and Analysis (MD&A) is included as required supplementary information.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

The District also implemented the following pronouncements during 2003, which did not have a material effect on the accompanying financial statements:

- GASB Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* – an Amendment to GASB Statement 33
- GASB Statement 37, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus* – an Amendment of GASB Statements No. 21 and No. 34.
- GASB Statement 38, *Certain Financial Statement Note Disclosures*

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For The Year Ended December 31, 2003

**Statement 6**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenue:</b>				
General property taxes	\$154,868	\$154,868	\$151,915	(\$2,953)
Intergovernmental	10,182	10,182	10,030	(152)
Investment income	-	-	791	791
Other	-	-	9,115	9,115
Total revenue	<u>165,050</u>	<u>165,050</u>	<u>171,851</u>	<u>6,801</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Legal	21,000	21,000	9,062	11,938
Accounting/audit	15,850	15,850	13,746	2,104
Public relations and meetings	-	-	-	-
Salary and benefits	80,500	80,500	71,291	9,209
Secretarial services	6,000	6,000	1,725	4,275
Manager per diems and expenses	13,000	13,000	12,545	455
Insurance	6,500	6,500	8,603	(2,103)
Dues	2,200	2,200	3,170	(970)
Rent	10,000	10,000	2,037	7,963
Equipment	5,000	5,000	-	5,000
Office supplies and other	5,000	5,000	468	4,532
Total expenditures	<u>165,050</u>	<u>165,050</u>	<u>122,647</u>	<u>42,403</u>
Revenue over (under) expenditures	<u>0</u>	<u>0</u>	<u>49,204</u>	<u>49,204</u>
<b>Other financing sources (uses):</b>				
Operating transfers from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in fund balance	<u>\$0</u>	<u>\$0</u>	<u>49,204</u>	<u>\$49,204</u>
Fund balance (deficit) - January 1			<u>116,666</u>	
Fund balance - December 31			<u>\$165,870</u>	

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2003

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**Note A    LEGAL COMPLIANCE – BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principals generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General Fund.

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**COMBINING AND INDIVIDUAL FUND STATEMENTS AND  
SCHEDULES**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**GENERAL FUND**  
**BALANCE SHEET**  
December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 7**

Assets	<u>2003</u>	<u>2002</u>
Cash and investments	\$167,910	\$121,540
Taxes receivable:		
Delinquent	40,987	31,732
Due from county	<u>3,083</u>	<u>1,904</u>
Total assets	<u>\$211,980</u>	<u>\$155,176</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$5,123	\$6,778
Deferred revenue	<u>40,987</u>	<u>31,732</u>
Total liabilities	<u>46,110</u>	<u>38,510</u>
Fund balance:		
Unreserved:		
Designated	<u>165,870</u>	<u>116,666</u>
Total fund balance	<u>165,870</u>	<u>116,666</u>
Total liabilities and fund balance	<u>\$211,980</u>	<u>\$155,176</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 8**

	<u>2003</u>	<u>2002</u>
Revenue:		
General property taxes	\$151,915	\$145,672
Intergovernmental	10,030	12,337
Investment income	791	837
Other	9,115	4,296
Total revenue	<u>171,851</u>	<u>163,142</u>
Expenditures:		
Current:		
Professional services:		
Salary and benefits	71,291	68,361
Secretarial services	1,725	1,919
Accounting/audit	13,746	14,714
Dues	3,170	3,147
Equipment	-	2,845
Insurance	8,603	9,087
Legal	9,062	9,076
Manager per diems and expenses	12,545	12,770
Public relations and meetings	-	620
Office supplies and other	468	651
Rent	2,037	1,705
Total expenditures	<u>122,647</u>	<u>124,895</u>
Revenue over (under) expenditures	<u>49,204</u>	<u>38,247</u>
Other financing sources (uses):		
Operating transfers from other funds	<u>-</u>	<u>-</u>
Net increase (decrease) in fund balance	49,204	38,247
Fund balance (deficit) - January 1	<u>116,666</u>	<u>78,419</u>
Fund balance - December 31	<u><u>\$165,870</u></u>	<u><u>\$116,666</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**PLANNING AND IMPLEMENTATION FUND**  
**BALANCE SHEET**  
December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 9**

