

SOUTH WASHINGTON WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2005

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INTRODUCTORY SECTION

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SOUTH WASHINGTON WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2005

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
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FINANCIAL SECTION

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Certified Public Accountants and Consultants

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, 2005 which collectively comprise the South Washington Watershed 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Washington Watershed District's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005, 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 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. The budgetary comparison information on pages 34 and 35, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

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1303 South Frontage Road	Suite 13 Hastings, Minnesota	55033	651 480 4990	651 426 5004 Fax	

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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 the South Washington Watershed District's basic financial statements. The individual fund statements 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. The individual fund statements and the supplementary financial information 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 on it.

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

April 6, 2006

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BASIC FINANCIAL STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2005

Statement 1

Assets:	Governmental Activities	
	2005	2004
Cash and investments	\$5,270,634	\$3,813,277
Accounts receivable	-	3,178
Property taxes receivable:		
Delinquent	62,114	64,976
Due from county	52,114	102,300
Capital assets - net:		
Nondepreciable	7,444,970	7,444,970
Depreciable	754,881	692,283
Total assets	<u>13,584,713</u>	<u>12,120,984</u>
Liabilities:		
Accounts payable	136,219	121,061
Due to other governmental units	-	1,581
Accrued interest payable	74,268	77,574
Compensated absences:		
Due within one year	520	-
Due in more than one year	1,305	-
Bonds payable:		
Due within one year	330,000	320,000
Due in more than one year	4,650,000	4,980,000
Total liabilities	<u>5,192,312</u>	<u>5,500,216</u>
Net assets:		
Invested in capital assets, net of related debt	3,219,851	2,759,679
Restricted for:		
Debt service	19,123	19,123
Unrestricted	5,153,427	3,841,966
Total net assets	<u>\$8,392,401</u>	<u>\$6,620,768</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, 2005

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	2005	2004
Governmental activities:						
General government	\$153,214	\$ -	\$ -	\$ -	(\$153,214)	(\$132,500)
Programs	186,944	-	-	-	(186,944)	(296,913)
Projects	303,098	1,994,750	-	-	1,691,652	1,681,422
Interest on long-term debt	224,457	-	-	-	(224,457)	(234,118)
Total governmental activities	<u>\$867,713</u>	<u>\$1,994,750</u>	<u>\$0</u>	<u>\$0</u>	<u>1,127,037</u>	<u>1,017,891</u>
General revenues:						
Property taxes					493,294	651,838
Grants and contributions not restricted to specific programs					29,178	167
Unrestricted investment earnings					114,460	29,141
Miscellaneous other					8,749	9,725
Total general revenues					<u>645,681</u>	<u>690,871</u>
Change in net assets					<u>1,772,718</u>	<u>1,708,762</u>
Net assets - beginning, as previously reported					6,620,768	4,528,489
Prior period adjustment					(1,085)	383,517
Net assets - beginning, as restated					<u>6,619,683</u>	<u>4,912,006</u>
Net assets - ending					<u>\$8,392,401</u>	<u>\$6,620,768</u>

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

SOUTH WASHINGTON WATERSHED DISTRICT

BALANCE SHEET
 GOVERNMENTAL FUNDS
 December 31, 2005

Statement 3

	General	Planning and Implementation	Debt Service	Intra Activity Eliminations	Totals	
					Governmental Funds	
					2005	2004
Assets						
Cash and investments	\$239,680	\$5,011,831	\$19,123	\$ -	\$5,270,634	\$3,813,277
Accounts receivable	-	-	-	-	-	3,178
Property taxes receivable:						
Delinquent	62,114	-	-	-	62,114	64,976
Due from county	-	52,114	-	-	52,114	102,300
Total assets	\$301,794	\$5,063,945	\$19,123	\$0	\$5,384,862	\$3,983,731
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	\$3,686	\$132,533	\$ -	\$ -	\$136,219	\$121,061
Due to other governmental units	-	-	-	-	-	1,581
Deferred revenue	62,114	-	-	-	62,114	64,976
Total liabilities	65,800	132,533	0	0	198,333	187,618
Fund balance:						
Reserved for:						
Debt service	-	-	19,123	-	19,123	19,123
Unreserved reported in:						
Designated:						
General Fund	235,994	-	-	-	235,994	207,470
Special Revenue Funds	-	4,931,412	-	-	4,931,412	3,569,520
Total fund balance	235,994	4,931,412	19,123	0	5,186,529	3,796,113
Total liabilities and fund balance	\$301,794	\$5,063,945	\$19,123	\$0	\$5,384,862	\$3,983,731
Fund balance reported above					\$5,186,529	\$3,796,113
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.					8,199,851	8,137,253
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					62,114	64,976
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:						
Accrued interest payable					(74,268)	(77,574)
Compensated absences payable					(1,825)	-
Bonds payable					(4,980,000)	(5,300,000)
Net assets of governmental activities					<u>\$8,392,401</u>	<u>\$6,620,768</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, 2005

