

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2004

- This page intentionally left blank -

SOUTH WASHINGTON WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u> <u>No.</u>
I. INTRODUCTORY SECTION		
List of Appointed Officials		3
II. FINANCIAL SECTION		
Independent Auditor's Report		7
Basic Financial Statements		
Government-Wide Financial Statements:		
Statement of Net Assets	Statement 1	12
Statement of Activities	Statement 2	13
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	Statement 4	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	Statement 5	16
Notes to Financial Statements		17
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	Statement 6	32
Budgetary Comparison Schedule - Note to RSI		33
Combining and Individual Fund Statements and Schedules		
General Fund:		
Comparative Balance Sheet	Statement 7	36
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 8	37

SOUTH WASHINGTON WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Reference</u>	<u>Page No.</u>
Planning and Implementation Fund:		
Comparative Balance Sheet	Statement 9	38
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 10	39
Debt Service Fund:		
Comparative Balance Sheet	Statement 11	40
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 12	41
Capital Assets Used in the Operation of Governmental Funds:		
Schedule By Source	Statement 13	42
Schedule By Function and Activity	Statement 14	43
Schedule of Changes By Function and Activity	Statement 15	44
Supplementary Financial Information		
Combined Schedule of Indebtedness	Exhibit 1	46
Debt Service Payments to Maturity:		
General Obligation Bonds	Exhibit 2	49
Taxable Valuations, Tax Levies and Tax Rates	Exhibit 3	50
Special Revenue Fund - Planning and Implementation Fund:		
Combining Balance Sheet	Exhibit 4	51
Combining Schedule of Revenue, Expenditures and Changes in Fund Balance	Exhibit 5	55
OTHER REPORTS		
Independent Auditor's Report on Compliance with Minnesota Legal Compliance Audit Guide for Local Government		61

I. INTRODUCTORY SECTION

- This page intentionally left blank -

SOUTH WASHINGTON WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2004

Board of Managers

President	Jack Lavold
Vice-President	Brian Johnson
Vice-President	Dennis Hanna
Treasurer	Mike Pouliot
Secretary	Don Pereira

Appointed Officials

Administrator	Matt Moore
---------------	------------

- This page intentionally left blank -

II. FINANCIAL SECTION

- This page intentionally left blank -

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 the South Washington Watershed District as of and for the year ended December 31, 2004 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Washington Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the South Washington Watershed District as of December 31, 2004, 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.

The Management's Discussion and Analysis and the budgetary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The South Washington Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. However, the South Washington Watershed District has presented the budgetary information which is 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.

- This page intentionally left blank -

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Washington Watershed District'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, is 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 on it.

February 17, 2005

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

- This page intentionally left blank -

BASIC FINANCIAL STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT
STATEMENT OF NET ASSETS
December 31, 2004

Statement 1

Assets:	Governmental Activities	
	2004	2003
Cash and investments	\$3,813,277	\$2,982,443
Accounts receivable	3,178	-
Property taxes receivable:		
Delinquent	64,976	40,987
Due from county	102,300	40,035
Restricted assets:		
Capital assets - net		
Nondepreciable	7,444,970	7,400,884
Depreciable	692,283	-
Total assets	<u>12,120,984</u>	<u>10,464,349</u>
Liabilities:		
Accounts payable	121,061	20,633
Due to other governmental units	1,581	224,863
Accrued interest payable	77,574	80,364
Bonds payable:		
Due within one year	320,000	310,000
Due in more than one year	4,980,000	5,300,000
Total liabilities	<u>5,500,216</u>	<u>5,935,860</u>
Net assets:		
Invested in capital assets, net of related debt	2,759,679	1,566,021
Restricted for:		
Debt service	19,123	19,123
Unrestricted	3,841,966	2,943,345
Total net assets	<u>\$6,620,768</u>	<u>\$4,528,489</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, 2004