	Totals	
	2003	2002
<b>Assets</b>		
Cash and investments	\$2,795,410	\$5,696,770
Taxes receivable - due from county	36,952	16,006
<b>Total assets</b>	<b><u>\$2,832,362</u></b>	<b><u>\$5,712,776</u></b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$15,510	\$77,159
Due to other governmental units	224,863	-
<b>Total liabilities</b>	<b><u>240,373</u></b>	<b><u>77,159</u></b>
<b>Fund balance:</b>		
Unreserved:		
Designated	2,591,989	5,635,617
<b>Total liabilities and fund balance</b>	<b><u>\$2,832,362</u></b>	<b><u>\$5,712,776</u></b>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**PLANNING AND IMPLEMENTATION FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 10**

	<u>2003</u>	<u>2002</u>
Revenue:		
General property taxes	\$1,588,770	\$1,060,952
Intergovernmental	478,955	289,739
Investment income	29,433	82,735
Other	-	-
Total revenue	<u>2,097,158</u>	<u>1,433,426</u>
Expenditures:		
Current:		
Professional services:		
Legal	16,923	13,044
Engineering	218,439	628,441
Projects and studies	504,462	126,539
Equipment	-	854
Office supplies and other	-	8,499
Capital Outlay:		
Land acquisition	4,400,962	1,233,050
Debt Service:		
Bond issue expense	-	24,097
Total expenditures	<u>5,140,786</u>	<u>2,034,524</u>
Revenue over (under) expenditures	<u>(3,043,628)</u>	<u>(601,098)</u>
Other financing sources (uses):		
Bond proceeds	-	5,875,000
Discount on bond issued	-	(82,838)
Operating transfers from other funds	-	43,132
Operating transfers to other funds	-	(43,132)
Total other financing sources (uses)	<u>0</u>	<u>5,792,162</u>
Net increase (decrease) in fund balance	(3,043,628)	5,191,064
Fund balance - January 1	<u>5,635,617</u>	<u>444,553</u>
Fund balance - December 31	<u><u>\$2,591,989</u></u>	<u><u>\$5,635,617</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**DEBT SERVICE FUND**  
**BALANCE SHEET**  
December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 11**

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Assets	<u>2003</u>	<u>2002</u>
Cash and investments	<u>\$19,123</u>	<u>\$19,123</u>
Total assets	<u><u>\$19,123</u></u>	<u><u>\$19,123</u></u>
Liabilities and Fund Balance		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balance:		
Reserved for debt service	<u>19,123</u>	<u>19,123</u>
Total liabilities and fund balance	<u><u>\$19,123</u></u>	<u><u>\$19,123</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2003  
With Comparative Amounts For December 31, 2002

**Statement 12**

	<u>2003</u>	<u>2002</u>
Revenue:		
General property taxes:		
Current and delinquent	\$508,478	\$163,908
Investment income	-	19,123
Total revenue	<u>508,478</u>	<u>183,031</u>
Expenditures:		
Debt service:		
Principal	265,000	-
Interest	<u>243,478</u>	<u>163,908</u>
Total expenditures	<u>508,478</u>	<u>163,908</u>
Revenue over expenditures	0	19,123
Fund balance - January 1	<u>19,123</u>	<u>-</u>
Fund balance - December 31	<u><u>\$19,123</u></u>	<u><u>\$19,123</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**SCHEDULE OF CAPITAL ASSETS USED IN THE OPERATION**  
**OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY SOURCE**  
For The Year Ended December 31, 2003

**Statement 13**

Description	Balance December 31, 2002	Change in Accounting Principle	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Land	\$2,999,922	\$ -	\$2,999,922	\$4,400,962	\$ -	\$7,400,884
Office Equipment	20,124	(20,124)	-	-	-	-
Totals	<u>\$3,020,046</u>	<u>(\$20,124)</u>	<u>\$2,999,922</u>	<u>\$4,400,962</u>	<u>\$0</u>	<u>\$7,400,884</u>

Investments in General Fixed Assets from:

General Fund	\$ -
Special Revenue Funds	<u>7,400,884</u>
Total investments in general fixed assets	<u>\$7,400,884</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**CAPITAL ASSETS USED IN THE OPERATION**  
**OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
 December 31, 2003

**Statement 14**

Function and Activity	Land	Total
General government	\$ -	\$ -
Programs	-	-
Projects	7,400,884	7,400,884
Totals	\$7,400,884	\$7,400,884