Statement 4

	General	Planning and Implementation	Debt Service	Intra Activity Eliminations	Totals	
					Governmental Funds	
					2005	2004
Revenues:						
Property taxes	\$156,597	\$339,559	\$ -	-	\$496,156	\$627,849
Stormwater utility fees	-	1,446,987	547,763	-	1,994,750	2,023,384
Intergovernmental	1,773	27,405	-	-	29,178	250,167
Investment income	6,720	107,740	-	-	114,460	29,141
Other	-	8,749	-	-	8,749	9,725
Total revenues	<u>165,090</u>	<u>1,930,440</u>	<u>547,763</u>	<u>0</u>	<u>2,643,293</u>	<u>2,940,266</u>
Expenditures:						
Current:						
General government	136,566	-	-	-	136,566	132,500
Programs	-	186,944	-	-	186,944	296,913
Projects	-	303,098	-	-	303,098	591,962
Capital outlay:						
Projects	-	78,506	-	-	78,506	352,852
Debt service:						
Principal retirement	-	-	320,000	-	320,000	310,000
Interest	-	-	227,763	-	227,763	236,908
Total expenditures	<u>136,566</u>	<u>568,548</u>	<u>547,763</u>	<u>0</u>	<u>1,252,877</u>	<u>1,921,135</u>
Revenues over expenditures	28,524	1,361,892	0	0	1,390,416	1,019,131
Fund balance - January 1	<u>207,470</u>	<u>3,569,520</u>	<u>19,123</u>	<u>-</u>	<u>3,796,113</u>	<u>2,776,982</u>
Fund balance - December 31	<u>\$235,994</u>	<u>\$4,931,412</u>	<u>\$19,123</u>	<u>\$0</u>	<u>\$5,186,529</u>	<u>\$3,796,113</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, 2005

Statement 5

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$1,390,416	\$1,019,131
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(2,862)	23,989
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.	62,598	352,852
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:		
Principal retirement	320,000	310,000
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.	1,481	2,790
Prior period adjustment in the statement of activities does not require the use of current financial resources and, therefore, is not reported in the governmental funds.	<u>1,085</u>	<u>-</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$1,772,718</u></u>	<u><u>\$1,708,762</u></u>

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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. There are no business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 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.

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, 2005

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

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.

G. MARKET VALUE HOMESTEAD CREDIT

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

H. 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 year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred revenue because they are not available to finance current expenditures.

I. 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, 2005

J. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets, 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 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999 the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34.

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	50 years
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K. 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.

L. 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.

M. 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.

N. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay benefits that are vested as severance pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

O. 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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

P. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. 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 (\$2,862) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2004	(\$64,976)
At December 31, 2005	<u>62,114</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>(\$2,862)</u></u>

Another element of that reconciliation explains that “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.” The details of this \$62,598 difference are as follows:

Capital outlay/construction	\$78,506
Depreciation expense	<u>(15,908)</u>
 Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	 <u><u>\$62,598</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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 \$1,481 difference are as follows:

Accrued interest payable:	
At December 31, 2004	\$77,574
At December 31, 2005	(74,268)
Compensated absences payable:	
At December 31, 2004	-
At December 31, 2005	<u>(1,825)</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>\$1,481</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

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

- a) United States government treasury bills, treasury notes, treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service;
- d) 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;

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

At year end the carrying amount of the District's deposits was \$5,270,634 and the bank balance was \$5,277,248. The entire bank balance was covered by federal depository insurance or collateral held by the District's agent in the District's name.

