



Annual Financial Report

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Comfort Lake – Forest Lake Watershed District

Forest Lake, Minnesota

For the year ended December 31, 2023



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 Forest Lake, Minnesota
 Annual Financial Report
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INTRODUCTORY SECTION

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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DECEMBER 31, 2023

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Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Board of Managers and Appointed Officials
For the Year Ended December 31, 2023

BOARD OF MANAGERS

| <u>Name</u> | <u>Title</u> |
|--------------------|----------------|
| Stephen Schmaltz | President |
| Christopher Loth | Vice President |
| Jackie A. Anderson | Treasurer |
| Dave Bakke | Secretary |
| Douglas Toavs | Manager |

APPOINTED OFFICIALS

| | |
|----------------|------------------------|
| Michael Kinney | District Administrator |
|----------------|------------------------|

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FINANCIAL SECTION

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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FOR THE YEAR ENDED
DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Comfort Lake - Forest Lake Watershed District, Minnesota (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 District as of December 31, 2023 and the respective changes in financial position and the budgetary comparison for the General fund and the Program and Project Implementation fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 15 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, starting on page 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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Management's Discussion and Analysis

As management of the Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2023. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year as shown in the summary of net position on the following pages. The unrestricted amount of net position may be used to meet the City's ongoing obligations to citizens and creditors.
- The District's total net position decreased as shown in the summary of changes in net assets table on the following pages. The decrease was as result of watershed project expenses in excess of current year resources and spent using loan proceeds.
- For the current fiscal year, the District's governmental funds fund balances are shown in the Financial Analysis of the District's Funds section of the MD&A. The total fund balance decreased in comparison with the prior year. This decrease was mainly due to an increase in project costs.
- The unassigned fund balance in the General fund as shown in the financial analysis of the District's funds section decreased from prior year.
- The City's total bonded debt increased during the fiscal year. The increase was a result of the Minnesota CWP Loan in 2023 as shown on the outstanding debt table.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
District's Annual Financial Report

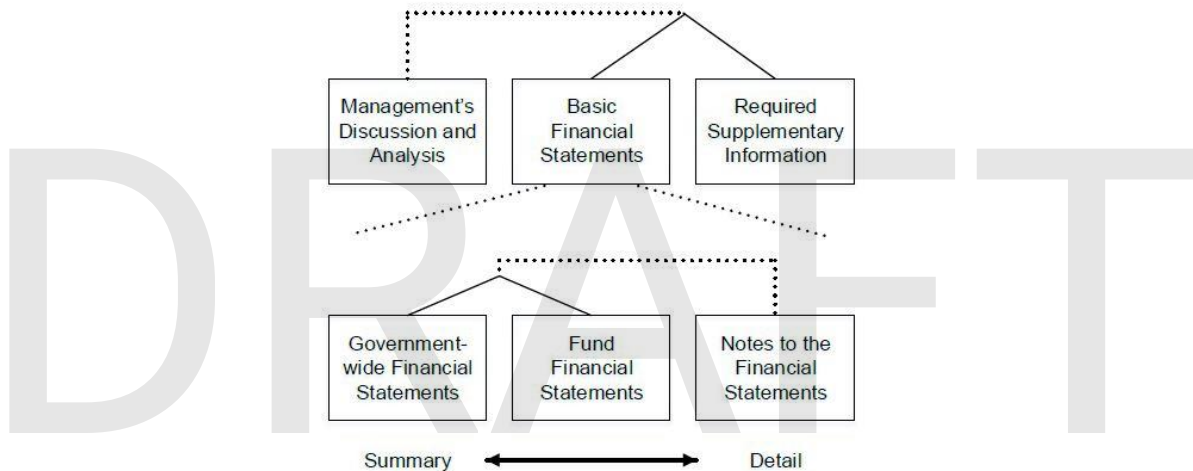


Figure 2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

| | Fund Financial Statements | |
|--|--|--|
| | Government-wide Statements | Governmental Funds |
| Scope | Entire District | The activities of the District |
| Required financial statements | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included |
| Type of deferred outflows/inflows of resources information | All deferred outflows/inflows of resources, regardless of when cash is received or paid | Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included |
| Type of inflow/out flow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter |

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District’s assets, deferred outflows or resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The governmental activities of the District include general government, program costs, and project costs.

The government-wide financial statements start on page 26 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently maintains two governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government’s near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its General fund and Program and Project Implementation fund. A budgetary comparison statement has been provided for the General fund and Program and Project Implementation fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 30 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 37 of this report.

This report also presents certain required supplementary information concerning the progress in funding its obligation to provide pensions to its employees. Required supplementary information can be found starting on page 54 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the close of the most recent fiscal year.

Comfort Lake - Forest Lake Watershed District’s Summary of Net Position

| | December 31, | | Increase (Decrease) |
|--|-----------------------|---------------------|------------------------|
| | 2023 | 2022 | |
| Assets | | | |
| Current | \$ 1,819,568 | \$ 2,546,593 | \$ (727,025) |
| Capital | 564,866 | 592,338 | (27,472) |
| Total Assets | <u>2,384,434</u> | <u>3,138,931</u> | <u>(754,497)</u> |
| Deferred Outflows of Resources | | | |
| Deferred pension resources | <u>138,203</u> | <u>323,073</u> | <u>(184,870)</u> |
| Liabilities | | | |
| Current | 670,081 | 1,372,499 | (702,418) |
| Noncurrent | <u>3,509,746</u> | <u>2,869,854</u> | <u>639,892</u> |
| Total Liabilities | <u>4,179,827</u> | <u>4,242,353</u> | <u>(62,526)</u> |
| Deferred Inflows of Resources | | | |
| Deferred pension resources | <u>132,898</u> | <u>17,176</u> | <u>115,722</u> |
| Net Position | | | |
| Net investment in capital assets | 541,806 | 545,704 | (3,898) |
| Restricted for debt service | 408,383 | 202,355 | 206,028 |
| Unrestricted | <u>(2,740,277)</u> | <u>(1,545,584)</u> | <u>(1,194,693)</u> |
| Total Net Position | <u>\$ (1,790,088)</u> | <u>\$ (797,525)</u> | <u>\$ (992,563)</u> |
| Net Position as a Percentage of Total | | | |
| Net investment in capital assets | (30.3) % | (68.4) % | |
| Restricted | (22.8) | (25.4) | |
| Unrestricted | <u>153.1</u> | <u>193.8</u> | |
| | <u>100.0</u> | <u>100.0</u> | |

An additional portion of the District’s net represents resources that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the District is able to report positive net position in net investment in capital assets and restricted, but negative balances of unrestricted net position.

