

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2009

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

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	<b>Reference</b>	<b>Page No.</b>
<b>INTRODUCTORY SECTION</b>		
Organization		3
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	Statement 1	10
Statement of Activities	Statement 2	11
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	Statement 5	14
Notes to Financial Statements		15
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	Statement 6	28
Budgetary Comparison Schedule - Note to RSI		29
Individual Fund Financial Statements:		
General Fund:		
Balance Sheet	Statement 7	32
Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 8	33
Survey and Data Acquisition Fund:		
Balance Sheet	Statement 9	34
Statement of Revenue, Expenditures and Changes in Fund Balance	Statement 10	35
<b>OTHER REPORTS</b>		
Report on Internal Control		39
Report on Compliance with Minnesota Legal Compliance Audit Guide for Local Government		43

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## **INTRODUCTORY SECTION**

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**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

ORGANIZATION

December 31, 2009



<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
Richard P. Damchik	President	September 23, 2010
Jackie A. Anderson	Vice-President	September 23, 2012
John T. Lynch	Treasurer	September 23, 2011
Wayne S. Moe	Secretary	September 23, 2012
Jon W. Spence	Manager	September 23, 2011

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## **FINANCIAL SECTION**

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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 financial statements of the governmental activities and each major fund of Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2009 which collectively comprise Comfort Lake-Forest Lake Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Comfort Lake-Forest Lake Watershed District as of December 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Comfort Lake-Forest Lake Watershed District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information on pages 28 and 29 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Comfort Lake-Forest Lake Watershed District's basic financial statements. The introductory section and individual fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 16, 2010

## **BASIC FINANCIAL STATEMENTS**

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

## STATEMENT OF NET ASSETS

December 31, 2009

**Statement 1**

	Governmental Activities	
	2009	2008
Assets:		
Cash and investments	\$707,268	\$209,151
Prepaid expenses	2,640	2,827
Property taxes receivable:		
Delinquent	35,623	14,303
Due from county	13,502	4,403
Due from other governments	6,308	6,256
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>774,778</u>	<u>246,377</u>
Liabilities:		
Accounts payable	23,169	17,232
Deposits payable	2,499	-
Unearned revenue	3,911	-
Compensated absences payable:		
Due within one year	5,432	4,244
Due within greater than one year	2,716	3,564
Total liabilities	<u>37,727</u>	<u>25,040</u>
Net assets:		
Invested in capital assets, net of related debt	9,437	9,437
Unrestricted	727,614	211,900
Total net assets	<u>\$737,051</u>	<u>\$221,337</u>

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

STATEMENT OF ACTIVITIES

**Statement 2**

For The Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
					2009	2008
Primary government:						
Governmental activities:						
General government	\$96,920	\$ -	\$ -	\$ -	(\$96,920)	(\$129,802)
Projects	177,901	50	31,734	-	(146,117)	(94,650)
Total governmental activities	<u>\$274,821</u>	<u>\$50</u>	<u>\$31,734</u>	<u>\$0</u>	<u>(243,037)</u>	<u>(224,452)</u>
General revenues:						
Property taxes					728,296	297,228
Grants and contributions not restricted to specific programs					25,856	10,346
Unrestricted investment earnings					4,131	3,036
Other					468	1,314
Total general revenues					<u>758,751</u>	<u>311,924</u>
Change in net assets					515,714	87,472
Net assets - January 1					<u>221,337</u>	<u>133,865</u>
Net assets - December 31					<u>\$737,051</u>	<u>\$221,337</u>

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2009

**Statement 3**

	General Fund	Survey and Data Acquisition Fund	Total Governmental Funds	
			2009	2008
<b>Assets</b>				
Cash and investments	\$704,029	\$3,239	\$707,268	\$209,151
Property taxes receivable:				
Delinquent	35,505	118	35,623	14,303
Due from county	13,502	-	13,502	4,403
Due from other governments	6,308	-	6,308	6,256
Prepaid items	2,640	-	2,640	2,827
Total assets	<u>\$761,984</u>	<u>\$3,357</u>	<u>\$765,341</u>	<u>\$236,940</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	\$23,169	\$ -	\$23,169	\$17,232
Deposits payable	2,499	-	2,499	-
Deferred revenue	39,416	118	39,534	14,303
Total liabilities	<u>65,084</u>	<u>118</u>	<u>65,202</u>	<u>31,535</u>
<b>Fund balance:</b>				
Reserved for prepaid items	2,640	-	2,640	2,827
Designated reported in:				
General Fund	17,198	-	17,198	-
Undesignated reported in:				
General Fund	677,062	-	677,062	199,339
Special Revenue Fund	-	3,239	3,239	3,239
Total fund balance	<u>696,900</u>	<u>3,239</u>	<u>700,139</u>	<u>205,405</u>
Total liabilities and fund balance	<u>\$761,984</u>	<u>\$3,357</u>	<u>\$765,341</u>	<u>\$236,940</u>
Fund balance reported above			\$700,139	\$205,405
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			9,437	9,437
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			35,623	14,303
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds - compensated absences.			(8,148)	(7,808)
Net assets of governmental activities			<u>\$737,051</u>	<u>\$221,337</u>