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**CAPITAL ASSETS USED IN THE OPERATION**  
**OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
For The Year Ended December 31, 2003

**Statement 15**

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<u>Function and Activity</u>	Balance December 31, 2002	Change in Accounting Principle	Balance January 1, 2003	Additions	Deletions	Adjustments	Balance December 31, 2003
General government	\$20,124	(\$20,124)	\$ -	\$ -	\$ -	\$ -	\$ -
Programs	-	-	-	-	-	-	-
Projects	2,999,922	-	2,999,922	4,400,962	-	-	7,400,884
Totals	<u>\$3,020,046</u>	<u>(\$20,124)</u>	<u>\$2,999,922</u>	<u>\$4,400,962</u>	<u>\$0</u>	<u>\$0</u>	<u>\$7,400,884</u>

**SUPPLEMENTARY FINANCIAL INFORMATION**

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**COMBINED SCHEDULE OF INDEBTEDNESS**  
December 31, 2003

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	<u>Interest Rates</u>	<u>Date</u>	<u>Final Maturity Date</u>
General Obligation Bonds: G.O. Bonds of 2002	4.75%	1/29/2002	3/1/2017

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Prior Years		Payable 1/1/2003	2003		Payable 12/31/2003	Principal Due In 2004	Interest Due In 2004	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$ -	\$5,875,000	\$ -	\$265,000	\$5,610,000	\$310,000	\$236,908	\$1,981,531

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**DEBT SERVICE PAYMENTS TO MATURITY**  
**GENERAL OBLIGATION BONDS**  
December 31, 2003

**Exhibit 2**

Payments to maturity:	G.O. Bonds of 2002		
	Principal	Interest	Total
2003	310,000	236,908	546,908
2004	320,000	227,763	547,763
2005	330,000	217,193	547,193
2006	340,000	204,953	544,953
2007	350,000	191,060	541,060
2008	365,000	176,041	541,041
2009	385,000	159,911	544,911
2010	400,000	142,638	542,638
2011	415,000	124,296	539,296
2012	435,000	104,741	539,741
2013	455,000	83,821	538,821
2014	480,000	61,495	541,495
2015	500,000	37,850	537,850
2016	525,000	12,863	537,863
Totals	<u>\$5,610,000</u>	<u>\$1,981,531</u>	<u>\$7,591,531</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**TAXABLE VALUATIONS, TAX LEVIES AND TAX RATES**

**Exhibit 3**

	Tax Capacity Values <u>2003/2004</u>	Tax Capacity Values <u>2002/2003</u>	Tax Capacity Values <u>2001/2002</u>
Taxable valuations:			
Real estate	\$66,408,965	\$50,389,479	\$43,625,032
Personal property	982,749	817,194	796,148
Total	<u>67,391,714</u>	<u>51,206,673</u>	<u>44,421,180</u>
Tax increment captured	(1,277,623)	(537,336)	(245,995)
Fiscal disparities:			
Distribution	6,861,072	5,393,147	4,977,515
Contribution	<u>(4,331,097)</u>	<u>(2,968,867)</u>	<u>(2,492,094)</u>
Totals	<u><u>\$68,644,066</u></u>	<u><u>\$53,093,617</u></u>	<u><u>\$46,660,606</u></u>
	2003/2004	2002/2003	2001/2002
	Certified Levy <u>          </u>	Certified Levy <u>          </u>	Certified Levy <u>          </u>
Taxes levied:			
Administration levy	\$172,854	\$165,050	\$158,200
Management plan implementation levy	<u>470,353</u>	<u>2,282,776</u>	<u>1,330,200</u>
Total	<u><u>\$643,207</u></u>	<u><u>\$2,447,826</u></u>	<u><u>\$1,488,400</u></u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND**  
**COMBINING BALANCE SHEET**  
December 31, 2003  
With Comparative Totals For December 31, 2002

