

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2002

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WATERSHED DISTRICT  
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## **INTRODUCTORY SECTION**

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**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT  
ORGANIZATION  
December 31, 2002**

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers: Appointed: Board of Managers:		
Dennis Larson	President	September 22, 2003
Ken Banta	Vice-President	September 22, 2005
Tom Lynch	Treasurer	September 22, 2005
Louis Sibik	Secretary	September 22, 2003
Richard Damchik	Manager	September 22, 2004

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## **FINANCIAL STATEMENTS**

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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Comfort Lake-Forest Lake Watershed District as of December 31, 2002, and results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2003 on our consideration of the Comfort Lake-Forest Lake Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Comfort Lake-Forest Lake Watershed District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

April 28, 2003

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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## **GENERAL PURPOSE FINANCIAL STATEMENTS**

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
December 31, 2002

**Statement 1**

	Governmental Fund Types			General Long-Term Debt	Totals	
	General	Special	General Fixed Assets		(Memorandum Only)	
		Revenue			2002	2001
<b>Assets</b>						
Cash	\$128,000	\$ -	\$ -	\$ -	\$128,000	\$258,266
Taxes receivable						
Delinquent	2,766	-	-	-	2,766	-
Due from County	5,038	-	-	-	5,038	4,935
Due from other governments	11,630	-	-	-	11,630	-
Miscellaneous receivable	-	-	-	-	-	60
Amount available for debt service	-	-	-	-	-	107,289
Amount to be provided for retirement of note payable	-	-	-	-	-	92,711
General fixed assets	-	-	9,437	-	9,437	-
Total assets	<u>\$147,434</u>	<u>\$0</u>	<u>\$9,437</u>	<u>\$0</u>	<u>\$156,871</u>	<u>\$463,261</u>
<b>Liabilities and Fund Equity</b>						
<b>Liabilities:</b>						
Accounts payable	\$4,664	\$ -	\$ -	\$ -	\$4,664	\$2,137
Note payable	-	-	-	-	-	200,000
Deferred revenue	2,766	-	-	-	2,766	-
Total liabilities	<u>7,430</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,430</u>	<u>202,137</u>
<b>Fund equity:</b>						
Investment in general fixed assets	-	-	9,437	-	9,437	-
<b>Fund balance:</b>						
<b>Unreserved:</b>						
Designated for debt service	-	-	-	-	-	107,289
Undesignated	140,004	-	-	-	140,004	153,835
Total fund equity	<u>140,004</u>	<u>0</u>	<u>9,437</u>	<u>0</u>	<u>149,441</u>	<u>261,124</u>
Total liabilities and fund equity	<u>\$147,434</u>	<u>\$0</u>	<u>\$9,437</u>	<u>\$0</u>	<u>\$156,871</u>	<u>\$463,261</u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 2**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
ALL GOVERNMENTAL FUND TYPES  
For The Year Ended December 31, 2002

	Governmental Fund Types		Totals	
	General	Special Revenue	(Memorandum Only)	
			2002	2001
Revenues:				
Property taxes	\$231,049	\$ -	\$231,049	\$235,196
Intergovernmental	23,259	-	23,259	-
Grant income	-	-	-	15,600
Investment income	3,004	-	3,004	3,327
Total revenues	257,312	0	257,312	254,123
Expenditures:				
Current:				
Manager per diem and administrative	3,814	-	3,814	3,014
Dues and subscriptions	2,000	-	2,000	2,000
Office expense	1,790	-	1,790	516
Insurance	3,839	-	3,839	4,884
Accounting and auditing	8,350	-	8,350	7,300
Legal services	36,161	-	36,161	12,989
Engineering services	3,660	431	4,091	36,208
Plan projects	71,779	-	71,779	-
Survey and data monitoring	-	10,310	10,310	10,805
Capital outlay	9,437	-	9,437	-
Debt service:				
Principal	133,452	66,548	200,000	-
Interest	26,861	-	26,861	-
Total expenditures	301,143	77,289	378,432	77,716
Revenues over (under) expenditures	(43,831)	(77,289)	(121,120)	176,407
Fund balance - January 1	183,835	77,289	261,124	84,717
Fund balance - December 31	\$140,004	\$0	\$140,004	\$261,124