Statement 2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	2004	2003
Primary government:						
Government activities:						
General government	\$132,500	\$ -	\$ -	\$ -	(\$132,500)	(\$122,647)
Programs	296,913	-	-	-	(296,913)	(235,362)
Projects	591,962	-	-	250,000	(341,962)	(147,712)
Interest on long-term debt	234,118	-	-	-	(234,118)	(241,888)
Total government activities	<u>1,255,493</u>	<u>0</u>	<u>0</u>	<u>250,000</u>	<u>(1,005,493)</u>	<u>(747,609)</u>
Total primary government	<u>\$1,255,493</u>	<u>\$0</u>	<u>\$0</u>	<u>\$250,000</u>	<u>(\$1,005,493)</u>	<u>(\$747,609)</u>
General revenues:						
Property taxes					\$651,838	\$2,258,418
Stormwater utility fee					2,023,384	-
Grants and contributions not restricted to specific programs					167	132,235
Unrestricted investment earnings					29,141	30,224
Miscellaneous other					9,725	9,115
Total general revenues					<u>2,714,255</u>	<u>2,429,992</u>
Change in net assets					<u>1,708,762</u>	<u>1,682,383</u>
Net assets - beginning as previously reported					4,528,489	2,846,106
Prior period adjustment					383,517	-
Net assets - beginning as restated					<u>4,912,006</u>	<u>2,846,106</u>
Net assets - ending					<u>\$6,620,768</u>	<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, 2004

Statement 3

	General	Planning and Implementation	Debt Service	Intra Activity Eliminations	Totals	
					Governmental Funds	
					2004	2003
Assets						
Cash and investments	\$210,742	\$3,583,412	\$19,123	\$ -	\$3,813,277	\$2,982,443
Accounts receivable	3,178	-	-	-	3,178	-
Property taxes receivable:						
Delinquent	64,976	-	-	-	64,976	40,987
Due from county	-	102,300	-	-	102,300	40,035
Total assets	\$278,896	\$3,685,712	\$19,123	\$0	\$3,983,731	\$3,063,465
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$6,450	\$114,611	\$ -	\$ -	\$121,061	\$20,633
Due to other governmental units	-	1,581	-	-	1,581	224,863
Deferred revenue	64,976	-	-	-	64,976	40,987
Total liabilities	71,426	116,192	0	0	187,618	286,483
Fund balances:						
Reserved for:						
Debt service	-	-	19,123	-	19,123	19,123
Unreserved reported in:						
Designated:						
General Fund	207,470	-	-	-	207,470	165,870
Special Revenue Funds	-	3,569,520	-	-	3,569,520	2,591,989
Total fund balances	207,470	3,569,520	19,123	0	3,796,113	2,776,982
Total liabilities and fund balances	\$278,896	\$3,685,712	\$19,123	\$0	\$3,983,731	\$3,063,465
Fund balance reported above					\$3,796,113	\$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						
					8,137,253	7,400,884
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.						
					64,976	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.						
					(5,377,574)	(5,690,364)
Net assets of governmental activities					<u>\$6,620,768</u>	<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, 2004
With Comparative Amounts For December 31, 2003

Statement 4

	General	Planning and Implementation	Debt Service	Intra Activity Eliminations	Totals	
					Governmental Funds	
					2004	2003
Revenues:						
General property taxes	\$168,727	\$459,122	\$ -	-	\$627,849	\$2,249,163
Stormwater utility fee	-	1,476,476	546,908	-	2,023,384	-
Intergovernmental	167	250,000	-	-	250,167	488,985
Investment income	1,721	27,420	-	-	29,141	30,224
Other	3,485	6,240	-	-	9,725	9,115
Total revenues	<u>174,100</u>	<u>2,219,258</u>	<u>546,908</u>	<u>0</u>	<u>2,940,266</u>	<u>2,777,487</u>
Expenditures:						
Current:						
General government	132,500	-	-	-	132,500	122,647
Programs	-	296,913	-	-	296,913	235,362
Projects	-	591,962	-	-	591,962	504,462
Capital outlay:						
Projects	-	352,852	-	-	352,852	4,400,962
Debt service:						
Principal retirement	-	-	310,000	-	310,000	265,000
Interest	-	-	236,908	-	236,908	243,478
Total expenditures	<u>132,500</u>	<u>1,241,727</u>	<u>546,908</u>	<u>0</u>	<u>1,921,135</u>	<u>5,771,911</u>
Revenues over (under) expenditures	41,600	977,531	0	0	1,019,131	(2,994,424)
Fund balance - January 1	<u>165,870</u>	<u>2,591,989</u>	<u>19,123</u>	<u>-</u>	<u>2,776,982</u>	<u>5,771,406</u>
Fund balance - December 31	<u>\$207,470</u>	<u>\$3,569,520</u>	<u>\$19,123</u>	<u>\$0</u>	<u>\$3,796,113</u>	<u>\$2,776,982</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, 2004