	<b>200</b>	<b>201</b>	<b>203</b>	<b>205</b>	<b>206</b>
	PG-1 Quality / Quantity Monitoring Program	PG-2 Infiltration	PG-4 Information and Education	PG-6 SWWD Plan and Rules Update	PG-7 Development Reviews Programs
<b>Assets</b>					
Cash and investments	\$62,534	\$104,662	\$114,282	\$195,938	\$35,625
Taxes receivable - due from county	<u>1,583</u>	<u>1,345</u>	<u>187</u>	<u>1,214</u>	<u>1,120</u>
Total assets	<u><u>\$64,117</u></u>	<u><u>\$106,007</u></u>	<u><u>\$114,469</u></u>	<u><u>\$197,152</u></u>	<u><u>\$36,745</u></u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$6,333	\$ -	\$ -	\$726
Due to other governmental units	<u>16,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>16,423</u>	<u>6,333</u>	<u>-</u>	<u>-</u>	<u>726</u>
<b>Fund balance (deficit):</b>					
Unreserved:					
Designated	<u>47,694</u>	<u>99,674</u>	<u>114,469</u>	<u>197,152</u>	<u>36,019</u>
Total liabilities and fund balance	<u><u>\$64,117</u></u>	<u><u>\$106,007</u></u>	<u><u>\$114,469</u></u>	<u><u>\$197,152</u></u>	<u><u>\$36,745</u></u>

310 99-PJ-7 Lake Assessment Studies	311 00-PJ-1 Greenways	312 00-PJ-2 Infiltration	313 00-PJ-3 Critical Detention	317 00-PJ-7 Watershed Hydrologic/ Hydraulic Modeling	322 Overflow	Totals	
						2003	2002
\$118,234	\$90,243	\$77,548	\$581,524	\$114,690	\$1,300,130	\$2,795,410	\$5,696,770
1,120	560	911	10,100	1,065	17,747	36,952	16,006
<u>\$119,354</u>	<u>\$90,803</u>	<u>\$78,459</u>	<u>\$591,624</u>	<u>\$115,755</u>	<u>\$1,317,877</u>	<u>\$2,832,362</u>	<u>\$5,712,776</u>
\$ -	\$ -	\$ -	\$ -	\$2,623	\$5,828	\$15,510	\$77,159
-	-	-	-	-	208,440	224,863	-
-	-	-	-	2,623	214,268	240,373	77,159
119,354	90,803	78,459	591,624	113,132	1,103,609	2,591,989	5,635,617
<u>\$119,354</u>	<u>\$90,803</u>	<u>\$78,459</u>	<u>\$591,624</u>	<u>\$115,755</u>	<u>\$1,317,877</u>	<u>\$2,832,362</u>	<u>\$5,712,776</u>

**SOUTH WASHINGTON WATERSHED DISTRICT**  
**SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND**  
**COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
For The Year Ended December 31, 2003  
With Comparative Totals For The Year Ended December 31, 2002

	200 PG-1 Quality / Quantity Monitoring Program	201 PG-2 Infiltration	203 PG-4 Information and Education	205 PG-6 SWWD Plan and Rules Update	206 PG-7 Development Reviews Programs	307 98-PJ-4 Wetland Management Plan
Revenue:						
General property taxes	\$88,913	\$75,545	\$10,492	\$52,462	\$62,954	\$ -
Investment income	406	345	48	240	288	-
Intergovernmental:						
Market value homestead credit	5,227	4,442	617	3,084	3,701	-
Land acquisition grant	-	1,750	-	-	-	-
Total revenue	<u>94,546</u>	<u>82,082</u>	<u>11,157</u>	<u>55,786</u>	<u>66,943</u>	<u>0</u>
Expenditures:						
Current:						
Legal	-	-	-	-	-	-
Engineering	-	58,184	-	-	20,886	-
Projects and studies	71,418	400	-	-	-	-
Capital outlay:						
Land acquisition	-	-	-	-	-	-
Debt service:						
Bond issue expense	-	-	-	-	-	-
Total expenditures	<u>71,418</u>	<u>58,584</u>	<u>0</u>	<u>0</u>	<u>20,886</u>	<u>0</u>
Revenue over (under) expenditures	<u>23,128</u>	<u>23,498</u>	<u>11,157</u>	<u>55,786</u>	<u>46,057</u>	<u>0</u>
Other financing sources (uses):						
Bond proceeds	-	-	-	-	-	-
Discount on bond issued	-	-	-	-	-	-
Operating transfers from other projects	-	-	-	37,574	-	-
Operating transfers to other projects	-	-	-	-	-	(86)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>37,574</u>	<u>0</u>	<u>(86)</u>
Net increase (decrease) in fund balance	23,128	23,498	11,157	93,360	46,057	(86)
Fund balance (deficit) - January 1	<u>24,566</u>	<u>76,176</u>	<u>103,312</u>	<u>103,792</u>	<u>(10,038)</u>	<u>86</u>
Fund balance (deficit) - December 31	<u>\$47,694</u>	<u>\$99,674</u>	<u>\$114,469</u>	<u>\$197,152</u>	<u>\$36,019</u>	<u>\$0</u>