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2009

**Statement 4**

	<u>General Fund</u>	<u>Survey and Data Acquisition Fund</u>	<u>Total Governmental Funds</u>	
			<u>2009</u>	<u>2008</u>
			Revenues:	
General property taxes	\$706,976	\$ -	\$706,976	\$292,100
Intergovernmental	57,590	-	57,590	58,678
Investment income	4,131	-	4,131	3,036
Other	518	-	518	1,314
Total revenues	<u>769,215</u>	<u>0</u>	<u>769,215</u>	<u>355,128</u>
Expenditures:				
Current:				
General government	96,580	-	96,580	125,972
Projects	177,901	-	177,901	142,982
Total expenditures	<u>274,481</u>	<u>0</u>	<u>274,481</u>	<u>268,954</u>
Revenues over expenditures	494,734	0	494,734	86,174
Fund balance - January 1	<u>202,166</u>	<u>3,239</u>	<u>205,405</u>	<u>119,231</u>
Fund balance - December 31	<u><u>\$696,900</u></u>	<u><u>\$3,239</u></u>	<u><u>\$700,139</u></u>	<u><u>\$205,405</u></u>

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2009

**Statement 5**

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	<u>2009</u>	<u>2008</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$494,734	\$86,174
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
General property taxes deferred revenues	21,320	5,128
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(340)</u>	<u>(3,830)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$515,714</u></u>	<u><u>\$87,472</u></u>

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. FINANCIAL REPORTING ENTITY**

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

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

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

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

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

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

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

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

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

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

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

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

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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**D. BUDGETS AND BUDGETARY ACCOUNTING**

The Board of Managers adopts a budget for the general government operations of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All unused project related appropriations carry over to the following fiscal year until the related project is completed.

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

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

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

**E. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

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

**F. PROPERTY TAX REVENUE RECOGNITION**

The Board of Managers annually adopts a tax levy and certifies it to the County in October (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

**G. INVENTORIES**

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

**H. MARKET VALUE HOMESTEAD CREDIT**

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

**I. USE OF ESTIMATES**

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

**J. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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

The District did not acquire any infrastructure assets during 2009.

**K. COMPENSATED ABSENCES**

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

**L. LONG-TERM OBLIGATIONS**

In the government-wide financial statements long-term debt is reported as a liability in the applicable governmental activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. FUND EQUITY**

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Designated fund balance represents tentative plans for future use of financial resources.

**N. PREPAID ITEMS**

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2009

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**O. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**P. RECLASSIFICATIONS**

Certain reclassifications were made to prior year amounts to conform to the current year presentation.

**Q. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$21,320 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2008	(\$14,303)
At December 31, 2009	<u>35,623</u>
 Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	     <u><u>\$21,320</u></u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$340) difference are as follows:

Compensated absences payable:	
At December 31, 2008	\$7,808
At December 31, 2009	<u>(8,148)</u>
 Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	     <u><u>(\$340)</u></u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

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

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

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

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At year end the carrying amount of the District's deposits was \$707,268 and the bank balance was \$708,197. The entire bank balance was covered by federal depository insurance or covered by perfected collateral pledged and held in the District's name.

**B. INVESTMENTS**

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2009.

**Note 3 RECEIVABLES AND DEFERRED REVENUE**

Significant general fund delinquent property taxes receivable in the amount of \$16,155 are not expected to be collected within one year of December 31, 2009.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$35,505	\$ -
Delinquent property taxes receivable (Survey and Data Acquisition Fund)	118	-
Unearned operating grants (General Fund)	-	3,911
Total	<u>\$35,623</u>	<u>\$3,911</u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$9,437	\$ -	\$ -	\$9,437

**Note 5 LONG-TERM DEBT**

**CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2009, was as follow:

	<u>Balance 12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/09</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences payable	\$7,808	\$8,148	(\$7,808)	\$8,148	\$5,432

Compensated absences payable are generally liquidated by the General Fund.