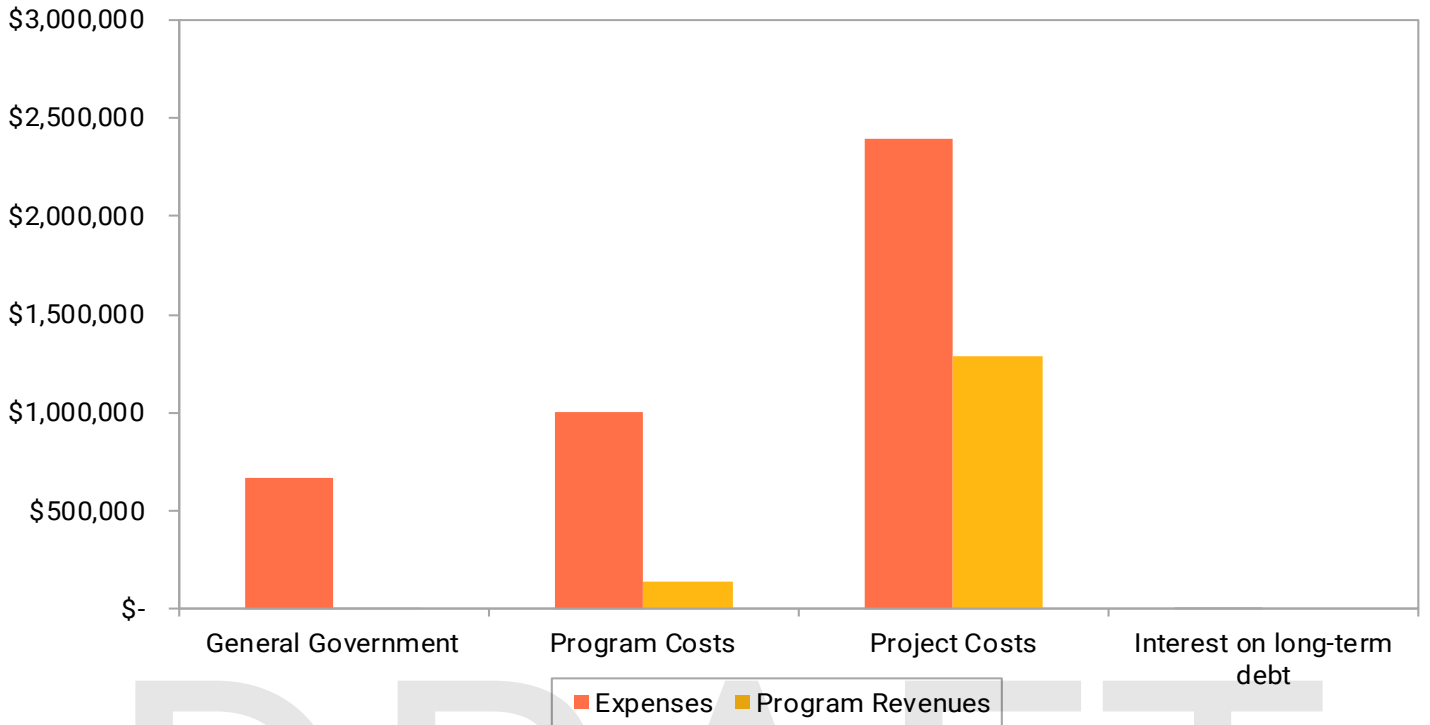
Governmental Activities. Governmental activities decreased the District’s net position as shown below. The decrease is mainly due to an increase in expenditures for project costs using loan proceeds during the year.

Comfort Lake - Forest Lake Watershed District’s Changes in Net Position

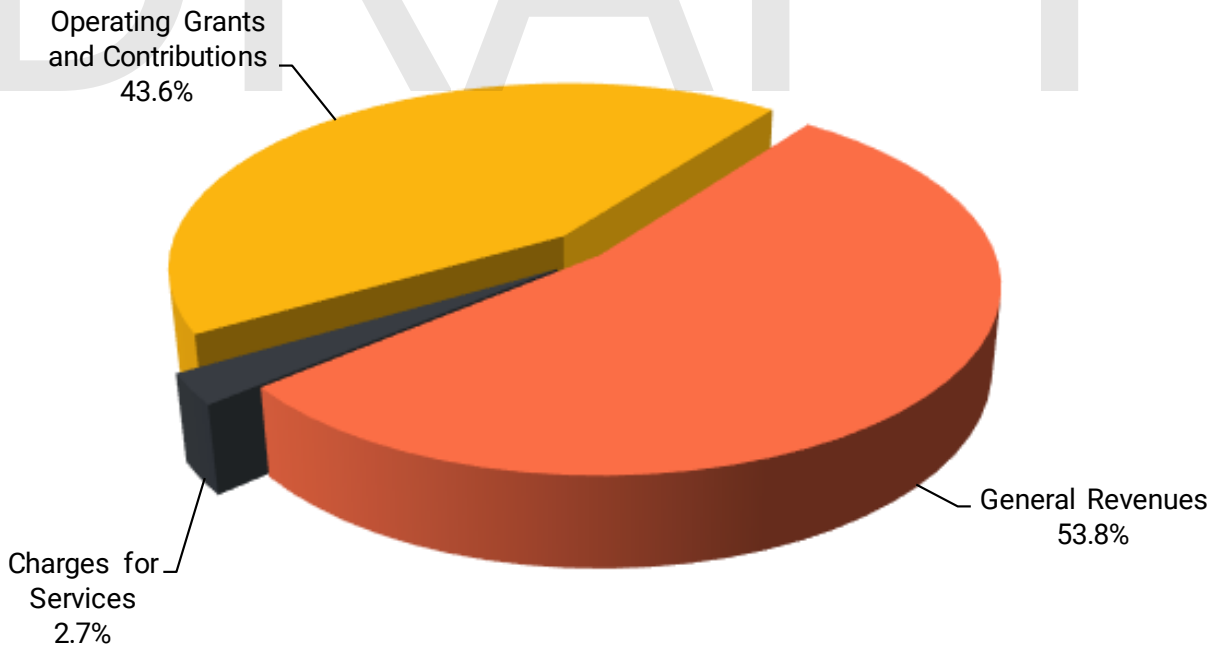
| | December 31, | | Increase (Decrease) |
|---|-----------------------|---------------------|------------------------|
| | 2023 | 2022 | |
| Revenues | | | |
| Program | | | |
| Charges for services | \$ 81,394 | \$ 37,904 | \$ 43,490 |
| Operating grants and contributions | 1,338,890 | 1,540,369 | (201,479) |
| General | | | |
| Property taxes | 1,608,720 | 1,622,829 | (14,109) |
| Grants and contributions not restricted to specific programs | 2,290 | 5,070 | (2,780) |
| Unrestricted investment earnings | 39,526 | 9,363 | 30,163 |
| Total Revenues | <u>3,070,820</u> | <u>3,215,535</u> | <u>(144,715)</u> |
| Expenses | | | |
| General government | 665,241 | 608,768 | 56,473 |
| Program costs | 998,698 | 1,131,884 | (133,186) |
| Project costs | 2,399,398 | 1,833,066 | 566,332 |
| Interest on long-term debt | 46 | 68 | (22) |
| Total Expenses | <u>4,063,383</u> | <u>3,573,786</u> | <u>489,597</u> |
| Change in Net Position | (992,563) | (358,251) | (634,312) |
| Net Position, January 1 | <u>(797,525)</u> | <u>(439,274)</u> | <u>(358,251)</u> |
| Net Position, December 31 | <u>\$ (1,790,088)</u> | <u>\$ (797,525)</u> | <u>\$ (992,563)</u> |