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 3**

GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For The Year Ended December 31, 2002

	2002		Over (Under) Budget	2001 Actual
	Budget	Actual		
Revenues:				
Property taxes	\$243,750	\$231,049	(\$12,701)	\$125,186
Intergovernmental	-	23,259	23,259	\$ -
Grant income	-	-	-	15,600
Investment income	9,640	3,004	(6,636)	3,327
Total revenues	<u>253,390</u>	<u>257,312</u>	<u>3,922</u>	<u>144,113</u>
Expenditures:				
Current:				
Manager per diem and administrative	10,000	3,814	(6,186)	3,014
Dues and subscriptions	2,000	2,000	-	2,000
Office expense	1,200	1,790	590	516
Insurance	4,000	3,839	(161)	4,884
Leasehold	1,200	-	(1,200)	-
Accounting and auditing	6,000	8,350	2,350	7,300
Legal and administrative services	21,400	36,161	14,761	12,989
Engineering services	9,480	3,660	(5,820)	14,292
Plan projects	-	71,779	71,779	-
Reserve	24,375	-	(24,375)	-
Capital outlay	-	9,437	9,437	-
Debt service:				
Principal	90,000	133,452	43,452	-
Interest	10,000	26,861	16,861	-
Total expenditures	<u>179,655</u>	<u>301,143</u>	<u>121,488</u>	<u>44,995</u>
Revenues over (under) expenditures	<u>\$73,735</u>	<u>(43,831)</u>	<u>(\$117,566)</u>	99,118
Fund balance - January 1		<u>183,835</u>		<u>84,717</u>
Fund balance - December 31		<u>\$140,004</u>		<u>\$183,835</u>

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Comfort Lake-Forest Lake Watershed District conform to generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

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

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

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

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

**B. FUND ACCOUNTING**

The accounting system of the District is organized and operated on the basis of funds and account groups. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds and account groups are employed by the District:

**GOVERNMENTAL FUNDS:**

General Fund is the general operating fund of the District. It is used to account for financial resources to be used for general administrative expenses and for the construction and maintenance of projects of common benefit to the District.

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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Special Revenue Funds:

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

Organizational Expense Fund. This fund is established for the planning and implementation of a watershed management plan. The District has completed its watershed management plan and as such this fund has been closed at December 31, 2002.

ACCOUNT GROUPS:

The governmental fund types are designed to account for the financial flow of a particular fund; therefore, they generally include only current assets and current liabilities on their balance sheets. The District maintains two account groups to account for noncurrent assets and long-term liabilities as follows:

General Fixed Assets – This account group contains the fixed assets used in the governmental fund type operations. They are assets of the District as a whole and not of individual funds.

General Long-Term Debt Account Group – This account group accounts for the outstanding principal balances of a note payable of the District. The note was paid off at December 31, 2002.

**C. BASIS OF ACCOUNTING**

The modified accrual basis of accounting is followed by the District for its governmental funds. Under this method of accounting, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Also, under this method, expenditures are recognized in the accounting period when the liability is incurred, except for disbursements for inventory-type items and prepaid expenses which are considered expenditures at the time of purchase.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues, charges for services and investment income. No interest has been accrued on investments since the amount is deemed by management to be immaterial.

Miscellaneous revenue sources not susceptible to accrual are recorded as revenue when received because they are not measurable until collected.

The government reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The District has reported as deferred revenues the amount of \$2,766 which consists of delinquent property taxes receivable.

**D. BUDGETS AND BUDGETARY ACCOUNTING**

The Board of Managers adopts a budget for the general government operations of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The amounts shown in the financial statements as "Budgeted" represent the original budgeted amounts plus all revisions made during the year and/or for the year. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

The Board of Managers annually adopts a tax levy for collection during the calendar year. The District's records are maintained on a calendar year ending December 31.