**Note 6 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. PLAN DESCRIPTION**

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2009

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

**B. FUNDING POLICY**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The District makes annual contributions to the pension plans equal to the amount required by State statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7% effective January 1, 2010. The District's contribution to the Public Employees Retirement Fund for the years ended December 31, 2009, 2008 and 2007 were \$5,659, \$5,316 and \$4,792 respectively, equal to the contractually required contributions for each year as set by state statute.

**Note 7 DESIGNATIONS OF FUND EQUITY**

At December 31, 2009 and 2008, the District had the following fund equity designations:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
General Fund:		
Reserved for prepaid items	\$2,640	\$2,827
Designated for administrative reserve	16,598	-
Designated for future projects	<u>600</u>	<u>-</u>
Total	<u>\$19,838</u>	<u>\$2,827</u>

**Note 8 CONTINGENCIES**

Management has indicated that there are no pending lawsuits or other actions in which the District is a defendant.

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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**Note 9 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Property and casualty liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

Statement 6

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2009

With Comparative Actual Amounts For The Year Ended December 31, 2008

	2009			Variance with Final Budget	2008
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues:					
General property taxes	\$728,602	\$728,602	\$706,976	(\$21,626)	\$292,100
Intergovernmental	82,789	82,789	57,590	(25,199)	58,678
Investment income	-	-	4,131	4,131	3,036
Other	-	-	518	518	1,314
Total revenues	<u>811,391</u>	<u>811,391</u>	<u>769,215</u>	<u>(42,176)</u>	<u>355,128</u>
Expenditures:					
Current:					
Manager per diem and administrative	54,156	54,156	58,105	(3,949)	86,603
Dues and subscriptions	2,000	2,000	2,000	-	2,000
Office expense	12,650	12,650	9,388	3,262	8,521
Insurance	9,000	9,000	5,336	3,664	7,692
Accounting and auditing	14,200	14,200	14,335	(135)	12,150
Legal and administrative services	14,000	14,000	7,416	6,584	9,006
General engineering services	478,068	478,068	25,457	452,611	29,215
Projects	279,222	279,222	152,444	126,778	113,767
Total expenditures	<u>863,296</u>	<u>863,296</u>	<u>274,481</u>	<u>588,815</u>	<u>268,954</u>
Revenues over (under) expenditures	<u>(\$51,905)</u>	<u>(\$51,905)</u>	494,734	<u>\$546,639</u>	86,174
Fund balance - January 1			<u>202,166</u>		<u>115,992</u>
Fund balance - December 31			<u>\$696,900</u>		<u>\$202,166</u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2009

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**Note A**    **BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General Fund.

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**

BALANCE SHEET

GENERAL FUND

December 31, 2009

With Comparative Amounts For December 31, 2008

**Statement 7**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and investments	\$704,029	\$205,912
Property taxes receivable:		
Delinquent	35,505	14,185
Due from county	13,502	4,403
Due from other governments	6,308	6,256
Prepaid items	2,640	2,827
Total assets	<u>\$761,984</u>	<u>\$233,583</u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$23,169	\$17,232
Deposits payable	2,499	-
Deferred revenue	39,416	14,185
Total liabilities	<u>65,084</u>	<u>31,417</u>
<b>Fund balance:</b>		
Reserved for prepaid items	2,640	2,827
Designated:		
Designated for future projects	600	-
Designated for administrative reserve	16,598	-
Unreserved:		
Undesignated	677,062	199,339
Total fund balance	<u>696,900</u>	<u>202,166</u>
Total liabilities and fund balance	<u>\$761,984</u>	<u>\$233,583</u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
For The Year Ended December 31, 2009  
With Comparative Amounts For The Year Ended December 31, 2008