- Total revenues decreased \$144,715 in the current year mainly due to less operating grants and contributions received for projects during the year.
- Total expenses increased \$489,597 during the year mainly due to an increase in project costs of \$566,332 in-line with the watershed management plan.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending December 31, 2023.

| Fund Balances | General | Debt Services | Program and Project Implementation | Total | Prior Year Total | Increase/ (Decrease) |
|----------------------------|-------------------|-------------------|------------------------------------|---------------------|---------------------|----------------------|
| Nonspendable | \$ 16,371 | \$ - | \$ - | \$ 16,371 | \$ 13,902 | \$ 2,469 |
| Restricted | - | 407,393 | - | 407,393 | 201,372 | 206,021 |
| Assigned | - | - | 584,291 | 584,291 | 914,076 | (329,785) |
| Unassigned | 88,629 | - | - | 88,629 | (2,392) | 91,021 |
| Total Fund Balances | \$ 105,000 | \$ 407,393 | \$ 584,291 | \$ 1,096,684 | \$ 1,126,958 | \$ (30,274) |

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances shown above. Additional information on the District's fund balances can be found in Note 1 starting on page 37 of this report.

The *General fund* is the chief operating fund of the District. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The total unassigned fund balance as a percent of total fund expenditures is shown in the chart below along with total fund balance as a percent of total expenditures.

| General Fund Balances | Current Year Ending Balance | Prior Year Ending Balance | Increase/ (Decrease) |
|---|-----------------------------|---------------------------|----------------------|
| Nonspendable | \$ 16,371 | \$ 13,902 | \$ 2,469 |
| Unassigned | 88,629 | (2,392) | 91,021 |
| Total General Fund Balances | \$ 105,000 | \$ 11,510 | \$ 93,490 |
| General fund expenditures | \$ 539,524 | \$ 479,492 | |
| Unassigned as a percent of expenditures | 16.4% | -0.5% | |
| Total fund balance as a percent of expenditures | 19.5% | 2.4% | |

The fund balance of the District's General fund decreased during the current fiscal year as shown in the table above.

Other major governmental fund analysis is shown below:

| | December 31, 2023 | December 31, 2022 | Increase/ (Decrease) |
|--|-------------------|-------------------|----------------------|
| Debt Service fund | \$ 407,393 | \$ 201,372 | \$ 206,021 |
| <i>The Debt Service fund increase in fund balance during the year was due to current year levy and other resources exceeding current year expenditures.</i> | | | |
| Program and Project Implementation | \$ 584,291 | \$ 914,076 | \$ (329,785) |
| <i>The Program and Project Implementation fund increase in fund balance during the year was due to loan proceeds and tax revenues in excess of current year project costs.</i> | | | |

General Fund Budgetary Highlights

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|--|------------------------------|-------------------|-------------------------------|
| Revenues | \$ 263,200 | \$ 264,016 | \$ 816 |
| Expenditures | <u>476,488</u> | <u>539,524</u> | <u>(63,036)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (213,288) | (275,508) | (62,220) |
| Other financing sources | | | |
| Transfers in | <u>-</u> | <u>368,998</u> | <u>368,998</u> |
| Net Change in Fund Balances | (213,288) | 93,490 | 306,778 |
| Fund Balances, January 1 | <u>11,510</u> | <u>11,510</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ (201,778)</u> | <u>\$ 105,000</u> | <u>\$ 306,778</u> |

The District's General fund budget was amended during the year increasing expenditures \$6,000. Actual revenues had a positive budget variance with the largest positive due to interest on investment and market value agricultural credits not budgeted. Actual expenditure had a negative budget variance. The largest positive variance for expenditures was in general government (administrative costs and general engineering).

Program and Project Implementation Fund Budgetary Highlights

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|--|------------------------------|-------------------|-------------------------------|
| Revenues | \$ 4,059,363 | \$ 2,445,057 | \$ (1,614,306) |
| Expenditures | | | |
| Program costs | 1,229,137 | 993,225 | 235,912 |
| Project costs | <u>3,095,066</u> | <u>2,399,223</u> | <u>695,843</u> |
| Deficiency of Revenues Under Expenditures | <u>(264,840)</u> | <u>(947,391)</u> | <u>(682,551)</u> |
| Other Financing Sources (Uses) | | | |
| Loans issued | 1,200,000 | 986,604 | (213,396) |
| Transfers out | <u>-</u> | <u>(368,998)</u> | <u>(368,998)</u> |
| Total Other Financing Sources (Uses) | <u>1,200,000</u> | <u>617,606</u> | <u>(582,394)</u> |
| Net Change in Fund Balances | 935,160 | (329,785) | (1,264,945) |
| Fund Balances, January 1 | <u>914,076</u> | <u>914,076</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 1,849,236</u> | <u>\$ 584,291</u> | <u>\$ (1,264,945)</u> |

The District's Program and Project Implementation fund budget was not amended during the year. Actual revenues had a negative budget variance with the largest variance in grants/reimbursements for multi-year budgeting of grant revenue. Actual expenditure had a positive budget variance. The largest positive variance for expenditures was in project costs (Individual lake projects).