B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers 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.

The District did not invest in any of the above listed investments during 2005.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2005

Credit Risk. The District follows State Statutes in regards to credit risk of investments. The District does not have an investment policy which further limits its investment choices.

Interest Rate Risk. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. The District does not have an investment policy which addresses the concentration of credit risk.

Note 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2005 are as follows:

	<u>Major General Funds</u>
Delinquent property taxes	<u><u>\$38,900</u></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><u>\$62,114</u></u>	<u><u>\$ -</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$7,444,970	\$ -	\$ -	\$7,444,970
Capital assets, being depreciated:				
Infrastructure	714,564	78,506	-	793,070
Less accumulated depreciation for:				
Infrastructure	22,281	15,908	-	38,189
Total capital assets being depreciated - net	692,283	62,598	-	754,881
Governmental activities capital assets - net	<u>\$8,137,253</u>	<u>\$62,598</u>	<u>\$0</u>	<u>\$8,199,851</u>

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:	
Projects	<u>\$15,908</u>
Total depreciation expense - governmental activities	<u>\$15,908</u>

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, 2005, 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 12/31/05</u>
General Obligation Bonds:					
\$5,875,000 Bonds of 2002	4.75%	1/29/2002	3/1/2017	\$5,875,000	\$4,980,000

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
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>\$4,980,000</u>	<u>\$1,516,862</u>

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$5,300,000	\$ -	(\$320,000)	\$4,980,000	\$330,000
Compensated absences payable	1,085	3,989	(3,249)	1,825	520

All long-term bonded indebtedness outstanding at December 31, 2005 is backed by the full faith and credit of the District. Compensated absences are generally liquidated by the General Fund.

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

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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 2005.

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, 2005.

Note 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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 PERF and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.10%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. PEPFF members were required to contribute 6.20% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.0%, effective January 1, 2006. The District's contribution to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004 and 2003 were \$3,768, \$3,687 and \$3,478, respectively. The District's contributions were equal to the contractually required contributions for the years as set by state statute.

SOUTH WASHINGTON WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 8 DESIGNATIONS OF FUND EQUITY

At December 31, 2005 and 2004 the District had the following fund equity reservations and designations:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
General Fund:		
Designated for cash flow	\$235,994	\$207,470
Special Revenue Fund:		
Designated for Watershed plan implementation	4,931,412	3,569,520
Debt Service Fund:		
Reserved for debt service	<u>19,123</u>	<u>19,123</u>
Total	<u>\$5,186,529</u>	<u>\$3,796,113</u>

Note 9 STORMWATER UTILITY FEES

In 2004 the District implemented a stormwater utility fees pursuant to Minnesota Statutes Chapter 444.

Note 10 PRIOR PERIOD ADJUSTMENT

During 2005, 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:

	<u>Planning and Implementation</u>
Fund balance/net assets - December 31, 2004, as previously reported	\$6,620,768
Prior period adjustment: Unrecorded compensated absences	<u>(1,085)</u>
Fund balance/net assets - January 1, 2005, as restated	<u>\$6,619,683</u>

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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, 2005
With Comparative Actual Amounts For The Year Ended December 31, 2004

Statement 6

	2005		Actual Amounts	Variance with Final Budget - Positive (Negative)	2004 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenues:					
Property taxes	\$166,777	\$166,777	\$156,597	(\$10,180)	\$168,727
Intergovernmental	1,773	1,773	1,773	-	167
Investment income	-	-	6,720	6,720	1,721
Other	-	-	-	-	3,485
Total revenues	<u>168,550</u>	<u>168,550</u>	<u>165,090</u>	<u>(3,460)</u>	<u>174,100</u>
Expenditures:					
Current:					
Legal	21,600	21,600	7,256	14,344	9,005
Accounting/audit	15,200	15,200	14,998	202	14,288
Salary and benefits	85,000	85,000	79,168	5,832	75,581
Secretarial services	8,750	8,750	2,150	6,600	1,838
Manager per diems and expenses	13,000	13,000	13,953	(953)	13,414
Insurance	9,600	9,600	8,789	811	8,708
Dues	2,500	2,500	3,284	(784)	3,229
Rent	2,600	2,600	3,629	(1,029)	2,372
Equipment	5,150	5,150	564	4,586	3,109
Office supplies and other	5,150	5,150	2,775	2,375	956
Total expenditures	<u>168,550</u>	<u>168,550</u>	<u>136,566</u>	<u>31,984</u>	<u>132,500</u>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	28,524	<u>\$28,524</u>	41,600
Fund balance - January 1			<u>207,470</u>		<u>165,870</u>
Fund balance - December 31			<u>\$235,994</u>		<u>\$207,470</u>

SOUTH WASHINGTON WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2005

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.