310 99-PJ-7 Lake Assessment Studies	311 00-PJ-1 Greenways	312 00-PJ-2 Infiltration	313 00-PJ-3 Critical Detention	317 00-PJ-7 Watershed Hydrologic/ Hydraulic Modeling	319 00-PJ-10 East Mississippi Enlargement	322 Overflow	Intra Account Elimination	Totals	
								2003	2002
								\$62,954 288	\$31,477 144
3,701 -	1,851 -	3,010 -	33,513 325,000	3,516 -	925 -	58,618 30,000	- -	122,205 356,750	103,739 186,000
<u>66,943</u>	<u>33,472</u>	<u>54,447</u>	<u>461,260</u>	<u>63,595</u>	<u>16,735</u>	<u>1,090,192</u>	<u>0</u>	<u>2,097,158</u>	<u>1,433,426</u>
-	-	-	16,552	-	371	-	-	16,923	13,044
-	-	-	-	99,437	20,436	19,496	-	218,439	628,441
14,374	-	-	11,298	1,571	75	405,326	-	504,462	135,892
-	-	-	4,400,962	-	-	-	-	4,400,962	1,233,050
-	-	-	-	-	-	-	-	-	24,097
<u>14,374</u>	<u>0</u>	<u>0</u>	<u>4,428,812</u>	<u>101,008</u>	<u>20,882</u>	<u>424,822</u>	<u>0</u>	<u>5,140,786</u>	<u>2,034,524</u>
<u>52,569</u>	<u>33,472</u>	<u>54,447</u>	<u>(3,967,552)</u>	<u>(37,413)</u>	<u>(4,147)</u>	<u>665,370</u>	<u>0</u>	<u>(3,043,628)</u>	<u>(601,098)</u>
-	-	-	-	-	-	-	-	-	5,875,000
-	-	-	-	-	-	-	-	-	(82,838)
-	-	-	-	-	-	390,000	(427,574)	-	-
<u>(100,000)</u>	<u>-</u>	<u>(290,000)</u>	<u>-</u>	<u>-</u>	<u>(37,488)</u>	<u>-</u>	<u>427,574</u>	<u>-</u>	<u>-</u>
<u>(100,000)</u>	<u>0</u>	<u>(290,000)</u>	<u>0</u>	<u>0</u>	<u>(37,488)</u>	<u>390,000</u>	<u>0</u>	<u>0</u>	<u>5,792,162</u>
(47,431)	33,472	(235,553)	(3,967,552)	(37,413)	(41,635)	1,055,370	0	(3,043,628)	5,191,064
<u>166,785</u>	<u>57,331</u>	<u>314,012</u>	<u>4,559,176</u>	<u>150,545</u>	<u>41,635</u>	<u>48,239</u>	<u>-</u>	<u>5,635,617</u>	<u>444,553</u>
<u>\$119,354</u>	<u>\$90,803</u>	<u>\$78,459</u>	<u>\$591,624</u>	<u>\$113,132</u>	<u>\$0</u>	<u>\$1,103,609</u>	<u>\$0</u>	<u>\$2,591,989</u>	<u>\$5,635,617</u>

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## **OTHER REPORTS**

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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

Independent Auditor's Report on Compliance With  
Minnesota Legal Compliance Audit Guide For Local Government

To the Honorable Managers of  
South Washington Watershed District  
Woodbury, Minnesota

We have audited the general purpose financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2003 and have issued our report thereon dated February 10, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Legal Compliance Task Force 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 Local Government* 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 listed categories.

The results of our tests indicate that for the items tested, the South Washington Watershed District complied with the material terms and conditions of applicable legal provisions, except as described in this report.

This report is intended solely for the information and use of the South Washington Watershed District and management and is not intended to be and should not be used by anyone other than these specified parties.

February 10, 2004

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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