Comfort Lake - Forest Lake Watershed District's Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2023 is shown below. This investment in capital assets includes land and leased assets.

| | December 31, | | Increase (Decrease) |
|---|-------------------|-------------------|------------------------|
| | 2023 | 2022 | |
| Land | \$ 525,165 | \$ 525,165 | \$ - |
| Leased Building (Intangible Right to Use Asset) | 39,701 | 67,173 | (27,472) |
| Total | \$ 564,866 | \$ 592,338 | \$ (27,472) |
| Percent increase/(decrease) | | | -4.6% |

Comfort Lake - Forest Lake Watershed District's Noncurrent Liabilities

At the end of the current fiscal year, the District had debt outstanding as noted below. While all of the Districts debt have revenue streams, they are backed by the full faith and credit of the District.

| | December 31, | | Increase (Decrease) |
|------------------------------|---------------------|---------------------|------------------------|
| | 2023 | 2022 | |
| Compensated absences payable | \$ 61,378 | \$ 60,383 | \$ 995 |
| Loans payable | 2,949,998 | 2,113,394 | 836,604 |
| Lease payable | 23,060 | 46,634 | (23,574) |
| Total | \$ 3,034,436 | \$ 2,220,411 | \$ 814,025 |
| Percent increase/(decrease) | | | 36.7% |

The District's noncurrent liabilities increased during the year mainly due to the issuance of loans.

Economic Factors and Next Year's Budgets

The District goes through a multi-stage process to develop its annual budget. This first step includes an annual review of the Watershed Management Plan (WMP) and associated Implementation Schedule and Cost Table along with input from various partners and quotes from anticipated contracted professionals. After this part of the budget is complete, the Watershed District Board meets several times to consider current and projected projects, programs, staff adjustments, etc. to develop the rest of the budget.

For the 2023 fiscal year, the District completed two major water quality improvement projects: County Road 50 Iron Enhanced Sand Filter and the Sunrise River/Highway 61 Wetland Enhancement Project. The District also completed Phase 1 of the Forest Lake Alum Treatment project which entails two split-doses of alum (with the second dose planned for 2025). In 2023 District staff completed an enhanced street sweeping plan for the City of Wyoming which enabled the City of Wyoming to implement a targeted street sweeping program similar to the City of Forest Lake (a similar plan and implementation occurred for the City of Scandia, led by the Washington Conservation District and Carnelian-Marine-St. Croix WD).

The District developed a the framework for a comprehensive shoreline restoration program in 2023 which includes outreach, technical assistance, financial cost-share, and shoreline inventories. In 2023 the District completed a logo re-design, re-branding, and website update; the District also approved its first Comprehensive Education & Outreach Plan and a detailed Annual Education & Outreach Plan. The District continued to manage multiple other programs to support its mission of protecting and improving local water resources such as: permitting, aquatic invasive species prevention and management, land acquisition and management, project operations and maintenance, watershed resiliency planning, and water monitoring.

In 2024, the District will continue the programmatic initiatives described above. As it relates to projects, the District will complete the Moody Lake Capstone Project and the WJD-6 Western Tributary Wetland Enhancement Project. The District will also perform project development work on the July Ave Feedlot Project, Heath Avenue Iron Enhanced Sand Filter Project, and North Shore Circle Park Shoreline Restoration Project.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mike Kinney, Administrator, Comfort Lake - Forest Lake Watershed District, 44 Lake Street South Suite A, Forest Lake, MN 55025.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS
COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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FOR THE YEAR ENDED
DECEMBER 31, 2023

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Statement of Net Position
 December 31, 2023

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash and temporary investments | \$ 1,620,213 |
| Receivables | |
| Accounts | 25,582 |
| Taxes | 33,462 |
| Due from other governments | 123,940 |
| Prepaid items | 16,371 |
| Capital assets | |
| Nondepreciable | 525,165 |
| Depreciable, net of accumulated depreciation/amortization | 39,701 |
| Total Assets | <u>2,384,434</u> |
| | |
| Deferred Outflows of Resources | |
| Deferred pension resources | <u>138,203</u> |
| | |
| Liabilities | |
| Accounts payable | 109,442 |
| Deposits payable | 296,657 |
| Unearned revenue | 263,982 |
| Noncurrent liabilities | |
| Due within one year | |
| Long-term liabilities | 211,712 |
| Due within one year | |
| Long-term liabilities | 2,822,724 |
| Net pension liability | 475,310 |
| Total Liabilities | <u>4,179,827</u> |
| | |
| Deferred Inflows of Resources | |
| Deferred pension resources | <u>132,898</u> |
| | |
| Net Position | |
| Net investment in capital assets | 541,806 |
| Restricted for debt service | 408,383 |
| Unrestricted | <u>(2,740,277)</u> |
| Total Net Position | <u><u>\$ (1,790,088)</u></u> |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District

Forest Lake, Minnesota

Statement of Activities

For the Year Ended December 31, 2023

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) |
|--|---------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| Governmental Activities | | | | | Governmental Activities |
| General government | \$ 665,241 | \$ 1,359 | \$ - | \$ - | \$ (663,882) |
| Program costs | 998,698 | 80,035 | 56,639 | - | (862,024) |
| Project costs | 2,399,398 | - | 1,282,251 | - | (1,117,147) |
| Interest on long-term debt | 46 | - | - | - | (46) |
| Total | \$ 4,063,383 | \$ 81,394 | \$ 1,338,890 | \$ - | (2,643,099) |
| General Revenues | | | | | |
| Property taxes | | | | | 1,608,720 |
| Grants and contributions not restricted to specific programs | | | | | 2,290 |
| Unrestricted investment earnings | | | | | 39,526 |
| Total General Revenues | | | | | <u>1,650,536</u> |
| Change in Net Position | | | | | (992,563) |
| Net Position, January 1 | | | | | <u>(797,525)</u> |
| Net Position, December 31 | | | | | <u>\$ (1,790,088)</u> |

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FUND FINANCIAL STATEMENTS

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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FOR THE YEAR ENDED
DECEMBER 31, 2023

