

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2003

- This page intentionally left blank -

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
TABLE OF CONTENTS**

	<u>Ref No.</u>	<u>Page No.</u>
Introductory Section		
Organization		3
Financial Statements		
Independent Auditor's Report		7
General Purpose Financial Statements:		
Combined Balance Sheet - All Fund Types and Account Groups	Statement 1	12
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	Statement 2	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	Statement 3	14
Notes to Financial Statements		15
Combining, Individual Fund and Account Group Financial Statements:		
Special Revenue Fund:		
Balance Sheet	Statement 4	22
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 5	23
Statement of Revenues, Expenditures, and Changes in Fund Balance:		
Organizational Expense Fund	Statement 6	24
Survey and Data Acquisition Fund	Statement 7	25
Statement of Changes in General Fixed Assets	Statement 8	26
Supplementary Information		
Market Values by Watershed	Exhibit 1	28
Other Reports		
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		33
Independent Auditor's Report on Compliance With Minnesota Legal Compliance Audit Guide For Local Government		37

- This page intentionally left blank -

INTRODUCTORY SECTION

- This page intentionally left blank -

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
ORGANIZATION
December 31, 2003**

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

- This page intentionally left blank -

FINANCIAL STATEMENTS

- This page intentionally left blank -



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, 2003, 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, 2003, 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 5, 2004 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.

White Bear Lake Office: 4810 White Bear Parkway, White Bear Lake, Minnesota 55110, USA Telephone: 651 426 7000 Fax: 651 426 5004
Hastings Office: 1303 South Frontage Road, Suite 13, Hastings, MN 55033, USA Telephone: 651 480 4990 Fax: 651 426 5004

- This page intentionally left blank -

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 5, 2004

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

- This page intentionally left blank -

GENERAL PURPOSE FINANCIAL STATEMENTS

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 2003

Statement 1

	Governmental Fund Types			General Long-Term Debt	Totals	
	General	Special	General Fixed Assets		(Memorandum Only)	
		Revenue			2003	2002
Assets						
Cash	\$152,856	\$18,378	\$ -	\$ -	\$171,234	\$128,000
Taxes receivable:						
Delinquent	5,777	-	-	-	5,777	2,766
Due from County	5,030	-	-	-	5,030	5,038
Due from other governments	-	-	-	-	-	11,630
General fixed assets	-	-	9,437	-	9,437	9,437
Total assets	<u>\$163,663</u>	<u>\$18,378</u>	<u>\$9,437</u>	<u>\$0</u>	<u>\$191,478</u>	<u>\$156,871</u>
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	\$2,994	\$4,912	\$ -	\$ -	\$7,906	\$4,664
Deferred revenue	5,777	-	-	-	5,777	2,766
Total liabilities	<u>8,771</u>	<u>4,912</u>	<u>0</u>	<u>0</u>	<u>13,683</u>	<u>7,430</u>
Fund equity:						
Investment in general fixed assets	-	-	9,437	-	9,437	9,437
Fund balance:						
Unreserved:						
Undesignated	154,892	13,466	-	-	168,358	140,004
Total fund equity	<u>154,892</u>	<u>13,466</u>	<u>9,437</u>	<u>0</u>	<u>177,795</u>	<u>149,441</u>
Total liabilities and fund equity	<u>\$163,663</u>	<u>\$18,378</u>	<u>\$9,437</u>	<u>\$0</u>	<u>\$191,478</u>	<u>\$156,871</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, 2003

	Governmental Fund Types		Totals	
	General	Special Revenue	(Memorandum Only) 2003	2002
Revenues:				
Property taxes	\$232,022	\$ -	\$232,022	\$231,049
Intergovernmental	17,048	-	17,048	23,259
Investment income	853	-	853	3,004
Total revenues	<u>249,923</u>	<u>0</u>	<u>249,923</u>	<u>257,312</u>
Expenditures:				
Current:				
Manager per diem and administrative	3,594	-	3,594	3,814
Dues and subscriptions	2,000	-	2,000	2,000
Office expense	349	-	349	1,790
Insurance	3,898	-	3,898	3,839
Accounting and auditing	6,373	-	6,373	8,350
Legal services	52,776	-	52,776	36,161
Engineering services	296	-	296	4,091
Plan projects	136,871	-	136,871	71,779
Survey and data monitoring	-	15,412	15,412	10,310
Capital outlay	-	-	-	9,437
Debt service:				
Principal	-	-	-	200,000
Interest	-	-	-	26,861
Total expenditures	<u>206,157</u>	<u>15,412</u>	<u>221,569</u>	<u>378,432</u>
Revenues over (under) expenditures	43,766	(15,412)	28,354	(121,120)
Other financing sources (uses):				
Prior year reclassification	<u>(28,878)</u>	<u>28,878</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in fund balance	14,888	13,466	28,354	(121,120)
Fund balance - January 1	<u>140,004</u>	<u>-</u>	<u>140,004</u>	<u>261,124</u>
Fund balance - December 31	<u>\$154,892</u>	<u>\$13,466</u>	<u>\$168,358</u>	<u>\$140,004</u>