Statement 5

	<u>2004</u>	<u>2003</u>
Amounts reported for governmental activities in the statement of activities (page 13) are different because:		
Net changes in fund balances - total governmental funds (page 15)	\$1,019,131	(\$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.	352,852	4,400,962
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	23,989	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.	310,000	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.	<u>2,790</u>	<u>1,590</u>
Change in net assets of governmental activities (page 13)	<u><u>\$1,708,762</u></u>	<u><u>\$1,682,383</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 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, 2004

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, 2004

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 District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District the following January) and taxes and credits not received at 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, 2004

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 2003 and has elected not to report infrastructure assets acquired in years prior to that.

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, 2004

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 (\$5,377,574) difference are as follows:

Bonds payable	(\$5,300,000)
Accrued interest payable	<u>(77,574)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>(\$5,377,574)</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 balance 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 \$23,989 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2003	(\$40,987)
At December 31, 2004	<u>64,976</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$23,989</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 \$2,790 difference are as follows:

Accrued interest payable:	
At December 31, 2003	\$80,364
At December 31, 2004	<u>(77,574)</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$2,790</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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.

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

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

Balances at December 31, 2004 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.	\$3,813,277	\$3,823,765
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>\$3,813,277</u>	<u>\$3,823,765</u>

INVESTMENTS

Minnesota Statutes authorize the City to invest in the following:

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Balances at December 31, 2004:

Securities Type	Custodial Credit Risk Category			Carrying/Fair Value Amount
	1	2	3	
U.S. government and agency securities	\$ -	\$ -	\$ -	\$ -
Money market mutual funds				306,778
Total investments				306,778
Deposits				3,506,499
Totals				\$3,813,277

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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2004 are as follows:

	<u>Major General Funds</u>
Delinquent property taxes	<u>\$48,730</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>\$64,976</u>	<u>\$ -</u>

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 as previously reported was as follows:

	<u>Beginning Balance</u>	<u>Beginning Balance, as Restated</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Infrastructure	\$ -	\$383,517	\$308,766	\$ -	\$692,283
Governmental activities:					
Capital assets, not being depreciated:					
Land	7,400,884	7,400,884	44,086	-	7,444,970
Governmental activities capital assets - net	<u>\$7,400,884</u>	<u>\$7,784,401</u>	<u>\$352,852</u>	<u>\$0</u>	<u>\$8,137,253</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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, 2004, 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 12/31/04</u>
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2017	\$5,875,000	\$5,300,000

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>
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>\$5,300,000</u>	<u>\$1,744,625</u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2004, 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	\$5,610,000	\$ -	\$310,000	\$5,300,000	\$320,000

All long-term bonded indebtedness outstanding at December 31, 2004 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 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, 2003 or 2004.

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, 2004.

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, 2004

Note 8 DESIGNATIONS OF FUND EQUITY

At December 31, 2004 and 2003 the District had the following fund equity reservations and designations:

	December 31,	
	<u>2004</u>	<u>2003</u>
General Fund:		
Designated for cash flow	\$207,470	\$165,870
Special Revenue Fund:		
Designated for Watershed plan implementation	3,569,520	2,591,989
Debt Service Fund:		
Reserved for debt service	<u>19,123</u>	<u>19,123</u>
Total	<u><u>\$3,796,113</u></u>	<u><u>\$2,776,982</u></u>

Note 9 STORM WATER UTILITY FEE

In 2004 the District implemented a storm water utility fee pursuant to Minnesota Statutes Chapter 444.

Note 10 PRIOR PERIOD ADJUSTMENTS

During 2004, corrections to the prior year financial statements were made for previous year expenses that should have been capitalized. A summary of the changes are as follows:

Fund balance/net assets - December 31, 2003 as previously reported	<u>Planning and Implementation</u> \$5,771,406
Prior period adjustments: Capital asset classified	<u>383,517</u>
Fund balances/net assets - January 1, 2004, as restated	<u><u>\$6,154,923</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Statement 6