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Balance Sheet
 Governmental Funds
 December 31, 2023

| | General | Debt Service | Program and Project Implementation | Total Governmental Funds |
|--|--------------------------|--------------------------|--|--------------------------------|
| Assets | | | | |
| Cash and temporary investments | \$ 108,703 | \$ 404,831 | \$ 1,106,679 | \$ 1,620,213 |
| Receivables | | | | |
| Accounts | - | - | 25,582 | 25,582 |
| Taxes | 12,889 | 3,552 | 17,021 | 33,462 |
| Due from other governments | - | - | 123,940 | 123,940 |
| Prepaid items | 16,371 | - | - | 16,371 |
| | <u>16,371</u> | <u>-</u> | <u>-</u> | <u>16,371</u> |
| Total Assets | <u>\$ 137,963</u> | <u>\$ 408,383</u> | <u>\$ 1,273,222</u> | <u>\$ 1,819,568</u> |
| Liabilities | | | | |
| Accounts payable | \$ 21,963 | \$ - | \$ 87,479 | \$ 109,442 |
| Deposits payable | - | - | 296,657 | 296,657 |
| Unearned revenue | - | - | 263,982 | 263,982 |
| Total Liabilities | <u>21,963</u> | <u>-</u> | <u>648,118</u> | <u>670,081</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - taxes | 11,000 | 990 | 9,598 | 21,588 |
| Unavailable revenue - permits | - | - | 31,215 | 31,215 |
| Total Deferred Inflows of Resources | <u>11,000</u> | <u>990</u> | <u>40,813</u> | <u>52,803</u> |
| Fund Balances | | | | |
| Nonspendable for | | | | |
| Prepaid items | 16,371 | - | - | 16,371 |
| Restricted for | | | | |
| Debt service | - | 407,393 | - | 407,393 |
| Assigned to | | | | |
| Water resource management plan | - | - | 584,291 | 584,291 |
| Unassigned | 88,629 | - | - | 88,629 |
| Total Fund Balances | <u>105,000</u> | <u>407,393</u> | <u>584,291</u> | <u>1,096,684</u> |
| | <u>105,000</u> | <u>407,393</u> | <u>584,291</u> | <u>1,096,684</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | <u>\$ 137,963</u> | <u>\$ 408,383</u> | <u>\$ 1,273,222</u> | <u>\$ 1,819,568</u> |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2023

Amounts reported for the governmental activities in the statement of net position are different because

| | |
|---|----------------|
| Total Fund Balances - Governmental | \$ 1,096,684 |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p> | |
| Cost of capital assets | 627,147 |
| Accumulated depreciation/amortization | (62,281) |
| <p>Noncurrent liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p> | |
| <p>Long-term liabilities at year-end consist of:</p> | |
| Compensated absences payable | (61,378) |
| Net pension liability | (475,310) |
| Lease payable | (23,060) |
| Loan payable | (2,949,998) |
| <p>Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.</p> | |
| Taxes receivable | 21,588 |
| Permit receivable | 31,215 |
| <p>Governmental funds do not report long-term amounts related to pensions.</p> | |
| Deferred outflows of pension resources | 138,203 |
| Deferred inflows of pension resources | (132,898) |
| | (132,898) |
| Total Net Position - Governmental Activities | \$ (1,790,088) |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2023

| | General | Debt Service | Program and Project Implementation | Total Governmental Funds |
|--|-------------------|-------------------|--|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 256,002 | \$ 347,020 | \$ 1,005,664 | \$ 1,608,686 |
| Intergovernmental | | | | |
| Market value agricultural credit | 355 | 481 | 1,395 | 2,231 |
| Reimbursements/grants | - | - | 1,338,574 | 1,338,574 |
| Interest on investments | 6,300 | 8,520 | 24,706 | 39,526 |
| Permit fees | - | - | 74,402 | 74,402 |
| Miscellaneous | 1,359 | - | 316 | 1,675 |
| Total Revenues | <u>264,016</u> | <u>356,021</u> | <u>2,445,057</u> | <u>3,065,094</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 515,904 | - | - | 515,904 |
| Program costs | - | - | 943,421 | 943,421 |
| Project costs | - | - | 2,399,223 | 2,399,223 |
| Current | | | | |
| Program costs | - | - | 49,804 | 49,804 |
| Debt service | | | | |
| Principal | 23,574 | 150,000 | - | 173,574 |
| Interest and other | 46 | - | - | 46 |
| Total Expenditures | <u>539,524</u> | <u>150,000</u> | <u>3,392,448</u> | <u>4,081,972</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(275,508)</u> | <u>206,021</u> | <u>(947,391)</u> | <u>(1,016,878)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 368,998 | - | - | 368,998 |
| Loans issued | - | - | 986,604 | 986,604 |
| Transfers out | - | - | (368,998) | (368,998) |
| Total Other Financing Sources (Uses) | <u>368,998</u> | <u>-</u> | <u>617,606</u> | <u>986,604</u> |
| Net Change in Fund Balances | 93,490 | 206,021 | (329,785) | (30,274) |
| Fund Balances, January 1 | <u>11,510</u> | <u>201,372</u> | <u>914,076</u> | <u>1,126,958</u> |
| Fund Balances, December 31 | <u>\$ 105,000</u> | <u>\$ 407,393</u> | <u>\$ 584,291</u> | <u>\$ 1,096,684</u> |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Reconciliation of the Statement of
 Revenues, Expenditures and Changes in Fund Balances
 to the Statement of Activities
 Governmental Funds
 For the Year Ended December 31, 2023

Amounts reported for governmental activities in the statement of activities are different because

| | |
|--|--------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ (30,274) |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p> | |
| Depreciation/amortization expense | (27,472) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p> | |
| Loan issued | (986,604) |
| Principal repayments | 150,000 |
| Retirement of lease payable | 23,574 |
| <p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p> | |
| Property taxes | 34 |
| <p>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.</p> | |
| Compensated absences payable | (995) |
| <p>Long-term pension activity is not reported in governmental funds.</p> | |
| Pension revenue | 59 |
| Pension expense | (126,518) |
| Change in Net Position - Governmental Activities | \$ (998,196) |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2023

