

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2012

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
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INTRODUCTORY SECTION

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

ORGANIZATION

December 31, 2012



<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
Richard P. Damchik	President	September 23, 2013
Jackie A. Anderson	Vice-President	September 23, 2015
John T. Lynch	Treasurer	September 23, 2014
Wayne S. Moe	Secretary	September 23, 2015
Jon W. Spence	Manager	September 23, 2014

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FINANCIAL SECTION

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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, 2012, which collectively comprise Comfort Lake-Forest Lake Watershed District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Comfort Lake-Forest Lake Watershed District's 2011 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated April 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 30 and 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Comfort Lake-Forest Lake Watershed District's financial statements as a whole. The introductory section and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

March 11, 2013

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BASIC FINANCIAL STATEMENTS

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

STATEMENT OF NET POSITION

Statement 1

December 31, 2012

With Comparative Amounts For December 31, 2011

	Governmental Activities	
	2012	2011
Assets:		
Cash and investments	\$1,191,897	\$1,305,376
Property taxes receivable:		
Delinquent	23,979	31,626
Due from county	16,455	5,298
Due from other governments	290,959	7,300
Prepaid expenses	2,945	3,068
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>1,535,672</u>	<u>1,362,105</u>
Liabilities:		
Accounts payable	50,158	64,657
Deposits payable	5,080	9,793
Unearned revenue	67,924	-
Compensated absences payable:		
Due within one year	7,322	5,632
Due in more than one year	1,383	1,694
Total liabilities	<u>131,867</u>	<u>81,776</u>
Net position:		
Net investment in capital assets	9,437	9,437
Unrestricted	1,394,368	1,270,892
Total net position	<u>\$1,403,805</u>	<u>\$1,280,329</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, 2012

With Comparative Totals For The Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2012	2011
Primary government:						
Governmental activities:						
General government	\$149,318	\$ -	\$ -	\$ -	(\$149,318)	(\$122,996)
Programs	632,807	-	326,159	-	(306,648)	(369,913)
Projects	178,736	-	-	-	(178,736)	(87,902)
Total governmental activities	<u>\$960,861</u>	<u>\$0</u>	<u>\$326,159</u>	<u>\$0</u>	<u>(634,702)</u>	<u>(580,811)</u>
General revenues:						
Property taxes					746,333	720,866
Grants and contributions not restricted to specific programs					940	31,294
Unrestricted investment earnings					10,701	10,426
Other					204	2,396
Total general revenues					<u>758,178</u>	<u>764,982</u>
Change in net position					123,476	184,171
Net position - January 1					<u>1,280,329</u>	<u>1,096,158</u>
Net position - December 31					<u>\$1,403,805</u>	<u>\$1,280,329</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

Statement 3

December 31, 2012

With Comparative Totals For December 31, 2011

	General Fund	Program and Project Implementation Fund	Total Governmental Funds	
			2012	2011
Assets				
Cash and investments	\$257,549	\$934,348	\$1,191,897	\$1,305,376
Property taxes receivable:				
Delinquent	5,582	18,397	23,979	31,626
Due from county	16,455	-	16,455	5,298
Due from other governments	-	290,959	290,959	7,300
Prepaid items	2,945	-	2,945	3,068
Total assets	<u>\$282,531</u>	<u>\$1,243,704</u>	<u>\$1,526,235</u>	<u>\$1,352,668</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$8,650	\$41,508	\$50,158	\$64,657
Deposits payable	-	5,080	5,080	9,793
Deferred revenue	5,582	86,321	91,903	31,626
Total liabilities	<u>14,232</u>	<u>132,909</u>	<u>147,141</u>	<u>106,076</u>
Fund balance:				
Nonspendable	2,945	-	2,945	3,068
Restricted	-	67,924	67,924	-
Committed	-	383,722	383,722	303,827
Assigned	-	659,149	659,149	651,337
Unassigned	265,354	-	265,354	288,360
Total fund balance	<u>268,299</u>	<u>1,110,795</u>	<u>1,379,094</u>	<u>1,246,592</u>
Total liabilities and fund balance	<u>\$282,531</u>	<u>\$1,243,704</u>	<u>\$1,526,235</u>	<u>\$1,352,668</u>
Fund balance reported above			\$1,379,094	\$1,246,592
Amounts reported for governmental activities in the Statement of Net Position 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.			23,979	31,626
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds - compensated absences.			<u>(8,705)</u>	<u>(7,326)</u>
Net position of governmental activities			<u>\$1,403,805</u>	<u>\$1,280,329</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, 2012
With Comparative Totals For The Year Ended December 31, 2011