The District monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

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

**Note 2   DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. CASH AND INVESTMENTS**

DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository institutions authorized by the Board of Managers.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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In accordance with the provisions of GASB No. 31, the District reports investments at fair value in the financial statements. Also in accordance with the provisions of GASB No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue to the operating statements.

At year end the carrying amount of the District's deposits was \$128,000 and the bank balance was \$131,090. Minnesota Statutes require that all of the District's deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). At December 31, 2002, \$34,199 of the District's deposits were uncollateralized.

**INVESTMENTS**

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of Congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or any of its municipalities.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depository.

The District did not invest in any of the above listed investments during 2002.

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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**B. PROPERTY TAX REVENUE RECOGNITION**

The Board of Managers annually adopts a tax levy and certifies it to the counties for collection. The counties are responsible for billing and collecting all property taxes for itself, cities, school districts and other taxing authorities. These taxes are payable (by property owners) by May 15 and October 15 of each calendar year. These taxes are collected by the counties and remitted to the District by approximately July 15 and December 15 of the same year. The District has no ability to enforce payment of property taxes by property owners. The counties possess this authority.

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

The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the counties by December 31 (remitted to the District the following January) and taxes and credits not received at the year end are classified as due from County and delinquent taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred revenue because it is not available to finance current expenditures.

The District's property tax revenue includes payments from the Metropolitan Revenue Distribution (fiscal disparities formula per State Statute 473F). This statute provides a means of spreading a portion of the taxable valuation of commercial/industrial real property to various taxing authorities within the defined metropolitan area. The valuation "shared" is a portion of the commercial/industrial property valuation growth since 1971. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**C. INVENTORIES**

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

**D. DEFERRED REVENUE**

Deferred revenue as of December 31, 2002 consists of the following:

Delinquent property taxes receivable	\$2,766
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**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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**E. "MEMORANDUM ONLY" PRESENTATIONS**

Total columns on the General Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**F. USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**Note 3 LONG-TERM DEBT**

The District received interim operating financing from Washington County on January 16, 2000 in the amount of \$200,000 at a stated interest rate of 5.0%. The District has the right to repay the principal balance at any time prior to December 31, 2002 without penalty. All unpaid principal and interest balances are due December 31, 2002.

Summary of note payable transactions for the year ended December 31, 2002, is as follows:

	<u>Balance</u> <u>12/31/2001</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2002</u>
General Long-Term Debt:				
Note payable	<u>\$200,000</u>	<u>\$ -</u>	<u>\$200,000</u>	<u>\$ -</u>

**Note 4 CONTINGENCIES**

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

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2002

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**Note 5    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; workers' compensation claims; and natural disasters. Property and casualty and worker's compensation liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the general purpose financial statements.

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

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**COMBINING, INDIVIDUAL FUND  
AND ACCOUNT GROUP  
FINANCIAL STATEMENTS**

**COMFORT LAKE-FOREST LAKE**  
**WATERSHED DISTRICT**  
 COMBINING BALANCE SHEET  
 SPECIAL REVENUE FUNDS  
 December 31, 2002  
 With Comparative Totals For December 31, 2001

Statement 4

	Organizational Expense	Survey and Data Acquisition	Totals	
			2002	2001
Assets				
Cash	\$ -	\$ -	\$ -	\$74,969
Taxes receivable	-	-	-	2,320
Total assets	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$77,289</u>
Liabilities and Fund Equity				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund equity:				
Fund balance:				
Unreserved:				
Designated for debt service	-	-	-	77,289
Total liabilities and fund equity	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$77,289</u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 5**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
SPECIAL REVENUE FUNDS  
For The Year Ended December 31, 2002  
With Comparative Totals For The Year Ended December 31, 2001

	Organizational Expense	Survey and Data Acquisition	Totals	
			2002	2001
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$110,010
Expenditures:				
Current:				
Engineering services	431	-	431	21,916
Survey and data monitoring	-	10,310	10,310	10,805
Debt service:				
Principal	37,670	28,878	66,548	-
Total expenditures	38,101	39,188	77,289	32,721
Revenues over (under) expenditures	(38,101)	(39,188)	(77,289)	77,289
Fund balance - January 1	38,101	39,188	77,289	-
Fund balance - December 31	\$0	\$0	\$0	\$77,289