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 258,200 | \$ 258,200 | \$ 256,002 | \$ (2,198) |
| Intergovernmental | | | | |
| Market value agricultural credit | - | - | 355 | 355 |
| Interest on investments | - | - | 6,300 | 6,300 |
| Miscellaneous | 5,000 | 5,000 | 1,359 | (3,641) |
| Total Revenues | <u>263,200</u> | <u>263,200</u> | <u>264,016</u> | <u>816</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Manager per diems and administrative | 31,900 | 31,900 | 73,811 | (41,911) |
| Engineering | 30,000 | 30,000 | 49,884 | (19,884) |
| Legal fees | 40,000 | 40,000 | 43,630 | (3,630) |
| Legal notices | 200 | 200 | 45 | 155 |
| Accounting | 49,500 | 55,500 | 59,875 | (4,375) |
| Dues and subscriptions | 7,900 | 7,900 | 6,513 | 1,387 |
| Insurance | 16,000 | 16,000 | 23,696 | (7,696) |
| Postage | 900 | 900 | 369 | 531 |
| Telephone | 11,547 | 11,547 | 9,982 | 1,565 |
| Training and seminars | 12,500 | 12,500 | 8,266 | 4,234 |
| Equipment | 3,500 | 3,500 | 4,163 | (663) |
| Other office expenses | 243,569 | 243,569 | 235,180 | 8,389 |
| Miscellaneous | - | - | 490 | (490) |
| Debt service | | | | |
| Principal | 22,972 | 22,972 | 23,574 | (602) |
| Interest and other | - | - | 46 | (46) |
| Total Expenditures | <u>470,488</u> | <u>476,488</u> | <u>539,524</u> | <u>(63,036)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (207,288) | (213,288) | (275,508) | (62,220) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 368,998 | 368,998 |
| Net Change in Fund Balances | (207,288) | (213,288) | 93,490 | 306,778 |
| Fund Balances, January 1 | 11,510 | 11,510 | 11,510 | - |
| Fund Balances, December 31 | <u>\$ (195,778)</u> | <u>\$ (201,778)</u> | <u>\$ 105,000</u> | <u>\$ 306,778</u> |

The notes to the financial statements are an integral part of this statement.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Program and Project Implementation Fund
For the Year Ended December 31, 2023

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 1,014,300 | \$ 1,014,300 | \$ 1,005,664 | \$ (8,636) |
| Intergovernmental | | | | |
| Market value agricultural credit | - | - | 1,395 | 1,395 |
| Reimbursements/grants | 2,940,063 | 2,940,063 | 1,338,574 | (1,601,489) |
| Interest on investments | 5,000 | 5,000 | 24,706 | 19,706 |
| Permit fees | 100,000 | 100,000 | 74,402 | (25,598) |
| Miscellaneous | - | - | 316 | 316 |
| Total Revenues | <u>4,059,363</u> | <u>4,059,363</u> | <u>2,445,057</u> | <u>(1,614,306)</u> |
| Expenditures | | | | |
| Current | | | | |
| Program costs | | | | |
| District technical support | 12,559 | 12,559 | 7,887 | 4,672 |
| District rules and rule making | 25,000 | 25,000 | - | 25,000 |
| Permitting | 225,433 | 225,433 | 221,266 | 4,167 |
| Monitoring and assessment | 184,229 | 184,229 | 165,065 | 19,164 |
| Non-point source pollution abatement | 192,553 | 192,553 | 38,883 | 153,670 |
| Education and outreach | 149,203 | 149,203 | 112,166 | 37,037 |
| Tech resource sharing and communication | 48,971 | 48,971 | 54,387 | (5,416) |
| Research | 9,559 | 9,559 | 22,362 | (12,803) |
| Watershed management plan | 9,059 | 9,059 | 8,080 | 979 |
| Grant research | 23,473 | 23,473 | 13,942 | 9,531 |
| Operations and maintenance | 63,387 | 63,387 | 73,191 | (9,804) |
| Invasive species | 276,032 | 276,032 | 201,500 | 74,532 |
| Watershed planning and resiliency | 9,679 | 9,679 | 24,692 | (15,013) |
| Project costs | | | | |
| District technical support | 190,469 | 190,469 | 118,342 | 72,127 |
| Lakes - district wide | 68,027 | 68,027 | 66,501 | 1,526 |
| Individual lake projects | 1,940,000 | 1,940,000 | 2,170,206 | (230,206) |
| Streams | 67,426 | 67,426 | 22,087 | 45,339 |
| Wetlands | 15,114 | 15,114 | 14,725 | 389 |
| Groundwater | 7,559 | 7,559 | 7,362 | 197 |
| Capital | | | | |
| Program costs | | | | |
| Land acquisition | 806,471 | 806,471 | 49,804 | 756,667 |
| Total Expenditures | <u>4,324,203</u> | <u>4,324,203</u> | <u>3,392,448</u> | <u>931,755</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(264,840)</u> | <u>(264,840)</u> | <u>(947,391)</u> | <u>(682,551)</u> |
| Other Financing Sources (Uses) | | | | |
| Loans issued | 1,200,000 | 1,200,000 | 986,604 | (213,396) |
| Transfers out | - | - | (368,998) | (368,998) |
| Total Other Financing Sources (Uses) | <u>1,200,000</u> | <u>1,200,000</u> | <u>617,606</u> | <u>(582,394)</u> |
| Net Change in Fund Balances | 935,160 | 935,160 | (329,785) | (1,264,945) |
| Fund Balances, January 1 | <u>914,076</u> | <u>914,076</u> | <u>914,076</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 1,849,236</u> | <u>\$ 1,849,236</u> | <u>\$ 584,291</u> | <u>\$ (1,264,945)</u> |

The notes to the financial statements are an integral part of this statement.

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Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota was originally created in 1999 by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota statutes Chapter 103D and began operations in 2000. The District was established to promote public welfare and public interest and will advance the purpose of Minnesota statutes, chapters 103B and 103D. 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 has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly 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 Basis of 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. 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered 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 District.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlement and donations. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The District reports the following major governmental funds:

The *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.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

The *Program and Project Implementation fund* is established to account for programs and projects to manage the District's resources. Property taxes are committed for the Program and Project Implementation Fund.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The District has no formal investment policy.

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. Collections for November and December are received the following January. The District has no ability to enforce payments of property taxes by property owners. The County possesses this authority.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the fund financial statements.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Capital Assets

Capital assets, which include land, land improvements and easements, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District 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 acquisition 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.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the General Employee Plan (GERP) is \$176,873 for the year ended December 31, 2023.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick benefits, which will be paid to the employee upon separation without the considerations of number of years of service. 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. The General fund is typically used to liquidate governmental compensated absences.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and permits. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

The District has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board, which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. Pursuant to board resolution, the District's Administrator is authorized to establish assignments of fund balance.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does have an approved fund balance that outlines the fund balance classifications noted above as part of the governance manual.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquired capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "investment in capital assets".