Statement 4

	General Fund	Program and Project Implementation Fund	Total Governmental Funds	
			2012	2011
Revenues:				
General property taxes	\$120,777	\$633,202	\$753,979	\$727,960
Intergovernmental	940	326,159	327,099	98,912
Investment income	2,889	7,812	10,701	10,426
Other	204	-	204	2,446
Total revenues	<u>124,810</u>	<u>967,173</u>	<u>1,091,983</u>	<u>839,744</u>
Expenditures:				
Current:				
General government	147,939	-	147,939	118,572
Programs	-	632,807	632,807	369,913
Projects	-	178,735	178,735	155,570
Total expenditures	<u>147,939</u>	<u>811,542</u>	<u>959,481</u>	<u>644,055</u>
Revenues over (under) expenditures	(23,129)	155,631	132,502	195,689
Fund balance - January 1	<u>291,428</u>	<u>955,164</u>	<u>1,246,592</u>	<u>1,050,903</u>
Fund balance - December 31	<u><u>\$268,299</u></u>	<u><u>\$1,110,795</u></u>	<u><u>\$1,379,094</u></u>	<u><u>\$1,246,592</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, 2012
With Comparative Amounts For The Year Ended December 31, 2011

Statement 5

	<u>2012</u>	<u>2011</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)	\$132,502	\$195,689
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	(7,647)	(7,094)
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 the funds.	<u>(1,379)</u>	<u>(4,424)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$123,476</u></u>	<u><u>\$184,171</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, 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of 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

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 Position and the Statement of Activities) 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, 2012

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.

Program and Project Implementation Fund (Special Revenue Fund) - is established to account for programs and projects to manage the District's resources. Property taxes are committed for the Program and Project Implementation Fund.

As a general rule the effect of interfund activity has been eliminated from 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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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.

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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 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 during 2011 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. Market value homestead credit is no longer available after calendar year 2011.

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, infrastructure assets and intangible assets such as easements and computer software, 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, 2012

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 2004 through 2012.

The District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the District to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The District did not acquire intangible assets in prior years so retroactive reporting was not necessary. The District did not acquire any intangible assets since implementing GASB Statement No. 51.

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 GASB Statement 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 position. 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 BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the Board's intended use. These constraints are established by the Board and/or management. Pursuant to Board Resolution, the District's Administrator is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the Board's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

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. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

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. COMPARATIVE TOTALS

The basic financial statements, required supplementary information and individual fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

R. 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 position 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 (\$7,647) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2011	(\$31,626)
At December 31, 2012	<u>23,979</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>(\$7,647)</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 (\$1,379) difference are as follows:

Compensated absences payable:	
At December 31, 2011	\$7,326
At December 31, 2012	<u>(8,705)</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>(\$1,379)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 \$1,191,897 and the bank balance was \$1,193,804. 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.
- 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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

- 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 2012.

Note 3 RECEIVABLES AND DEFERRED REVENUE

Significant receivable balances not expected to be collected within one year of December 31, 2012 are as follows:

	<u>Delinquent Property Taxes</u>
General Fund	\$2,310
Program and Project Implementation Fund	<u>7,610</u>
Total	<u><u>\$9,920</u></u>

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)	\$5,582	\$ -
Delinquent property taxes receivable (Program and Project Implementation Fund)	18,397	-
Unearned operating grants (Program and Project Implementation Fund)	<u>-</u>	<u>67,924</u>
Total	<u><u>\$23,979</u></u>	<u><u>\$67,924</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 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, 2012, was as follow:

	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/12</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences payable	\$7,326	\$8,705	(\$7,326)	\$8,705	\$7,322

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 General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

GERF 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, 2012

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 GERF. That report may be obtained on the internet at 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. The District was required to contribute the following percentages of annual covered payroll in 2012: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The District's contribution to GERF for the years ended December 31, 2012, 2011 and 2010 were \$6,021, \$5,542 and \$5,659 respectively, equal to the contractually required contributions for each year as set by State Statute.

Note 7 FUND BALANCE

A. CLASSIFICATIONS

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	General Fund	Program and Project Implementation Fund	Total
Nonspendable:			
Prepaid items	\$2,945	\$ -	\$2,945
Restricted for:			
Programs and projects	-	67,924	67,924
Committed for:			
Programs and projects	-	383,722	383,722
Assigned for:			
Programs and projects	-	659,149	659,149
Unassigned	265,354	-	265,354
Total	\$268,299	\$1,110,795	\$1,379,094

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. MINIMUM UNASSIGNED FUND BALANCE POLICY

The District has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year – June and December. As such, it is the District’s goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs of 40% of the subsequent year’s budgeted operating expenditures. At December 31, 2012, the unassigned fund balance of the General Fund was 100% of the subsequent year’s budgeted expenditures.

Note 8 GRANTS

The District receives financial assistance from governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2012.

Note 9 COMMITMENTS AND CONTINGENCIES

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

Note 10 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.