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INDIVIDUAL FUND STATEMENTS

SOUTH WASHINGTON WATERSHED DISTRICT
GENERAL FUND
COMPARATIVE BALANCE SHEET
 December 31, 2005
 With Comparative Amounts For December 31, 2004

Statement 7

Assets	<u>2005</u>	<u>2004</u>
Cash and investments	\$239,680	\$210,742
Accounts receivable	-	3,178
Taxes receivable:		
Delinquent	<u>62,114</u>	<u>64,976</u>
 Total assets	 <u><u>\$301,794</u></u>	 <u><u>\$278,896</u></u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$3,686	\$6,450
Deferred revenue	<u>62,114</u>	<u>64,976</u>
Total liabilities	<u><u>65,800</u></u>	<u><u>71,426</u></u>
 Fund balance:		
Unreserved:		
Designated	<u>235,994</u>	<u>207,470</u>
 Total liabilities and fund balance	 <u><u>\$301,794</u></u>	 <u><u>\$278,896</u></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, 2005

With Comparative Amounts For The Year Ended December 31, 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Property taxes	\$156,597	\$168,727
Intergovernmental	1,773	167
Investment income	6,720	1,721
Other	-	3,485
Total revenues	<u>165,090</u>	<u>174,100</u>
Expenditures:		
Current:		
Professional services:		
Salary and benefits	79,168	75,581
Secretarial services	2,150	1,838
Accounting/audit	14,998	14,288
Dues	3,284	3,229
Equipment	564	3,109
Insurance	8,789	8,708
Legal	7,256	9,005
Manager per diems and expenses	13,953	13,414
Office supplies and other	2,775	956
Rent	3,629	2,372
Total expenditures	<u>136,566</u>	<u>132,500</u>
Revenues over expenditures	28,524	41,600
Fund balance - January 1	<u>207,470</u>	<u>165,870</u>
Fund balance - December 31	<u>\$235,994</u>	<u>\$207,470</u>

SOUTH WASHINGTON WATERSHED DISTRICT
PLANNING AND IMPLEMENTATION FUND
COMPARATIVE BALANCE SHEET
December 31, 2005
With Comparative Amounts For December 31, 2004

Statement 9

	<u>2005</u>	<u>2004</u>
Assets		
Cash and investments	\$5,011,831	\$3,583,412
Taxes receivable - due from county	<u>52,114</u>	<u>102,300</u>
Total assets	<u><u>\$5,063,945</u></u>	<u><u>\$3,685,712</u></u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$132,533	\$114,611
Due to other governmental units	<u>-</u>	<u>1,581</u>
Total liabilities	<u>132,533</u>	<u>116,192</u>
Fund balance:		
Unreserved:		
Designated	<u>4,931,412</u>	<u>3,569,520</u>
Total liabilities and fund balance	<u><u>\$5,063,945</u></u>	<u><u>\$3,685,712</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
PLANNING AND IMPLEMENTATION FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2005
With Comparative Amounts For The Year Ended December 31, 2004

Statement 10

	<u>2005</u>	<u>2004</u>
Revenues:		
Property taxes	\$339,559	\$459,122
Stormwater utility fee	1,446,987	1,476,476
Intergovernmental	27,405	250,000
Investment income	107,740	27,420
Other	8,749	6,240
Total revenues	<u>1,930,440</u>	<u>2,219,258</u>
Expenditures:		
Current:		
Professional services:		
Legal	4,778	9,934
Engineering	182,166	286,979
Projects and studies	303,098	591,962
Capital outlay:		
Land acquisition	-	44,086
Infrastructure	78,506	308,766
Total expenditures	<u>568,548</u>	<u>1,241,727</u>
Revenues over expenditures	1,361,892	977,531
Fund balance - January 1	<u>3,569,520</u>	<u>2,591,989</u>
Fund balance - December 31	<u><u>\$4,931,412</u></u>	<u><u>\$3,569,520</u></u>