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, 2003

	2003			2002 Actual
	Budget	Actual	Over (Under) Budget	
Revenues:				
Property taxes	\$232,952	\$232,022	(\$930)	\$231,049
Intergovernmental	17,048	17,048	-	23,259
Investment income	1,472	853	(619)	3,004
Total revenues	<u>251,472</u>	<u>249,923</u>	<u>(1,549)</u>	<u>257,312</u>
Expenditures:				
Current:				
Manager per diem and administrative	6,000	3,594	(2,406)	3,814
Dues and subscriptions	2,000	2,000	-	2,000
Office expense	-	349	349	1,790
Insurance	4,500	3,898	(602)	3,839
Accounting and auditing	6,600	6,373	(227)	8,350
Legal and administrative services	23,850	52,776	28,926	36,161
Engineering services	5,280	296	(4,984)	3,660
Plan projects	10,200	136,871	126,671	71,779
Contingencies	25,000	-	(25,000)	-
Capital outlay	-	-	-	9,437
Debt service:				
Principal	-	-	-	133,452
Interest	-	-	-	26,861
Total expenditures	<u>83,430</u>	<u>206,157</u>	<u>122,727</u>	<u>301,143</u>
Revenues over (under) expenditures	168,042	43,766	(124,276)	(43,831)
Other financing sources (uses):				
Prior year reclassification	-	(28,878)	(28,878)	-
Net increase (decrease) in fund balance	<u>\$168,042</u>	14,888	<u>(\$153,154)</u>	(43,831)
Fund balance - January 1		<u>140,004</u>		<u>183,835</u>
Fund balance - December 31		<u>\$154,892</u>		<u>\$140,004</u>

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

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

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, 2003

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, 2003.

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, 2003.

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.

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

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

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

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

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

E. 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. Property taxes paid to the District in 2003 through this formula totaled \$19,132. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003**

F. 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.

G. DEFERRED REVENUE

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 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 \$5,777 which consists of delinquent property taxes receivable.

H. "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.

I. USE OF ESTIMATES

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

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.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

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.

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 \$171,234 and the bank balance was \$171,234. 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). The District had deposits totaling \$48,039 that 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 2003.

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.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

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.

Note 3 CONTINGENCIES

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

Note 4 FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	<u>Balance</u> <u>12/31/2002</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2003</u>
Land	<u>\$9,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,437</u>

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.

Note 6 PRIOR YEAR RECLASSIFICATION

Prior year reclassification represents a loan payment made to Washington County in 2002 totaling \$28,878. The repayment has been reclassified to the General Fund which is the fund that received the loan proceeds.

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

COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
 SPECIAL REVENUE FUND - SURVEY AND DATA ACQUISITION FUND
 BALANCE SHEET
 December 31, 2003
 With Comparative Amounts For December 31, 2002

Statement 4

	<u>2003</u>	<u>2002</u>
Assets		
Cash	<u>\$18,378</u>	<u>\$ -</u>
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	<u>\$4,912</u>	<u>\$ -</u>
Fund equity:		
Fund balance:		
Unreserved:		
Undesignated	<u>13,466</u>	<u>-</u>
Total liabilities and fund equity	<u>\$18,378</u>	<u>\$0</u>

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

Statement 5

SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For The Year Ended December 31, 2003

With Comparative Totals For The Year Ended December 31, 2002

	Survey and Data	Totals	
	Acquisition	2003	2002
Revenues:			
Property taxes	\$ -	\$ -	\$ -
Expenditures:			
Current:			
Engineering services	-	-	431
Survey and data monitoring	15,412	15,412	10,310
Debt service:			
Principal	-	-	66,548
Total expenditures	15,412	15,412	77,289
Revenues over (under) expenditures	(15,412)	(15,412)	(77,289)
Other financing sources (uses):			
Prior year reclassification	28,878	28,878	-
Net increase (decrease) in fund balance	13,466	13,466	(77,289)
Fund balance - January 1	-	-	77,289
Fund balance - December 31	\$13,466	\$13,466	\$0

