

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2005

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**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT  
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## **INTRODUCTORY SECTION**

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**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT  
ORGANIZATION  
December 31, 2005**

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
John T. Lynch	President	September 22, 2008
Kenneth M. Banta	Vice-President	September 23, 2008
Ms. Jackie A. Anderson	Treasurer	September 22, 2006
Richard P. Damchik	Secretary	September 27, 2007
Dennis G. Larson	Manager	September 22, 2008

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## **FINANCIAL SECTION**

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Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Comfort Lake-Forest Lake Watershed District
Forest Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of the Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2005 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake 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.

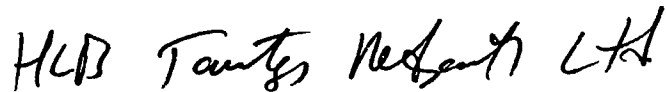
The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information on pages 28 through 29, is not 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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measurement and presentation of the required 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 Comfort Lake-Forest Lake Watershed District's basic financial statements. The introductory section, 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 supplementary financial information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion it.

A handwritten signature in black ink that reads "HLB Tautges Redpath Ltd." The signature is written in a cursive, slightly slanted style.

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 14, 2006

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## **BASIC FINANCIAL STATEMENTS**

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
STATEMENT OF NET ASSETS  
December 31, 2005

**Statement 1**

	Governmental Activities	
	2005	2004
Assets:		
Cash and investments	\$182,620	\$156,040
Property taxes receivable:		
Delinquent	7,086	5,760
Due from county	4,970	2,515
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>204,113</u>	<u>173,752</u>
Liabilities:		
Accounts payable	<u>42,887</u>	<u>29,229</u>
Net assets:		
Invested in capital assets, net of related debt	9,437	9,437
Unrestricted	<u>151,789</u>	<u>135,086</u>
Total net assets	<u><u>\$161,226</u></u>	<u><u>\$144,523</u></u>

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



**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2005

**Statement 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2005</u>	<u>2004</u>
Governmental activities:						
General government	\$80,355	\$ -	\$ -	\$ -	(\$80,355)	(\$99,610)
Programs	-	-	-	-	-	(10,600)
Projects	163,156	-	-	-	(163,156)	(176,848)
Total governmental activities	<u>\$243,511</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(243,511)</u>	<u>(287,058)</u>
General revenues:						
Property taxes					241,790	233,174
Grants and contributions not restricted to specific programs					16,128	13,641
Unrestricted investment earnings					2,296	1,194
Total general revenues					<u>260,214</u>	<u>248,009</u>
Change in net assets					16,703	(39,049)
Net assets - beginning					<u>144,523</u>	<u>183,572</u>
Net assets - ending					<u>\$161,226</u>	<u>\$144,523</u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2005

**Statement 3**

	General	Survey and Data Acquisition	Total	
			Governmental Funds	
			2005	2004
<b>Assets</b>				
Cash and investments	\$179,754	\$2,866	\$182,620	\$156,040
Property taxes receivable:				
Delinquent	7,086	-	7,086	5,760
Due from county	4,970	-	4,970	2,515
Total assets	<u>\$191,810</u>	<u>\$2,866</u>	<u>\$194,676</u>	<u>\$164,315</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$42,887	\$ -	\$42,887	\$29,229
Deferred revenue	7,086	-	7,086	5,760
Total liabilities	<u>49,973</u>	<u>0</u>	<u>49,973</u>	<u>34,989</u>
<b>Fund balances:</b>				
Undesignated:				
General Fund	141,837	-	141,837	126,460
Special Revenue Funds	-	2,866	2,866	2,866
Total fund balances	<u>141,837</u>	<u>2,866</u>	<u>144,703</u>	<u>129,326</u>
Total liabilities and fund balances	<u>\$191,810</u>	<u>\$2,866</u>	<u>\$194,676</u>	<u>\$164,315</u>
Fund balance reported above			\$144,703	\$129,326
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.			9,437	9,437
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			<u>7,086</u>	<u>5,760</u>
Net assets of governmental activities			<u>\$161,226</u>	<u>\$144,523</u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 4**