For The Year Ended December 31, 2004

With Comparative Actual Amounts For The Year Ended December 31, 2003

	2004		Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenue:					
General property taxes	\$172,854	\$172,854	\$168,727	(\$4,127)	\$151,915
Intergovernmental	-	-	167	167	10,030
Investment income	-	-	1,721	1,721	791
Other	-	-	3,485	3,485	9,115
Total revenue	<u>172,854</u>	<u>172,854</u>	<u>174,100</u>	<u>1,246</u>	<u>171,851</u>
Expenditures:					
Current:					
Legal	21,000	21,000	9,005	\$11,995	9,062
Accounting/audit	17,400	17,400	14,288	3,112	13,746
Salary and benefits	82,754	82,754	75,581	7,173	71,291
Secretarial services	7,500	7,500	1,838	5,662	1,725
Manager per diems and expenses	13,000	13,000	13,414	(414)	12,545
Insurance	9,000	9,000	8,708	292	8,603
Dues	2,200	2,200	3,229	(1,029)	3,170
Rent	10,000	10,000	2,372	7,628	2,037
Equipment	5,000	5,000	3,109	1,891	-
Office supplies and other	5,000	5,000	956	4,044	468
Total expenditures	<u>172,854</u>	<u>172,854</u>	<u>132,500</u>	<u>40,354</u>	<u>122,647</u>
Revenue over expenditures	<u>\$0</u>	<u>\$0</u>	41,600	<u>\$41,600</u>	49,204
Fund balance - January 1			<u>165,870</u>		<u>116,666</u>
Fund balance - December 31			<u>\$207,470</u>		<u>\$165,870</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2004

Note A LEGAL COMPLIANCE – BUDGETS

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

- This page intentionally left blank -

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND
SCHEDULES**

SOUTH WASHINGTON WATERSHED DISTRICT
GENERAL FUND
COMPARATIVE BALANCE SHEET
 December 31, 2004
 With Comparative Amounts For December 31, 2003

Statement 7

Assets	<u>2004</u>	<u>2003</u>
Cash and investments	\$210,742	\$167,910
Accounts receivable	3,178	-
Taxes receivable:		
Delinquent	64,976	40,987
Due from county	-	3,083
	<u> </u>	<u> </u>
Total assets	<u>\$278,896</u>	<u>\$211,980</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$6,450	\$5,123
Deferred revenue	64,976	40,987
Total liabilities	<u>71,426</u>	<u>46,110</u>
Fund balance:		
Unreserved:		
Designated	207,470	165,870
Total fund balance	<u>207,470</u>	<u>165,870</u>
	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$278,896</u>	<u>\$211,980</u>

SOUTH WASHINGTON WATERSHED DISTRICT

GENERAL FUND

Statement 8

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

For The Year Ended December 31, 2004

With Comparative Amounts For The Year Ended December 31, 2003

	<u>2004</u>	<u>2003</u>
Revenue:		
General property taxes	\$168,727	\$151,915
Intergovernmental	167	10,030
Investment income	1,721	791
Other	3,485	9,115
Total revenue	<u>174,100</u>	<u>171,851</u>
Expenditures:		
Current:		
Professional services:		
Salary and benefits	75,581	71,291
Secretarial services	1,838	1,725
Accounting/audit	14,288	13,746
Dues	3,229	3,170
Equipment	3,109	-
Insurance	8,708	8,603
Legal	9,005	9,062
Manager per diems and expenses	13,414	12,545
Office supplies and other	956	468
Rent	2,372	2,037
Total expenditures	<u>132,500</u>	<u>122,647</u>
Revenue over expenditures	41,600	49,204
Fund balance - January 1	<u>165,870</u>	<u>116,666</u>
Fund balance - December 31	<u>\$207,470</u>	<u>\$165,870</u>

SOUTH WASHINGTON WATERSHED DISTRICT
PLANNING AND IMPLEMENTATION FUND
COMPARATIVE BALANCE SHEET
December 31, 2004
With Comparative Amounts For December 31, 2003

Statement 9

	<u>2004</u>	<u>2003</u>
Assets		
Cash and investments	\$3,583,412	\$2,795,410
Taxes receivable - due from county	<u>102,300</u>	<u>36,952</u>
Total assets	<u><u>\$3,685,712</u></u>	<u><u>\$2,832,362</u></u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$114,611	\$15,510
Due to other governmental units	<u>1,581</u>	<u>224,863</u>
Total liabilities	<u><u>116,192</u></u>	<u><u>240,373</u></u>
Fund balance:		
Unreserved:		
Designated	<u>3,569,520</u>	<u>2,591,989</u>
Total liabilities and fund balance	<u><u>\$3,685,712</u></u>	<u><u>\$2,832,362</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
PLANNING AND IMPLEMENTATION FUND
COMPREHENSIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2004
With Comparative Amounts For The Year Ended December 31, 2003