**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, 2003
With Comparative Amounts For The Year Ended December 31, 2002

	<u>2003</u>	<u>2002</u>
Revenues:		
Property taxes	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Current:		
Engineering services	-	431
Debt service:		
Principal	<u>-</u>	<u>37,670</u>
Total expenditures	<u>0</u>	<u>38,101</u>
Revenues over (under) expenditures	0	(38,101)
Fund balance - January 1	<u>-</u>	<u>38,101</u>
Fund balance - December 31	<u><u>\$0</u></u>	<u><u>\$0</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, 2003
With Comparative Amounts For The Year Ended December 31, 2002**

	<u>2003</u>	<u>2002</u>
Revenues:		
Property taxes	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Current:		
Survey and data monitoring	15,412	10,310
Debt service:		
Principal	-	28,878
Total expenditures	<u>15,412</u>	<u>39,188</u>
Revenues over (under) expenditures	(15,412)	(39,188)
Other financing sources (uses):		
Prior year reclassification	<u>28,878</u>	<u>-</u>
Net increase (decrease) in fund balance	13,466	(39,188)
Fund balance - January 1	<u>-</u>	<u>39,188</u>
Fund balance - December 31	<u><u>\$13,466</u></u>	<u><u>\$0</u></u>

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
December 31, 2003

Statement 8

	<u>Balance 12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
Land	<u>\$9,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,437</u>
Total fixed assets	<u>\$9,437</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9,437</u>

SUPPLEMENTARY INFORMATION

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

For Taxes Payable in 2003

<u>Watershed</u>	<u>Taxable Market Value</u>			<u>Referendum Market Value</u>
	<u>Real</u>	<u>Personal</u>	<u>Total</u>	
10 Carnelian Marine	\$446,946,400	\$2,057,000	\$449,003,400	\$408,805,050
14 South Washiington	4,562,371,600	40,859,700	4,603,231,300	4,560,552,020
34 Ramsey-Washington Metro	1,999,114,400	1,611,900	2,000,726,300	1,992,219,100
38 Rice Creek	1,847,095,900	19,014,100	1,866,110,000	1,821,098,100
54 Valley Branch	2,286,739,600	22,119,900	2,308,859,500	2,255,362,850
69 Brown's Creek	960,457,700	4,295,100	964,752,800	940,489,750
71 Comfort Lake-Forest Lake	901,532,000	10,246,400	911,778,400	888,058,300
County Total	<u>\$13,004,257,600</u>	<u>\$100,204,100</u>	<u>\$13,104,461,700</u>	<u>\$12,866,585,170</u>

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

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$4,455,242	\$25,732	\$4,480,974	\$ -	\$ -	\$6,621	\$4,474,353	\$210,392	\$4,684,745
50,389,479	817,194	51,206,673	-	537,336	2,968,867	47,700,470	5,393,147	53,093,617
25,180,828	32,238	25,213,066	-	1,558,862	3,233,425	20,420,779	2,624,560	23,045,339
19,647,404	377,109	20,024,513	2,335	590,225	756,548	18,675,405	1,503,894	20,179,299
24,892,917	421,113	25,314,030	1,252	824,559	1,489,078	22,999,141	2,099,590	25,098,731
10,923,081	85,902	11,008,983	2,813	982,264	764,323	9,259,583	646,660	9,906,243
10,226,308	204,178	10,430,486	1,907	461,438	907,960	9,059,181	908,781	9,967,962
<u>\$145,715,259</u>	<u>\$1,963,466</u>	<u>\$147,678,725</u>	<u>\$8,307</u>	<u>\$4,954,684</u>	<u>\$10,126,822</u>	<u>\$132,588,912</u>	<u>\$13,387,024</u>	<u>\$145,975,936</u>

- This page intentionally left blank -

OTHER REPORTS

- This page intentionally left blank -

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, 2003, and have issued our report thereon dated April 5, 2004. 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.

- This page intentionally left blank -

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 5, 2004

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

- This page intentionally left blank -



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, 2003 and have issued our report thereon dated April 5, 2004.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers 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 5, 2004

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

- This page intentionally left blank -

FINDING: Deficiencies in collateral for deposits.

CONDITION: At December 31, 2003, the Comfort Lake-Forest Lake Watershed District held two checking accounts at Mainstreet Bank totaling \$173,125. 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 \$80,438 (\$73,125 x 110%). Collateral was provided in the amount of \$25,086, resulting in a collateral deficiency of \$55,352.

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.

- This page intentionally left blank -

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

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.

- This page intentionally left blank -