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2005

	General	Survey and Data Acquisition	Total	
			Governmental Funds	
			2005	2004
Revenues:				
Property taxes	\$240,464	\$ -	\$240,464	\$233,191
Intergovernmental	16,128	-	16,128	13,641
Investment income	2,296	-	2,296	1,194
Total revenues	<u>258,888</u>	<u>0</u>	<u>258,888</u>	<u>248,026</u>
Expenditures:				
Current:				
General government	80,355	-	80,355	99,610
Programs	-	-	-	10,600
Projects	163,156	-	163,156	176,848
Total expenditures	<u>243,511</u>	<u>0</u>	<u>243,511</u>	<u>287,058</u>
Revenues over (under) expenditures	15,377	0	15,377	(39,032)
Fund balance - January 1	<u>126,460</u>	<u>2,866</u>	<u>129,326</u>	<u>168,358</u>
Fund balance - December 31	<u><u>\$141,837</u></u>	<u><u>\$2,866</u></u>	<u><u>\$144,703</u></u>	<u><u>\$129,326</u></u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 5**

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS

For The Year Ended December 31, 2005

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	<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)	\$15,377	(\$39,032)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
General property taxes deferred revenues	<u>1,326</u>	<u>(17)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$16,703</u></u>	<u><u>(\$39,049)</u></u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Comfort Lake-Forest Lake Watershed District conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

The Comfort Lake-Forest Lake Watershed District was created in 1999 under the provisions of Minnesota Statutes and began operations in 2000. The District is operated by a five member Board of Managers appointed by the Washington and Chisago Boards of Commissioners for three-year terms.

The District's policy is to include in the financial statements all funds, account groups, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Survey and Data Acquisition Fund - is established to account for survey and data acquisition expenses financed by property taxes levied specifically for this purpose.

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.

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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

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

**D. BUDGETS AND BUDGETARY ACCOUNTING**

The Board of Managers adopts a budget for the general government operations of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. 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 Board of Managers annually adopts a tax levy for collection during the calendar year. The District's records are maintained on a calendar year ending December 31.

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 District prepares a revenue and expenditure budget for the District's General Fund only. Encumbrance accounting, under which purchase orders, contracts, and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

**E. CASH AND INVESTMENTS**

Cash 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.

In accordance with the provisions of GASB No. 31, the District reports investments at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date. Also in accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

**F. PROPERTY TAX REVENUE RECOGNITION**

The Board of Managers annually adopts a tax levy and certifies it to the County in October (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as 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.

**G. INVENTORIES**

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

**H. MARKET VALUE HOMESTEAD CREDIT**

Property taxes and homestead property (as defined by State Statutes) are partially reduced by market value credit aid. 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.

**I. 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.



**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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**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. The District has elected not to report infrastructure assets acquired in years prior to 2004.

The District did not acquire any infrastructure assets during 2005.

**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.

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

**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. 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 BALANCE 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 balance – 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 (\$1,326) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2004	(\$5,760)
At December 31, 2005	<u>7,086</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>\$1,326</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:

**COMFORT LAKE-FOREST LAKE  
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- 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;
- 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 \$182,620 and the bank balance was \$182,823. 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.

**COMFORT LAKE-FOREST LAKE  
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December 31, 2005

- 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.

**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 AND DEFERRED REVENUE**

There are no significant receivables balances not expected to be collected within one year of December 31, 2005.

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>\$7,086</u>	<u>\$ -</u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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**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	\$9,437	\$ -	\$ -	\$9,437

**Note 5 CONTINGENCIES**

The District attorney has indicated that existing and pending lawsuits, claims and other actions in which the District is a defendant are either covered by insurance, of an immaterial amount, or in the judgment of the District attorney, remotely recoverable by the plaintiff.

**Note 6 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; and natural disasters. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the general purpose financial statements.

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 6**

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

	2005			Variance with Final Budget	2004
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues:					
Property taxes	\$241,172	\$241,172	\$240,464	(\$708)	\$233,191
Intergovernmental	16,128	16,128	16,128	-	13,641
Investment income	-	-	2,296	2,296	1,194
Total revenues	<u>257,300</u>	<u>257,300</u>	<u>258,888</u>	<u>1,588</u>	<u>248,026</u>
Expenditures:					
Current:					
Manager per diem and administrative	3,600	3,600	3,701	(101)	4,218
Dues and subscriptions	2,000	2,000	2,000	-	2,042
Office expense	1,200	1,200	421	779	1,420
Insurance	7,800	7,800	5,970	1,830	8,545
Accounting and auditing	8,300	8,300	8,119	181	7,050
Legal and administrative services	71,000	71,000	60,144	10,856	61,202
General engineering services	46,800	46,800	45,397	1,403	15,133
Projects	122,050	122,050	117,759	4,291	176,848
Contingencies	25,000	25,000	-	25,000	-
Total expenditures	<u>287,750</u>	<u>287,750</u>	<u>243,511</u>	<u>44,239</u>	<u>276,458</u>
Revenue over (under) expenditures	<u>(\$30,450)</u>	<u>(\$30,450)</u>	15,377	<u>\$45,827</u>	(28,432)
Fund balance - January 1			<u>126,460</u>		<u>154,892</u>
Fund balance - December 31			<u>\$141,837</u>		<u>\$126,460</u>