SOUTH WASHINGTON WATERSHED DISTRICT
DEBT SERVICE FUND
COMPARATIVE BALANCE SHEET
 December 31, 2005
 With Comparative Amounts For December 31, 2004

Statement 11

Assets	<u>2005</u>	<u>2004</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, 2005
With Comparative Amounts For The Year Ended December 31, 2004

Statement 12

	<u>2005</u>	<u>2004</u>
Revenues:		
Stormwater utility fee	<u>\$547,763</u>	<u>\$546,908</u>
Expenditures:		
Debt service:		
Principal	320,000	310,000
Interest	<u>227,763</u>	<u>236,908</u>
Total expenditures	<u>547,763</u>	<u>546,908</u>
Revenues 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>

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SUPPLEMENTARY FINANCIAL INFORMATION

SOUTH WASHINGTON WATERSHED DISTRICT
COMBINED SCHEDULE OF INDEBTEDNESS
December 31, 2005

	<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 1/1/2005	2005		Payable 12/31/2005	Principal Due In 2006	Interest Due In 2006	Interest Payable to Maturity
Original Issue	Payments		Issued	Payments				
\$5,875,000	\$575,000	\$5,300,000	\$ -	\$320,000	\$4,980,000	\$330,000	\$217,193	\$1,516,861

SOUTH WASHINGTON WATERSHED DISTRICT
DEBT SERVICE PAYMENTS TO MATURITY
GENERAL OBLIGATION BONDS
December 31, 2005

Exhibit 2

Payments to maturity:	G.O. Bonds of 2002		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$330,000	\$217,193	\$547,193
2007	340,000	204,953	544,953
2008	350,000	191,060	541,060
2009	365,000	176,041	541,041
2010	385,000	159,911	544,911
2011	400,000	142,638	542,638
2012	415,000	124,296	539,296
2013	435,000	104,741	539,741
2014	455,000	83,821	538,821
2015	480,000	61,495	541,495
2016	500,000	37,850	537,850
2017	525,000	12,862	537,862
Totals	<u>\$4,980,000</u>	<u>\$1,516,861</u>	<u>\$6,496,861</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>
Taxable valuations:			
Real estate		\$76,866,300	\$66,408,965
Personal property		1,032,773	982,749
Total		<u>77,899,073</u>	<u>67,391,714</u>
Tax increment captured		(1,590,818)	(1,277,623)
Fiscal disparities:			
Distribution		7,452,941	6,861,072
Contribution		<u>(4,721,321)</u>	<u>(4,331,097)</u>
Totals		<u><u>\$79,039,875</u></u>	<u><u>\$68,644,066</u></u>
	2005/2006	2004/2005	2003/2004
	Certified Levy <u> </u>	Certified Levy <u> </u>	Certified Levy <u> </u>
Taxes levied:			
Administration levy	\$182,108	\$168,550	\$172,854
Management plan implementation levy	<u>2,098,840</u>	<u>2,605,462</u>	<u>470,353</u>
Total	<u><u>\$2,280,948</u></u>	<u><u>\$2,774,012</u></u>	<u><u>\$643,207</u></u>

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SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING BALANCE SHEET
 December 31, 2005
 With Comparative Totals For December 31, 2004

	200	201	203	205
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update
Assets				
Cash and investments	\$113,640	\$153,382	\$147,675	\$250,324
Taxes receivable - due from county	-	-	-	-
Total assets	\$113,640	\$153,382	\$147,675	\$250,324
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ -	\$19,604	\$1,249	\$40,174
Due to other governmental units	-	-	-	-
Total liabilities	0	19,604	1,249	40,174
Fund balance (deficit):				
Unreserved:				
Designated	113,640	133,778	146,426	210,150
Total liabilities and fund balance	\$113,640	\$153,382	\$147,675	\$250,324

SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING BALANCE SHEET
December 31, 2005
With Comparative Totals For December 31, 2004