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

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Notes to the Financial Statements
 December 31, 2023

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

The Board of Managers adopts an annual budget for the General and Program and Project Implementation fund of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The District did amend the budget during the year. The General fund expenditures were increased by \$6,000, and other amendments had no net effect on revenues or expenditures.

The modified accrual basis of accounting is used by the District for budgeting data. All unused project related appropriations carry over to the following fiscal year until the related project is completed. The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement process. The District does not use encumbrance accounting.

B. Excess Spending Over Appropriations

For the year ended December 31, 2023 expenditures exceeded appropriations in the following fund:

| Fund | Budget | Actual | Excess of Expenditures Over Appropriations |
|--------------|------------|------------|---|
| General Fund | \$ 476,488 | \$ 539,524 | \$ 63,036 |

The excess expenditures were funded by available fund balance and transfers from other funds.

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Notes to the Financial Statements
 December 31, 2023

Note 3: Detailed Notes on Accounts

A. Deposits and Investments

Deposits

In accordance with Minnesota statutes and as authorized by the Board, the District maintains deposits at those depository banks, 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 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds.
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity.
- 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.
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity.
- 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
- Time deposits that are fully insured by any Federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

At year end, the District's carrying amount of deposits, bank balance, FDIC coverage and pledge collateral are shown in the chart below. The amount covered by FDIC and collateral is also shown in the chart.

| | |
|---|--------------|
| Carrying amount of deposits | \$ 1,620,213 |
| Bank balance | \$ 1,703,625 |
| Covered by FDIC | (649,568) |
| Collateralized with securities pledged in City's name | \$ 1,054,057 |

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Notes to the Financial Statements
 December 31, 2023

Note 3: Detailed Notes on Accounts (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------|--------------------|-------------------|
| Governmental Activities | | | | |
| Capital Assets | | | | |
| Land | \$ 525,165 | \$ - | \$ - | \$ 525,165 |
| Capital Assets, being Depreciated/Amortized | | | | |
| Machinery and Vehicles | 34,240 | - | - | 34,240 |
| Leased Building (Intangible Right to Use Asset) | 67,742 | - | - | 67,742 |
| Total Capital Assets Being Depreciated/Amortized | <u>101,982</u> | <u>-</u> | <u>-</u> | <u>101,982</u> |
| Less Accumulated Depreciation/Amortization for | | | | |
| Machinery and Vehicles | (12,228) | | (4,891) | (17,119) |
| Leased Building (Intangible Right to Use Asset) | (22,581) | | (22,581) | (45,162) |
| Total Accumulated Depreciation/Amortization | <u>(34,809)</u> | <u>-</u> | <u>(27,472)</u> | <u>(62,281)</u> |
| Total Capital Assets being Depreciated, Net | <u>67,173</u> | <u>-</u> | <u>(27,472)</u> | <u>39,701</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 592,338</u> | <u>\$ -</u> | <u>\$ (27,472)</u> | <u>\$ 564,866</u> |

C. Long-term Liabilities

The District agreed to terms with Minnesota Pollution Control Agency on a clean water partnership loan in the amount of \$1,500,000 on June 11, 2018. The funds loaned would be used to assist in financing costs for the project workplan outlined in the loan agreement.

The District agreed to terms with Minnesota Pollution Control Agency on a second clean water partnership loan in the amount of \$1,750,000 on December 27, 2021. The funds loaned would be used to assist in financing costs for the project workplan outlined in the loan agreement.

A summary of the loans outstanding at year end December 31, 2023 was as follows:

| Description | Authorized Date | Maturity Date | Interest Rate | Authorized | Issued | Balance at Year End |
|--------------------------------|--------------------|------------------|------------------|------------|-----------|------------------------|
| Minnesota CWP Loan - 2020 | 5/22/2018 | 12/15/2031 | - % | 1,500,000 | 1,500,000 | \$ 1,200,000 |
| Minnesota CWP Loan - 2022-2023 | 12/27/2021 | 12/15/2033 | - | 1,750,000 | 1,749,998 | <u>1,749,998</u> |
| Total | | | | | | <u>\$ 2,949,998</u> |

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Notes to the Financial Statements
 December 31, 2023

Note 3: Detailed Notes on Accounts (Continued)

Annual debt service requirements to maturity for loan are as follows:

| Year Ending December 31, | Governmental Activities | | |
|-----------------------------|-------------------------|-------------|---------------------|
| | Principal | Interest | Total |
| 2024 | \$ 325,000 | \$ - | \$ 325,000 |
| 2025 | 325,000 | - | 325,000 |
| 2026 | 325,000 | - | 325,000 |
| 2027 | 325,000 | - | 325,000 |
| 2028 | 325,000 | - | 325,000 |
| 2029 - 2033 | 1,324,998 | - | 1,324,998 |
| Total | \$ 2,949,998 | \$ - | \$ 2,949,998 |

D. Lease Payable

The District entered into a lease agreement with 494 Properties, LLC for office space. The lease agreement has an effective period of December 1, 2019 and initially expired in November 30, 2022. The District extended the lease as of November 30, 2022 for two additional years and will commence in December 2024.

| Description | Total Lease Liability | Interest Rate | Issue Date | End Date | Payment Amount | Balance at Year End |
|---------------------------|--------------------------|------------------|---------------|-------------|-------------------|------------------------|
| Commerical Building Lease | \$ 67,724 | 0.13 % | 01/01/22 | 12/01/24 | variable | <u>\$ 23,060</u> |

The following is a summary of future minimum lease payments:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|------------------|--------------|------------------|
| 2024 | <u>\$ 23,060</u> | <u>\$ 16</u> | <u>\$ 23,076</u> |

E. Interfund Transfers

The District Program and Project Implementation fund transferred \$368,998 to the General Fund for operations as of December 31, 2023.