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, 2012

With Comparative Actual Amounts For The Year Ended December 31, 2011

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues:					
General property taxes	\$117,695	\$117,695	\$120,777	\$3,082	\$202,193
Intergovernmental	-	-	940	940	4,954
Investment income	-	-	2,889	2,889	2,815
Other	-	-	204	204	2,396
Total revenues	<u>117,695</u>	<u>117,695</u>	<u>124,810</u>	<u>7,115</u>	<u>212,358</u>
Expenditures:					
Current:					
Manager per diem and administrative	43,595	43,595	58,832	(15,237)	41,390
Dues and subscriptions	4,300	4,300	4,088	212	2,777
Office expense	20,400	20,400	17,597	2,803	16,413
Insurance	4,500	4,500	3,947	553	4,958
Accounting and auditing	14,900	14,900	15,085	(185)	14,835
Legal and administrative services	9,000	9,000	9,820	(820)	7,422
General engineering services	21,000	21,000	38,570	(17,570)	30,777
Total expenditures	<u>117,695</u>	<u>117,695</u>	<u>147,939</u>	<u>(30,244)</u>	<u>118,572</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	(23,129)	<u>(\$23,129)</u>	93,786
Fund balance - January 1			<u>291,428</u>		<u>197,642</u>
Fund balance - December 31			<u>\$268,299</u>		<u>\$291,428</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2012

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, 2012

With Comparative Amounts For December 31, 2011

Statement 7

	<u>2012</u>	<u>2011</u>
Assets		
Cash and investments	\$257,549	\$293,986
Property taxes receivable:		
Delinquent	5,582	10,539
Due from county	16,455	5,298
Prepaid items	2,945	3,068
Total assets	<u>\$282,531</u>	<u>\$312,891</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$8,650	\$10,924
Deferred revenue	5,582	10,539
Total liabilities	<u>14,232</u>	<u>21,463</u>
Fund balance:		
Nonspendable	2,945	3,068
Unassigned	265,354	288,360
Total fund balance	<u>268,299</u>	<u>291,428</u>
Total liabilities and fund balance	<u>\$282,531</u>	<u>\$312,891</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2012
With Comparative Amounts For The Year Ended December 31, 2011

Statement 8

	<u>2012</u>	<u>2011</u>
Revenues:		
General property taxes	\$120,777	\$202,193
Intergovernmental	940	4,954
Investment income	2,889	2,815
Other	204	2,396
Total revenues	<u>124,810</u>	<u>212,358</u>
Expenditures:		
Current:		
Manager per diem and administrative	58,832	41,390
Dues and subscriptions	4,088	2,777
Office expense	17,597	16,413
Insurance	3,947	4,958
Accounting and auditing	15,085	14,835
Legal and administrative services	9,820	7,422
General engineering services	38,570	30,777
Total expenditures	<u>147,939</u>	<u>118,572</u>
Revenue over (under) expenditures	(23,129)	93,786
Fund balance - January 1	<u>291,428</u>	<u>197,642</u>
Fund balance - December 31	<u><u>\$268,299</u></u>	<u><u>\$291,428</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

BALANCE SHEET

PROGRAM AND PROJECT IMPLEMENTATION FUND

December 31, 2012

With Comparative Amounts For December 31, 2011

Statement 9

	<u>2012</u>	<u>2011</u>
Assets		
Cash and investments	\$934,348	\$1,011,390
Property taxes receivable:		
Delinquent	18,397	21,087
Due from other governments	290,959	7,300
Total assets	<u>\$1,243,704</u>	<u>\$1,039,777</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$41,508	\$53,733
Deposits payable	5,080	9,793
Deferred revenue	86,321	21,087
Total liabilities	<u>132,909</u>	<u>84,613</u>
Fund balance:		
Restricted	67,924	-
Committed	383,722	303,827
Assigned	659,149	651,337
Total fund balance	<u>1,110,795</u>	<u>955,164</u>
Total liabilities and fund balance	<u>\$1,243,704</u>	<u>\$1,039,777</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
PROGRAM AND PROJECT IMPLEMENTATION FUND
For The Year Ended December 31, 2012
With Comparative Amounts For The Year Ended December 31, 2011

Statement 10

	<u>2012</u>	<u>2011</u>
Revenue:		
General property taxes	\$633,202	\$525,767
Intergovernmental	326,159	93,958
Investment income	7,812	7,611
Miscellaneous	-	50
Total revenue	<u>967,173</u>	<u>627,386</u>
Expenditures:		
Current:		
Programs:		
Stream monitoring	87,408	61,013
Best management practices	25,271	36,004
Education	27,273	25,138
Grant research and preparation	12,881	4,790
Permitting and review	17,526	23,181
Rough fish control and removal	320,821	39,235
Alum treatment	16,109	28,548
Regional stormwater	125,518	152,004
Projects:		
Miscellaneous	64,657	16,886
BMP cost share	53,464	12,728
FL44 administration, engineering and legal	10,867	20,312
NBL12 (Moody Lake)	45,076	71,163
FL44 assessment	1,437	-
WMP	3,234	34,481
Total expenditures	<u>811,542</u>	<u>525,483</u>
Revenue over expenditures	155,631	101,903
Fund balance - January 1	<u>955,164</u>	<u>853,261</u>
Fund balance - December 31	<u><u>\$1,110,795</u></u>	<u><u>\$955,164</u></u>

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OTHER REPORTS

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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, 2012, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication 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.

March 11, 2013

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TAUTGES REDPATH, LTD.
Certified Public Accountants

REPORT ON COMPLIANCE WITH MINNESOTA LEGAL
COMPLIANCE AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

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, 2012 and have issued our report thereon dated March 11, 2013.

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 Political Subdivisions* 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 Political Subdivisions* 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.

March 11, 2013

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