	206	210	310	311
	Development Reviews Programs	Stormwater Utility Administration	Lake Assessment Studies	Greenways
Assets				
Cash and investments	\$93,606	(\$92,455)	\$175,645	\$170,982
Taxes receivable - due from county	-	-	-	-
Total assets	<u>\$93,606</u>	<u>(\$92,455)</u>	<u>\$175,645</u>	<u>\$170,982</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$2,779	\$153	\$624	\$ -
Due to other governmental units	-	-	-	-
Total liabilities	<u>2,779</u>	<u>153</u>	<u>624</u>	<u>0</u>
Fund balance (deficit):				
Unreserved:				
Designated	90,827	(92,608)	175,021	170,982
Total liabilities and fund balance	<u>\$93,606</u>	<u>(\$92,455)</u>	<u>\$175,645</u>	<u>\$170,982</u>

312	313	315	317	319	322	Totals	
Infiltration	Regional Facility	Groundwater Protection and Monitoring	Watershed Hydrologic/ Hydraulic Modeling	East Mississippi	Overflow	2005	2004
\$184,036	\$1,324,043	\$119,524	\$13,417	\$65,510	\$2,292,502	\$5,011,831	\$3,583,412
-	52,114	-	-	-	-	52,114	102,300
<u>\$184,036</u>	<u>\$1,376,157</u>	<u>\$119,524</u>	<u>\$13,417</u>	<u>\$65,510</u>	<u>\$2,292,502</u>	<u>\$5,063,945</u>	<u>\$3,685,712</u>
\$1,784	\$31	\$15,640	\$50,495	\$ -	\$ -	\$132,533	\$114,611
-	-	-	-	-	-	-	1,581
<u>1,784</u>	<u>31</u>	<u>15,640</u>	<u>50,495</u>	<u>0</u>	<u>0</u>	<u>132,533</u>	<u>116,192</u>
182,252	1,376,126	103,884	(37,078)	65,510	2,292,502	4,931,412	3,569,520
<u>\$184,036</u>	<u>\$1,376,157</u>	<u>\$119,524</u>	<u>\$13,417</u>	<u>\$65,510</u>	<u>\$2,292,502</u>	<u>\$5,063,945</u>	<u>\$3,685,712</u>

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SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2005
With Comparative Totals For The Year Ended December 31, 2004

	200	201	203	205	206
	Quality / Quantity Monitoring Program	Infiltration	Information and Education	SWWD Plan and Rules Update	Development Reviews Programs
Revenues:					
Property taxes	\$84,899	\$76,927	\$26,014	\$47,848	\$57,417
Stormwater utility fee	-	-	-	-	-
Intergovernmental:					
Market value homestead credit	961	871	295	542	650
Land acquisition grant	-	-	-	-	-
Investment income	3,643	3,301	1,116	2,053	2,464
Miscellaneous	-	-	-	-	-
Total revenues	89,503	81,099	27,425	50,443	60,531
Expenditures:					
Current:					
Legal	-	-	-	-	-
Engineering	-	61,338	1,460	81,139	20,007
Projects and studies	69,651	-	3,500	7,089	-
Capital outlay:					
Land acquisition	-	-	-	-	-
Infrastructure	-	-	-	-	-
Total expenditures	69,651	61,338	4,960	88,228	20,007
Revenues over (under) expenditures	19,852	19,761	22,465	(37,785)	40,524
Fund balance - January 1	93,788	114,017	123,961	247,935	50,303
Fund balance - December 31	\$113,640	\$133,778	\$146,426	\$210,150	\$90,827

SOUTH WASHINGTON WATERSHED DISTRICT
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2005
With Comparative Totals For The Year Ended December 31, 2004