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Notes to the Financial Statements
 December 31, 2023

Note 3: Detailed Notes on Accounts (Continued)

During the year ended December 31, 2023, the following changes occurred in long-term liabilities:

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|--------------------------------|----------------------|------------------|--------------------|---------------------|--------------------|
| Governmental Activities | | | | | |
| Compensated Absences Payable | \$ 60,383 | \$ 85,008 | \$ (84,013) | \$ 61,378 | \$ 38,652 |
| Minnesota CWP Loan | 2,113,394 | 986,604 | (150,000) | 2,949,998 | 150,000 |
| Lease Payable | 46,634 | - | (23,574) | 23,060 | 23,060 |
| | | | | | |
| Total Governmental Activities | <u>\$ 2,220,411</u> | <u>\$ 85,008</u> | <u>\$ (84,013)</u> | <u>\$ 3,034,436</u> | <u>\$ 211,712</u> |

Note 4: Other Information

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 for which the District carries insurance. The District pays annual premiums for its workers compensation and property and casualty insurance. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

Comfort Lake Watershed District
Notes to the Financial Statements
December 31, 2023

Note 5: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. 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.

General Employee Plan Benefits

General Employees Plan 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. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Comfort Lake Watershed District
Notes to the Financial Statements
December 31, 2023

Note 5: Defined Benefit Pension Plans - Statewide (Continued)

C. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2023, 2022 and 2021 were \$50,355, \$47,990 and \$43,967, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$475,310 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$13,201. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0085 percent at the end of the measurement period and 0.0082 percent for the beginning of the period.

| | |
|--|------------|
| City Proportionate Share of the Net Pension Liability | \$ 475,310 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | 13,201 |
| | 13,201 |
| Total | \$ 488,511 |

For the year ended December 31, 2023, the City recognized pension expense of \$176,814 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$59 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

Comfort Lake Watershed District
Notes to the Financial Statements
December 31, 2023

Note 5: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2023, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 15,478 | \$ 2,619 |
| Changes in Actuarial Assumptions | 62,062 | 130,279 |
| Net Difference Between Projected and Actual Investment Earnings | 8,484 | - |
| Changes in Proportion | 26,827 | - |
| Contributions Paid to PERA Subsequent to the Measurement Date | 25,352 | - |
| Total | \$ 138,203 | \$ 132,898 |

The \$25,352 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|------|--|-----------|
| 2024 | | \$ 31,731 |
| 2025 | | (50,417) |
| 2026 | | 8,949 |
| 2027 | | (10,310) |

E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic Equity | 33.5 % | 5.10 % |
| International Equity | 16.5 | 5.30 |
| Fixed Income | 25.0 | 0.75 |
| Private Markets | 25.0 | 5.90 |
| Total | 100.0 % | |

Comfort Lake Watershed District
Notes to the Financial Statements
December 31, 2023

Note 5: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Comfort Lake Watershed District
Notes to the Financial Statements
December 31, 2023

Note 5: Defined Benefit Pension Plans - Statewide (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the General Employees were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

| | 1 Percent Decrease (6.0%) | Current (7.0%) | 1 Percent Increase (8.0%) |
|------------------------|------------------------------|----------------|------------------------------|
| General Employees Fund | \$ 840,862 | \$ 475,310 | \$ 174,630 |

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

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REQUIRED SUPPLEMENTARY INFORMATION
COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

DRAFT
FOR THE YEAR ENDED
DECEMBER 31, 2023

Comfort Lake - Forest Lake Watershed District
 Forest Lake, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2023

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

| Fiscal Year Ending | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | Total (a+b) | District's Covered Payroll (c) | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|---|---|-------------|--------------------------------|--|--|
| 06/30/23 | 0.0085 % | \$ 475,310 | \$ 13,201 | \$ 488,511 | \$ 679,574 | 69.9 % | 83.1 % |
| 06/30/22 | 0.0082 | 649,443 | 19,174 | 668,617 | 615,587 | 105.5 | 76.7 |
| 06/30/21 | 0.0068 | 290,390 | 8,856 | 299,246 | 488,240 | 59.5 | 87.0 |
| 06/30/20 | 0.0074 | 443,664 | 13,630 | 457,294 | 389,133 | 114.0 | 79.0 |
| 06/30/19 | 0.0017 | 93,989 | 2,833 | 96,822 | 243,747 | 38.6 | 80.2 |
| 06/30/18 | 0.0035 | 194,166 | 6,343 | 200,509 | 235,693 | 82.4 | 79.5 |
| 06/30/17 | 0.0032 | 204,286 | 2,600 | 206,886 | 208,693 | 97.9 | 75.9 |
| 06/30/16 | 0.0024 | 194,868 | 2,512 | 197,380 | 151,227 | 128.9 | 68.9 |
| 06/30/15 | 0.0017 | 88,103 | - | 88,103 | 94,080 | 93.6 | 78.2 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

| Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | District's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|-------------|---------------------------------------|--|--|--------------------------------|--|
| 12/31/2023 | \$ 50,355 | \$ 50,355 | \$ - | \$ 671,405 | 7.5 % |
| 12/31/2022 | 47,990 | 47,990 | - | 639,867 | 7.5 |
| 12/31/2021 | 43,967 | 43,967 | - | 586,227 | 7.5 |
| 12/31/2020 | 33,381 | 33,381 | - | 445,080 | 7.5 |
| 12/31/2019 | 21,931 | 21,931 | - | 292,413 | 7.5 |
| 12/31/2018 | 18,177 | 18,177 | - | 242,360 | 7.5 |
| 12/31/2017 | 16,460 | 16,460 | - | 219,467 | 7.5 |
| 12/31/2017 | 13,992 | 13,992 | - | 186,560 | 7.5 |
| 12/31/2017 | 9,003 | 9,003 | - | 120,040 | 7.5 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2023

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2023 - The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Comfort Lake - Forest Lake Watershed District
Forest Lake, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2023

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2023 - An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service. The benefit increase delay for early retirements on or after January 1, 2024, was eliminated. A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2016 - No changes noted

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

OTHER REQUIRED REPORT

COMFORT LAKE - FOREST LAKE WATERSHED DISTRICT
FOREST LAKE, MINNESOTA

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FOR THE YEAR ENDED
DECEMBER 31, 2023

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**INDEPENDENT AUDITOR’S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of the Comfort Lake - Forest Lake Watershed District (the District), Forest Lake, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the District’s basic financial statements, and have issued our report thereon dated NEED DATE.

In connection with our audit, nothing came to our attention that caused us to believe that the Comfort Lake Forest Lake Watershed District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District’s noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of the District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Abdo
Minneapolis, Minnesota
NEED DATE

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