Statement 10

	<u>2004</u>	<u>2003</u>
Revenue:		
General property taxes	\$459,122	\$1,588,770
Stormwater utility fee	1,476,476	-
Intergovernmental	250,000	478,955
Investment income	27,420	29,433
Other	6,240	-
Total revenue	<u>2,219,258</u>	<u>2,097,158</u>
Expenditures:		
Current:		
Professional services:		
Legal	9,934	16,923
Engineering	286,979	218,439
Projects and studies	591,962	504,462
Capital outlay:		
Land acquisition	44,086	4,400,962
Infrastructure	308,766	-
Total expenditures	<u>1,241,727</u>	<u>5,140,786</u>
Revenue over (under) expenditures	977,531	(3,043,628)
Fund balance - January 1	<u>2,591,989</u>	<u>5,635,617</u>
Fund balance - December 31	<u><u>\$3,569,520</u></u>	<u><u>\$2,591,989</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
DEBT SERVICE FUND
COMPARATIVE BALANCE SHEET
December 31, 2004
With Comparative Amounts For December 31, 2003

Statement 11

Assets	<u>2004</u>	<u>2003</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
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2004
With Comparative Amounts For The Year Ended December 31, 2003

Statement 12

	<u>2004</u>	<u>2003</u>
Revenue:		
General property taxes:		
Current and delinquent	\$ -	\$508,478
Stormwater utility fee	546,908	-
Total revenue	<u>546,908</u>	<u>508,478</u>
Expenditures:		
Debt service:		
Principal	310,000	265,000
Interest	236,908	243,478
Total expenditures	<u>546,908</u>	<u>508,478</u>
Revenue over expenditures	0	0
Fund balance - January 1	<u>19,123</u>	<u>19,123</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, 2004

Statement 13

Description	Beginning Balance December 31, 2003	Restated	Balance December 31, 2003	Additions	Deletions	Balance December 31, 2004
Land	\$7,400,884	\$ -	\$7,400,884	\$44,086	\$ -	\$7,444,970
Infrastructure	-	383,517	383,517	308,766	-	692,283
Total	\$7,400,884	\$383,517	\$7,784,401	\$352,852	\$ -	8,137,253
Investments in General Fixed Assets from:						
Special Revenue Funds						\$8,137,253

SOUTH WASHINGTON WATERSHED DISTRICT
CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
December 31, 2004

Statement 14

<u>Function and Activity</u>	<u>Infrastructure</u>	<u>Land</u>	<u>Total</u>
Projects	<u>\$692,283</u>	<u>\$7,444,970</u>	<u>\$8,137,253</u>

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, 2004

Statement 15

<u>Function and Activity</u>	<u>Beginning Balance December 31, 2003</u>	<u>Restated</u>	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance December 31, 2004</u>
Projects	\$7,400,884	\$383,517	\$7,784,401	\$352,852	\$ -	\$ -	\$8,137,253

SUPPLEMENTARY FINANCIAL INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINED SCHEDULE OF INDEBTEDNESS
December 31, 2004

	<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

Prior Years		Payable 1/1/2004	2004		Payable 12/31/2004	Principal Due In 2005	Interest Due In 2005	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$265,000	\$5,610,000	\$ -	\$310,000	\$5,300,000	\$320,000	\$227,763	\$1,744,625

- This page intentionally left blank -

SOUTH WASHINGTON WATERSHED DISTRICT
DEBT SERVICE PAYMENTS TO MATURITY
GENERAL OBLIGATION BONDS
December 31, 2004

Exhibit 2

Payments to maturity:	G.O. Bonds of 2002		
	Principal	Interest	Total
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>\$5,300,000</u>	<u>\$1,744,625</u>	<u>\$7,044,625</u>