	210	310	311	312	313
	Stormwater Utility Administration	Lake Assessment Studies	Greenways	Infiltration	Regional Facility
Revenues:					
Property taxes	\$46,454	\$ -	\$ -	\$ -	\$ -
Stormwater utility fee	-	30,277	48,801	52,362	214,345
Intergovernmental:					
Market value homestead credit	526	358	576	619	9,001
Land acquisition grant	-	-	-	-	-
Investment income	1,993	1,356	2,185	2,344	37,985
Miscellaneous	-	-	-	-	8,749
Total revenues	48,973	31,991	51,562	55,325	270,080
Expenditures:					
Current:					
Legal	153	-	-	-	4,472
Engineering	15,284	-	-	-	-
Projects and studies	16,131	5,213	-	3,534	898
Capital outlay:					
Land acquisition	-	-	-	-	-
Infrastructure	-	-	-	-	-
Total expenditures	31,568	5,213	0	3,534	5,370
Revenues over (under) expenditures	17,405	26,778	51,562	51,791	264,710
Fund balance - January 1	(110,013)	148,243	119,420	130,461	1,111,416
Fund balance - December 31	(\$92,608)	\$175,021	\$170,982	\$182,252	\$1,376,126

315 Groundwater Protection and Monitoring	317 Watershed Hydrologic/ Hydraulic Modeling	319 East Mississippi	322 Overflow	Intra Account Elimination	Totals	
					2005	2004
\$ -	\$ -	\$ -	\$ -	\$ -	\$339,559	\$459,122
66,789	24,044	-	1,010,369	-	1,446,987	1,476,476
789	284	-	11,933	-	27,405	-
-	-	-	-	-	-	250,000
2,990	1,076	-	45,234	-	107,740	27,420
-	-	-	-	-	8,749	6,240
<u>70,568</u>	<u>25,404</u>	<u>0</u>	<u>1,067,536</u>	<u>0</u>	<u>1,930,440</u>	<u>2,219,258</u>
-	-	-	153	-	4,778	9,934
-	-	-	2,938	-	182,166	286,979
15,640	180,242	-	1,200	-	303,098	591,962
-	-	-	-	-	-	44,086
-	-	-	78,506	-	78,506	308,766
<u>15,640</u>	<u>180,242</u>	<u>0</u>	<u>82,797</u>	<u>0</u>	<u>568,548</u>	<u>1,241,727</u>
54,928	(154,838)	0	984,739	0	1,361,892	977,531
48,956	117,760	65,510	1,307,763	-	3,569,520	2,591,989
<u>\$103,884</u>	<u>(\$37,078)</u>	<u>\$65,510</u>	<u>\$2,292,502</u>	<u>\$0</u>	<u>\$4,931,412</u>	<u>\$3,569,520</u>

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OTHER REPORTS

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Certified Public Accountants and Consultants

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 basic financial statements of the South Washington Watershed District, as of and for the year ended December 31, 2005 and have issued our report thereon dated April 6, 2006.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the above listed categories except for miscellaneous provisions and tax increment financing as they do not pertain to the District.

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’s Board of Managers and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

April 6, 2006

4810 White Bear Parkway	White Bear Lake, Minnesota	55110	651 426 7000	651 426 5004 Fax	www.hlbr.com
1303 South Frontage Road	Suite 13 Hastings, Minnesota	55033	651 480 4990	651 426 5004 Fax	

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Certified Public Accountants and Consultants

AUDIT MANAGEMENT LETTER

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

REQUIRED COMMUNICATIONS

We have audited the financial statements of the South Washington Watershed District for the year ended December 31, 2005, and have issued our report thereon dated April 6, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 13, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the South Washington Watershed District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the South Washington Watershed District are described in Note 1 to the financial statements. For 2005, the South Washington Watershed District adopted GASB Statement No. 40, related to cash and investments, which revised the footnote disclosure. We noted no transactions entered into by the South Washington Watershed District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

4810 White Bear Parkway	White Bear Lake, Minnesota	55110	651 426 7000	651 426 5004 Fax	www.hlbtr.com
1303 South Frontage Road	Suite 13 Hastings, Minnesota	55033	651 480 4990	651 426 5004 Fax	

REQUIRED COMMUNICATIONS

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. For the South Washington Watershed District, accounting estimates include depreciation on capital assets.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the South Washington Watershed District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the South Washington Watershed District, either individually or in the aggregate, indicate matters that could have a significant effect on the South Washington Watershed District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the South Washington Watershed District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Honorable Managers
South Washington Watershed District
April 6, 2006
Page 3

REQUIRED COMMUNICATIONS

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Closing

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



HLB TAUTGES REPATH, LTD.
White Bear Lake, Minnesota

April 6, 2006