**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2005

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**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**

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 7**

GENERAL FUND  
BALANCE SHEET

December 31, 2005

With Comparative Amounts For December 31, 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash and investments	\$179,754	\$153,174
Property taxes receivable:		
Delinquent	7,086	5,760
Due from county	4,970	2,515
Total assets	<u>\$191,810</u>	<u>\$161,449</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$42,887	\$29,229
Deferred revenue	7,086	5,760
Total liabilities	<u>49,973</u>	<u>34,989</u>
Fund balance:		
Unreserved:		
Undesignated	<u>141,837</u>	<u>126,460</u>
Total liabilities and fund balance	<u>\$191,810</u>	<u>\$161,449</u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 8**

GENERAL FUND

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	\$240,464	\$233,191
Intergovernmental	16,128	13,641
Investment income	2,296	1,194
Total revenues	<u>258,888</u>	<u>248,026</u>
Expenditures:		
Current:		
Manager per diem and administrative	3,701	4,218
Dues and subscriptions	2,000	2,042
Office expense	421	1,420
Insurance	5,970	8,545
Accounting and auditing	8,119	7,050
Legal and administrative services	60,144	61,202
General engineering services	45,397	15,133
Projects	117,759	176,848
Total expenditures	<u>243,511</u>	<u>276,458</u>
Revenue over (under) expenditures	15,377	(28,432)
Fund balance - January 1	<u>126,460</u>	<u>154,892</u>
Fund balance - December 31	<u><u>\$141,837</u></u>	<u><u>\$126,460</u></u>

**COMFORT LAKE-FOREST LAKE**  
**WATERSHED DISTRICT**  
 SURVEY AND DATA ACQUISITION FUND  
 BALANCE SHEET  
 December 31, 2005  
 With Comparative Amounts For December 31, 2004

**Statement 9**

	<u>2005</u>	<u>2004</u>
Assets		
Cash and investments	<u>\$2,866</u>	<u>\$2,866</u>
Liabilities and Fund Balance		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund balance:		
Unreserved:		
Undesignated	<u>2,866</u>	<u>2,866</u>
Total liabilities and fund balance	<u>\$2,866</u>	<u>\$2,866</u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 10**

**SURVEY AND DATA ACQUISITION FUND**

**STATEMENT OF REVENUE, 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>
Revenue	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Current:		
Programs	<u>-</u>	<u>10,600</u>
Revenue over (under) expenditures	0	(10,600)
Fund balance - January 1	<u>2,866</u>	<u>13,466</u>
Fund balance - December 31	<u><u>\$2,866</u></u>	<u><u>\$2,866</u></u>

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## **SUPPLEMENTARY INFORMATION**

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT  
MARKET VALUES BY WATERSHED**

**For Taxes Payable in 2005**

Watershed	Taxable Market Value			Referendum Market Value
	Real	Personal	Total	
10 Carnelian Marine	\$604,582,300	\$2,474,000	\$607,056,300	\$553,089,850
14 South Washington	6,982,192,700	51,706,900	7,033,899,600	6,968,360,900
34 Ramsey-Washington Metro	2,298,028,900	1,633,200	2,299,662,100	2,287,932,400
38 Rice Creek	2,548,003,300	19,973,500	2,567,976,800	2,511,368,850
54 Valley Branch	2,937,565,500	28,125,200	2,965,690,700	2,902,490,600
69 Brown's Creek	1,304,155,600	4,727,700	1,308,883,300	1,279,179,100
71 Comfort Lake-Forest Lake	1,217,066,000	11,083,900	1,228,149,900	1,197,852,800
County Total	<u>\$17,891,594,300</u>	<u>\$119,724,400</u>	<u>\$18,011,318,700</u>	<u>\$17,700,274,500</u>

Source: Washington County Taxpayer Services - Property Tax - Tax Accounting

**For Taxes Payable in 2004**

Watershed	Taxable Market Value			Referendum Market Value
	Real	Personal	Total	
10 Carnelian Marine	\$514,895,000	\$2,676,600	\$517,571,600	\$472,952,900
14 South Washington	6,021,388,000	49,204,700	6,070,592,700	6,002,028,300
34 Ramsey-Washington Metro	2,054,915,500	1,620,600	2,056,536,100	2,049,854,100
38 Rice Creek	2,146,246,800	19,034,600	2,165,281,400	2,118,250,250
54 Valley Branch	2,577,456,900	21,304,800	2,598,761,700	2,542,921,700
69 Brown's Creek	1,114,280,500	4,602,000	1,118,882,500	1,089,568,900
71 Comfort Lake-Forest Lake	1,031,250,900	10,659,000	1,041,909,900	1,016,349,600
County Total	<u>\$15,460,433,600</u>	<u>\$109,102,300</u>	<u>\$15,569,535,900</u>	<u>\$15,291,925,750</u>