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

Exhibit 3

	Tax Capacity Values <u>2004/2005</u>	Tax Capacity Values <u>2003/2004</u>	Tax Capacity Values <u>2002/2003</u>
Taxable valuations:			
Real estate	\$76,866,300	\$66,408,965	\$50,389,479
Personal property	1,032,773	982,749	817,194
Total	<u>77,899,073</u>	<u>67,391,714</u>	<u>51,206,673</u>
Tax increment captured	(1,590,818)	(1,277,623)	(537,336)
Fiscal disparities:			
Distribution	7,452,941	6,861,072	5,393,147
Contribution	<u>(4,721,321)</u>	<u>(4,331,097)</u>	<u>(2,968,867)</u>
Totals	<u><u>\$79,039,875</u></u>	<u><u>\$68,644,066</u></u>	<u><u>\$53,093,617</u></u>
	2004/2005	2003/2004	2002/2003
	Certified Levy <u> </u>	Certified Levy <u> </u>	Certified Levy <u> </u>
Taxes levied:			
Administration levy	\$168,550	\$172,854	\$165,050
Management plan implementation levy	<u>2,605,462</u>	<u>470,353</u>	<u>2,282,776</u>
Total	<u><u>\$2,774,012</u></u>	<u><u>\$643,207</u></u>	<u><u>\$2,447,826</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING BALANCE SHEET

December 31, 2004
 With Comparative Totals For December 31, 2003

	200	201	203	205
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update
Assets				
Cash and investments	\$93,788	\$124,606	\$123,961	\$247,935
Taxes receivable - due from county	-	-	-	-
Total assets	\$93,788	\$124,606	\$123,961	\$247,935
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ -	\$10,589	\$ -	\$ -
Due to other governmental units	-	-	-	-
Total liabilities	0	10,589	0	0
Fund balance (deficit):				
Unreserved:				
Designated	93,788	114,017	123,961	247,935
Total liabilities and fund balance	\$93,788	\$124,606	\$123,961	\$247,935

SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING BALANCE SHEET
December 31, 2004
With Comparative Totals For December 31, 2003

	206	210	310	311
	<u>Development Reviews Programs</u>	<u>Stormwater Utility Administration</u>	<u>Lake Assessment Studies</u>	<u>Greenways</u>
Assets				
Cash and investments	\$57,995	(\$110,013)	\$149,824	\$119,420
Taxes receivable - due from county	-	-	-	-
Total assets	<u>\$57,995</u>	<u>(\$110,013)</u>	<u>\$149,824</u>	<u>\$119,420</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$7,692	\$ -	\$ -	\$ -
Due to other governmental units	-	-	1,581	-
Total liabilities	<u>7,692</u>	<u>0</u>	<u>1,581</u>	<u>0</u>
Fund balance (deficit):				
Unreserved:				
Designated	50,303	(110,013)	148,243	119,420
Total liabilities and fund balance	<u>\$57,995</u>	<u>(\$110,013)</u>	<u>\$149,824</u>	<u>\$119,420</u>

312	313	315	317	319	322	Totals	
Infiltration	Regional Facility	Groundwater Protection and Monitoring	Watershed Hydrologic/Hydraulic Modeling	East Mississippi	Overflow	2004	2003
\$130,461	\$1,009,116	\$48,956	\$130,865	\$65,510	\$1,390,988	\$3,583,412	\$2,795,410
-	102,300	-	-	-	-	102,300	36,952
<u>\$130,461</u>	<u>\$1,111,416</u>	<u>\$48,956</u>	<u>\$130,865</u>	<u>\$65,510</u>	<u>\$1,390,988</u>	<u>\$3,685,712</u>	<u>\$2,832,362</u>
\$ -	\$ -	\$ -	\$13,105	\$ -	\$83,225	\$114,611	\$15,510
-	-	-	-	-	-	1,581	224,863
<u>0</u>	<u>0</u>	<u>0</u>	<u>13,105</u>	<u>0</u>	<u>83,225</u>	<u>116,192</u>	<u>240,373</u>
130,461	1,111,416	48,956	117,760	65,510	1,307,763	3,569,520	2,591,989
<u>\$130,461</u>	<u>\$1,111,416</u>	<u>\$48,956</u>	<u>\$130,865</u>	<u>\$65,510</u>	<u>\$1,390,988</u>	<u>\$3,685,712</u>	<u>\$2,832,362</u>

- This page intentionally left blank -

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, 2004
With Comparative Totals For The Year Ended December 31, 2003