**Statement 8**

	<u>2009</u>	<u>2008</u>
Revenues:		
General property taxes	\$706,976	\$292,100
Intergovernmental	57,590	58,678
Investment income	4,131	3,036
Other	518	1,314
Total revenues	<u>769,215</u>	<u>355,128</u>
Expenditures:		
Current:		
Manager per diem and administrative	58,105	86,603
Dues and subscriptions	2,000	2,000
Office expense	9,388	8,521
Insurance	5,336	7,692
Accounting and auditing	14,335	12,150
Legal and administrative services	7,416	9,006
General engineering services	25,457	29,215
Projects	152,444	113,767
Total expenditures	<u>274,481</u>	<u>268,954</u>
Revenue over expenditures	494,734	86,174
Fund balance - January 1	<u>202,166</u>	<u>115,992</u>
Fund balance - December 31	<u><u>\$696,900</u></u>	<u><u>\$202,166</u></u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**BALANCE SHEET**  
**SURVEY AND DATA ACQUISITION FUND**  
 December 31, 2009  
 With Comparative Amounts For December 31, 2008

**Statement 9**

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	<u>2009</u>	<u>2008</u>
Assets		
Cash and investments	\$3,239	\$3,239
Property taxes receivable:		
Delinquent	<u>118</u>	<u>118</u>
Total assets	<u><u>\$3,357</u></u>	<u><u>\$3,357</u></u>
Liabilities and Fund Balance		
Liabilities:		
Deferred revenue	<u>\$118</u>	<u>\$118</u>
Fund balance:		
Unreserved:		
Undesignated	<u>3,239</u>	<u>3,239</u>
Total liabilities and fund balance	<u><u>\$3,357</u></u>	<u><u>\$3,357</u></u>

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**SURVEY AND DATA ACQUISITION FUND**  
**For The Year Ended December 31, 2009**  
**With Comparative Amounts For The Year Ended December 31, 2008**

**Statement 10**

	<u>2009</u>	<u>2008</u>
Revenue	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Current:		
Projects	<u>-</u>	<u>-</u>
Revenue over expenditures	0	0
Fund balance - January 1	<u>3,239</u>	<u>3,239</u>
Fund balance - December 31	<u><u>\$3,239</u></u>	<u><u>\$3,239</u></u>

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## **OTHER REPORTS**

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Certified Public Accountants and Consultants

## REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Comfort Lake-Forest Lake Watershed District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider item 2009-1 in the attached schedule of findings and responses to be a significant deficiency.

Comfort Lake-Forest Lake Watershed District's written response to the significant deficiency identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

Comfort Lake-Forest Lake Watershed District  
Report on Internal Control

This communication is intended solely for the information and use of management, members of the Board, and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 16, 2010

## **2009-1 Oversight of Financial Statement Preparation**

*Criteria:* Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation of the financial statements in accordance with generally accepted accounting principles.

*Condition:* Like many similarly sized organizations, the District has requested assistance from us, the auditors, with drafting financial statements and related notes. This is a common practice and an allowable nonaudit service under the AICPA Ethics Interpretation 101-3. However, other than relying on the auditors, the District staff does not perform sufficient procedures to detect if there were misstatements or omission of disclosures to the financial statements.

*Cause:* The District has not established procedures to detect misstatements or omissions of disclosures in the financial statements prepared by the auditors.

*Effect:* By not having such controls, there is an increased risk that errors or omissions in the financial statements prepared by the auditors would not be detected by District management.

*Recommendation:* We recommend the District remain aware of this matter. Any change would need to be viewed from a cost/benefit perspective. Options for the District include:

1. Remain aware of the situation, however due to the increased cost, make the choice to make no changes to current procedures.
2. Implement internal procedures as determined practical. Such procedures could include:
  - a. Complete a disclosure checklist to ensure propriety and completeness of disclosures.
  - b. Trace various trial balance accounts to the draft financial statements to ensure all accounts are included in the financial statements.
  - c. Review GASB 34 conversion entries to ensure that the draft government-wide financial statements are free of misstatement.
3. Hiring additional internal or 3<sup>rd</sup> party resources to assist with the financial statement process.

*Management Response:* The District is aware of the situation, but a cost/benefit analysis of the issue does not support the allocation of additional employees or resources at this time. Certain other safeguards are successfully maintained (Board oversight and treasurer review of the draft financial statements) which provide satisfactory mitigation of the issue.

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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

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

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

We have audited the financial statements of Comfort Lake-Forest Lake Watershed District, as of and for the year ended December 31, 2009 and have issued our report thereon dated April 16, 2010.

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 we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the above listed categories except for public indebtedness as Comfort Lake-Forest Lake Watershed District had no debt.

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

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

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

April 16, 2010

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