Source: Washington County Taxpayer Services - Property Tax - Tax Accounting

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$6,094,848	\$30,943	\$6,125,791	\$ -	\$ -	\$25,846	\$6,099,945	\$219,060	\$6,319,005
76,866,300	1,032,773	77,899,073	-	1,590,818	4,721,321	71,586,934	7,452,941	79,039,875
28,228,126	32,664	28,260,790	-	1,086,240	3,468,738	23,705,812	2,672,515	26,378,327
27,192,444	396,726	27,589,170	2,414	832,975	945,549	25,808,232	1,746,754	27,554,986
31,761,259	510,398	32,271,657	1,645	440,843	1,623,751	30,205,418	2,307,450	32,512,868
14,655,009	92,807	14,747,816	3,193	1,166,802	1,011,950	12,565,871	838,291	13,404,162
13,739,861	220,928	13,960,789	2,702	685,135	1,088,203	12,184,749	1,011,172	13,195,921
<u>\$198,537,847</u>	<u>\$2,317,239</u>	<u>\$200,855,086</u>	<u>\$9,954</u>	<u>\$5,802,813</u>	<u>\$12,885,358</u>	<u>\$182,156,961</u>	<u>\$16,248,183</u>	<u>\$198,405,144</u>

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$5,165,960	\$33,477	\$5,199,437	\$ -	\$ -	\$16,083	\$5,183,354	\$202,422	\$5,385,776
66,408,965	982,749	67,391,714	-	1,277,623	4,331,097	61,782,994	6,861,072	68,644,066
25,529,911	32,412	25,562,323	-	1,592,824	3,168,293	20,801,206	2,705,408	23,506,614
22,861,602	378,005	23,239,607	2,475	719,342	801,285	21,716,505	1,616,970	23,333,475
27,952,921	404,350	28,357,271	1,653	622,199	1,416,469	26,316,950	2,259,558	28,576,508
12,566,139	90,293	12,656,432	3,233	1,071,744	883,591	10,697,864	743,808	11,441,672
11,623,310	212,430	11,835,740	2,787	535,710	927,150	10,370,093	940,712	11,310,805
<u>\$172,108,808</u>	<u>\$2,133,716</u>	<u>\$174,242,524</u>	<u>\$10,148</u>	<u>\$5,819,442</u>	<u>\$11,543,968</u>	<u>\$156,868,966</u>	<u>\$15,329,950</u>	<u>\$172,198,916</u>

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## **OTHER REPORTS**

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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

**REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE AUDIT  
GUIDE FOR LOCAL GOVERNMENT**

To the Board of Managers  
Comfort Lake-Forest Lake Watershed District  
Forest Lake, Minnesota

We have audited the financial statements of the Comfort Lake-Forest Lake Watershed District, as of and for the year ended December 31, 2005 and have issued our report thereon dated April 14, 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 main 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 listed categories except miscellaneous provisions and tax increment financing because these are not applicable to the Comfort Lake-Forest Lake Watershed District.

The results of our tests indicate that for the items tested, the Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake Watershed District and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 14, 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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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

## AUDIT MANAGEMENT LETTER

To the Board of Managers  
Comfort Lake-Forest Lake Watershed District  
Forest Lake, Minnesota

### REQUIRED COMMUNICATIONS

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We have audited the financial statements of the Comfort Lake-Forest Lake Watershed District for the year ended December 31, 2005, and have issued our report thereon dated April 14, 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 Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake Watershed District are described in Note 1 to the financial statements. For 2005, the Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake 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**

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### **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.

### **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 Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake Watershed District, either individually or in the aggregate, indicate matters that could have a significant effect on the Comfort Lake-Forest Lake 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 Comfort Lake-Forest Lake 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  
Comfort Lake-Forest Lake Watershed District  
April 14, 2006  
Page 3

## REQUIRED COMMUNICATIONS

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### **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 Comfort Lake-Forest Lake Watershed District and management and is not intended to be and should not be used by anyone other than these specified parties.

*HLB Tautges Repath Ltd.*

HLB TAUTGES REPATH, LTD.  
White Bear Lake, Minnesota

April 14, 2006