	200	201	203	205	206
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update	Development Reviews Programs
Revenue:					
General property taxes	\$111,198	\$80,433	\$10,054	\$50,270	\$60,324
Stormwater utility fee	-	-	-	-	-
Investment income	1,134	820	103	513	615
Intergovernmental:					
Market value homestead credit	-	-	-	-	-
Land acquisition grant	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenue	<u>112,332</u>	<u>81,253</u>	<u>10,157</u>	<u>50,783</u>	<u>60,939</u>
Expenditures:					
Current:					
Legal	-	-	-	-	-
Engineering	-	66,910	-	-	46,655
Projects and studies	66,238	-	665	-	-
Capital outlay:					
Land acquisition	-	-	-	-	-
Infrastructure	-	-	-	-	-
Total expenditures	<u>66,238</u>	<u>66,910</u>	<u>665</u>	<u>0</u>	<u>46,655</u>
Revenue over (under) expenditures	46,094	14,343	9,492	50,783	14,284
Fund balance - January 1	<u>47,694</u>	<u>99,674</u>	<u>114,469</u>	<u>197,152</u>	<u>36,019</u>
Fund balance - December 31	<u>\$93,788</u>	<u>\$114,017</u>	<u>\$123,961</u>	<u>\$247,935</u>	<u>\$50,303</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, 2004
With Comparative Totals For The Year Ended December 31, 2003

	210	310	311	312	313
	Stormwater Utility Administration	Lake Assessment Studies	Greenways	Infiltration	Regional Facility
Revenue:					
General property taxes	\$81,994	\$ -	\$ -	\$ -	\$ -
Stormwater utility fee	-	30,162	30,162	51,477	310,520
Investment income	836	308	308	525	10,844
Intergovernmental:					
Market value homestead credit	-	-	-	-	-
Land acquisition grant	-	-	-	-	250,000
Miscellaneous	-	-	-	-	6,240
Total revenue	<u>82,830</u>	<u>30,470</u>	<u>30,470</u>	<u>52,002</u>	<u>577,604</u>
Expenditures:					
Current:					
Legal	891	-	-	-	9,043
Engineering	29,362	-	1,853	-	-
Projects and studies	162,590	1,581	-	-	4,683
Capital outlay:					
Land acquisition	-	-	-	-	44,086
Infrastructure	-	-	-	-	-
Total expenditures	<u>192,843</u>	<u>1,581</u>	<u>1,853</u>	<u>0</u>	<u>57,812</u>
Revenue over (under) expenditures	(110,013)	28,889	28,617	52,002	519,792
Fund balance - January 1	<u>-</u>	<u>119,354</u>	<u>90,803</u>	<u>78,459</u>	<u>591,624</u>
Fund balance - December 31	<u>(\$110,013)</u>	<u>\$148,243</u>	<u>\$119,420</u>	<u>\$130,461</u>	<u>\$1,111,416</u>

315 Groundwater Protection and Monitoring	317 Watershed Hydrologic/ Hydraulic Modeling	319 East Mississippi	322 Overflow	Intra Account Elimination	Totals	
					2004	2003
\$ -	\$ -	\$64,849	\$ -	\$ -	\$459,122	\$1,588,770
73,209	50,773		930,173	-	1,476,476	-
747	518	661	9,488	-	27,420	29,433
-	-	-	-	-	-	122,205
-	-	-	-	-	250,000	356,750
-	-	-	-	-	6,240	-
<u>73,956</u>	<u>51,291</u>	<u>65,510</u>	<u>939,661</u>	<u>0</u>	<u>2,219,258</u>	<u>2,097,158</u>
-	-	-	-	-	9,934	16,923
-	46,663	-	95,536	-	286,979	218,439
25,000	-	-	331,205	-	591,962	504,462
-	-	-	-	-	44,086	4,400,962
-	-	-	308,766	-	308,766	-
<u>25,000</u>	<u>46,663</u>	<u>0</u>	<u>735,507</u>	<u>0</u>	<u>1,241,727</u>	<u>5,140,786</u>
48,956	4,628	65,510	204,154	0	977,531	(3,043,628)
-	113,132	-	1,103,609	-	2,591,989	5,635,617
<u>\$48,956</u>	<u>\$117,760</u>	<u>\$65,510</u>	<u>\$1,307,763</u>	<u>\$0</u>	<u>\$3,569,520</u>	<u>\$2,591,989</u>

- This page intentionally left blank -

OTHER REPORTS

- This page intentionally left blank -



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 financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2004 and have issued our report thereon dated February 17, 2005.

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 State Auditor pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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 17, 2005

A handwritten signature in black ink that reads "HLB Tautges Redpath, Ltd." in a cursive style.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

- This page intentionally left blank -