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 6**

SPECIAL REVENUE FUND - ORGANIZATIONAL EXPENSE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For The Year Ended December 31, 2002  
With Comparative Amounts For The Year Ended December 31, 2001

	<u>2002</u>	<u>2001</u>
Revenues:		
Property taxes	<u>\$ -</u>	<u>\$60,017</u>
Expenditures:		
Current:		
Engineering services	431	21,916
Debt service:		
Principal	<u>37,670</u>	<u>-</u>
Total expenditures	<u>38,101</u>	<u>21,916</u>
Revenues over (under) expenditures	(38,101)	38,101
Fund balance - January 1	<u>38,101</u>	<u>-</u>
Fund balance - December 31	<u><u>\$0</u></u>	<u><u>\$38,101</u></u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**Statement 7**

SPECIAL REVENUE FUND - SURVEY AND DATA ACQUISITION FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For The Year Ended December 31, 2002  
With Comparative Amounts For The Year Ended December 31, 2001

	<u>2002</u>	<u>2001</u>
Revenues:		
Property taxes	<u>\$ -</u>	<u>\$49,993</u>
Expenditures:		
Current:		
Survey and data monitoring	10,310	10,805
Debt service:		
Principal	<u>28,878</u>	<u>-</u>
Total expenditures	<u>39,188</u>	<u>10,805</u>
Revenues over (under) expenditures	(39,188)	39,188
Fund balance - January 1	<u>39,188</u>	<u>-</u>
Fund balance - December 31	<u><u>\$0</u></u>	<u><u>\$39,188</u></u>

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**  
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
December 31, 2002

**Statement 8**

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	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/02</u>
Land	<u>\$ -</u>	<u>\$9,437</u>	<u>\$ -</u>	<u>\$9,437</u>
Total fixed assets	<u>\$0</u>	<u>\$9,437</u>	<u>\$0</u>	<u>\$9,437</u>

## **OTHER REPORTS**

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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the general purpose financial statements of the Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2002, and have issued our report thereon dated April 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Comfort Lake-Forest Lake Watershed District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Comfort Lake-Forest Lake Watershed District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Independent Auditor's Report on Compliance and on Internal Control  
Page 2

This report is intended solely for the information and use of the Comfort Lake-Forest Lake Watershed District's management and is not intended to be and should not be used by anyone other than those specified parties.

April 28, 2003

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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Independent Auditor's Report on Compliance and on Internal Control  
Page 2

This report is intended solely for the information and use of the Comfort Lake-Forest Lake Watershed District's management and is not intended to be and should not be used by anyone other than those specified parties.

April 28, 2003

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants



**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

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

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

We have audited the general purpose financial statements of the Comfort Lake-Forest Lake Watershed District, as of and for the year ended December 31, 2002 and have issued our report thereon dated April 28, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

April 28, 2003

*HLB Tautges Redpath Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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*FINDING:*            Deficiencies in collateral for deposits.

*CONDITION:*      At December 31, 2002, the Comfort Lake-Forest Lake Watershed District held two checking accounts at Mainstreet Bank totaling \$131,090. Deposits up to \$100,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral required was \$34,199 (\$131,090 x 110%). No collateral was provided, resulting in a collateral deficiency of \$34,199.

*CRITERIA:*        Minnesota Statute 118A provides certain specific collateral requirements for deposits as follows:

**118A.03 WHEN AND WHAT COLLATERAL REQUIRED.**

Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government treasury bills, treasury notes, treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is 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;
- (4) 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
- (5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subd. 4. **Assignment.** Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

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Subd. 5. **Withdrawal of excess collateral.** A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Subd. 7. **Safekeeping.** 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 shall be approved by the government entity.

HIST: 1996 c 399 art 1 s 4

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*RECOMMENDATION:*

We recommend that the Comfort Lake-Forest Lake Watershed District monitor amounts on deposit with the depository to insure that amounts on deposit do not exceed FDIC insurance limits or that sufficient collateral is pledged in cases where deposits exceed FDIC insurance limits.

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